Nirma University

University Elective Course

Semester End Examination (IR), November - 2019
B. Tech. in CL/CH/ME/EC, Semester - VII
Bachelor of Planning (B. Plan), Semester - V
UEIM007 Financial Management

Roll/Exam No [ ] Supervisor's initial with date [ ]

Time: 3 Hours Max Marks: 100

Instructions:
1. Attempt all questions.
2. Figures to right indicate full marks.
3. Assumption/s if any, state clearly before starting question.
4. Time value of money tables should be given.
5. Scientific non programmable calculator should be allowed.

SECTION - I

Q-1 Write a short note: **10**
- i. Motives for holding a cash.
- ii. Three broad areas of financial decision making.

Q-2 (A) Explain any two approach for raising long term finance in detail. **10**

(B) Discuss the important dimensions of firm's credit policy. **10**

Q-3 **Attempt any one question:** **10**

(A) What is the present value of an income stream which provides Rs. 2,000 a year for the first five years and Rs. 3,000 a year forever thereafter, if the discount rate is 10 percent?

(B) Mr. Ajay plans to send his son for higher studies abroad after 10 years. He expects the cost of these studies to be Rs 1,00,000. How much should he save annually to have a sum of Rs. 1,00,000 at the end of 10 years, if the interest rate is 12 percent?

SECTION – II

Q-4
(A) A company needs Rs. 5,00,000 for construction of a new palnt. The following three financial plans are feasible: **15**
- i. The company may issue 50000 equity shares at Rs. 10 per share.
- ii. The company may issue 25000 equity shares at Rs. 10 per share and 2500 debentures of Rs. 100 bearing an 8% rate of interest.

If the company's earnings before interest and taxes are Rs. 10,000; Rs. 20,000 and Rs. 40,000, what are the earnings per share under each of the two financial plans?

Q-4

(B) Amit Electronics is evaluating an expansion project that is expected to cost Rs. 20 million and generate an annual after-tax cash flow of Rs. 4 million for the next 10 years. The tax rate for the company is 35 percent. 15

Amit Electronics has a target debt-equity ratio of 1:1. Its cost of equity is 16.9 percent whereas its pre-tax cost of debt is 14 percent. The floatation cost of equity is 12 percent whereas the floatation cost of debt is 2 percent.

Required:

i. What is the WACC for Amit Electronics?

ii. What is NPV of the project after taking into account of floatation costs?

Q-5 The rates of return on stock A and Market portfolio for 15 periods are given below: 15

Period	Return on stock A (%)	Return on market portfolio (%)
1	10	12
2	15	14
3	18	13
4	14	10
5	16	9
6	16	13
7	18	14
8	4	7

What is the beta for stock A?

Q-6 Glora Limited is considering a capital project about which the following information is available. 15

a. The investment outlay on the project will be Rs. 200 million. This consists of Rs. 150 million on plant and machinery and Rs. 50 million on net working capital. The entire outlay will be incurred in the beginning.

b. The life of the project is expected to be 7 year. At the end of 7 years, fixed assets will fetch a net salvage value of Rs. 48 million whereas net working capital will be liquidated at its book value.

c. The project is expected to increase the revenues of the firm by Rs. 250 million per year. The increase in costs on account of the project is expected to be Rs. 100 million per year. (This includes all items of cost other than depreciation, interest and tax.) The tax rate is 30 percent.

d. Plant and machinery will be depreciated at the rate of 25 percent per year as per the written down method.

Required: Estimate the post-tax cash flows of the project.

OR

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Q-6 The following annual figures relate to Ashok Co. 15

Particulars	Rs.
Sales (at two months' credit)	36,00,000
Material consumed (at two months' credit)	9,00,000
Wages paid (monthly in arrear)	7,20,000
Manufacturing expenses outstanding at the end of year	80,000
Total administrative expenses yearly (paid one month in arrear)	2,40,000
Sales promotion expenses, paid quarterly in advance	1,20,000

The company sells its product on gross profit of 25 percent counting depreciation as a part of cost of production. It keeps one month stock each of raw material and finished goods, and a cash balance of Rs. 1,00,000.

Assuming a 20 percent safety margin, calculate the working capital requirements of the company on cash cost basis. Ignore work-in process.