Nirma University

University Elective Course

Semester End Examination (IR), December - 2021

Bachelor of Architecture (B.Arch.), Semester - III

B. Tech. in CL / CH / ME / EE / EC, Semester – V/VII

Bachelor of Design (B.Des.) in Communication Design / Industrial Design, Semester - V

UEIM007 Financial Management

Date: 06/12/2021 Time: 2 Hours Max. Marks: 50

Instructions:
1. Attempt all questions.
2. Internal options available in few questions
3. Figures to right indicate full marks.
4. Use only black/blue coloured pen only.
5. Marks are reserved for neatness, presentation and format.
6. Spell out assumptions clearly, wherever necessary.

Q-1 RB Ltd. is contemplating on a project requiring initial investment of Rs. 10,00,000. The discount rate applicable to the project is 14%. This project is expected to generate future cash inflows as under: **10**

Year	Cash Inflows (in Rs.)
1	2,00,000
2	3,00,000
3	5,00,000
4	6,00,000

Considering the above information, you are required to recommend on the basis of net present value, payback period, and profitability index, whether the project should be accepted or not.

Q-2 **Answer any two questions from the following (2 * 10 marks)** **20**

A) Consider the following information about a firm:
Earnings per share – Rs. 4
Required rate of return – 12%
Return on investments – 15%
What will be the market price of the share using the Walter model if the dividend payout ratio is 25%, 50% and 100%?

B) WS Ltd. earned a sales of Rs. 6,00,000 during a year. The variable cost ratio is 50%. Its fixed operating cost is Rs. 2,00,000. It has a 10% long term debt of Rs 1,00,000 while the equity share capital is Rs 1,60,000. Based on this information, you are required to calculate all the three types of leverage.

C) PS Ltd. has a 50% equity and 50% debt in its capital structure. The risk-free rate of return is 7% and current return on market is 15.3%. The beta of company is 1.20. PS Ltd. has a debt of Rs. 50,00,000. The pre-tax cost of debt is 8%. The tax rate applicable to the company is 40%. You are required to calculate the weighted average cost of capital.

Q-3 *"A finance manager is entailed with a responsibility to make some key decisions."* **Elaborate these key decisions.** **10**

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Q-4 Answer any two questions from the following (2 * 5 marks) **10**

A) Capricorn Ltd sells on terms 1/10, net 15. The total sales for the year are Rs. 10 million. The cost of goods sold is Rs. 5 million. Customers accounting for 40 % of sales avail discount while others pay after 15 days of their purchase. Calculate: (a) the average collection period, and (b) the average investment in receivables.

B) KV Ltd. projects that cash outlays of Rs. 10 crores will occur uniformly throughout the year. KV Ltd. plans to meet its cash requirements by periodically selling the marketable securities from its portfolio. The firm's marketable securities are invested to earn 15% and the cost per transaction of converting securities to cash is Rs. 2000. Use the Baumol model to determine the optimal transaction size.

C) Shanti Ltd.'s present capital structure consists of 1,00,000 equity shares. It requires Rs. 0.5 million of external financing for which it is considering the following alternatives:
Alternative 1: Issue 25,000 equity shares of Rs 10 at Rs 20 each
Alternative 2: Issue 5,000 equity shares of Rs 10 at Rs 20 each and Rs 4,00,000 of debentures carrying 10% interest rate.
The tax rate applicable to the company is 30%.
What is the EPS-EBIT indifference point for alternatives 1 and 2?

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