Nirma University

University Elective Course

Semester End Examination (IR/RPR), November - 2018

B. Tech. in CL / CH / ME / EC / IT, Semester - VI /VII

B.A., LL.B.(Hons.), Semester - VIII

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

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. Draw neat sketches wherever necessary.

Q - 1. Micromax Limited has two projects P and Q. The cash flow for both the projects is as follows [20]

Year	Project P	Project Q
1	21000	8000
2	25000	17000
3	30000	24000
4	14000	33000

The investment in the Project P is of Rs. 50000 whereas the Project Q requires the investment of 45000. The cost of capital is 10%.

What will be the Pay-back period (PBP), Discounted Pay-back period (DPBP), Net Present Value (NPV) and Profitability Index (PI) for Project P and Q? Which Project should be selected? Why?

Q - 2. The Returns on the equity stock of Auto Electrical Limited and the market portfolio over an 11-year period are given below: [20]

Year	Return on the Auto Electrical Ltd. (%)	Return on Market Portfolio (%)
1	15	12
2	-6	1
3	18	14
4	30	24
5	12	16
6	25	30
7	2	-3

8	20	24
9	18	15
10	24	22
11	8	12

From the above given details, calculate the Beta for the stock of Auto Electrical Limited.

Q - 3. Attempt **any two** of the following problems. [18]

(A) The following details are relate top two companies:

Particulars	**P limited (Rs. In Lakhs)**	**Q Limited (Rs. In Lakhs)**
Sales	500	1000
Variable costs	200	300
Contribution	300	700
Fixed cost	150	400
Earnings before interest and tax	150	300
Interest	50	100
Profit Before tax	100	200

You are required to:

1. Calculate the operating, financial and combined leverage for the two companies; and
2. Comment on the relative risk position of them.

(B) The following information is available for Sortex International:
Selling Price per unit: Rs. 20
Variable cost per unit: Rs. 12
Total Fixed cost: Rs. 560000

1. What is the break-even point in units?
2. If the fixed cost increased to Rs. 670000, what will be new break-even point?
3. If the selling price increase to Rs.22, what will be new break-even point?

(C) Unix Limited's equity beta is 1.2. The market risk premium is 7 percent and the risk-free rate is 10 percent. Unix has a debt equity ratio of 2:3. The pre-tax cost of debt is 14 percent. If the tax rate is 35 percent, what is the WACC?

Q - 4. Attempt **any two** of the following problems. [16]

(A) The Malabar Corporation currently provides 45 days of credit to its customers. Its present level of sales is Rs. 15 Million. The firm's cost of capital is 20 percent and the ratio of variable costs to sales is 0.80. The firm is considering extending its credit period to 60 days. Such an extension is likely to push sales up by Rs.1.5 Million. The bad debt proportion on additional sales would be 5 percent.

What will be the effect of lengthening the credit period on the profit of firm?

(B) A company's present capital structure contains 1500000 equity shares and 50000 preference shares. The firm's current EBIT is Rs. 7.2 million. Preference shares carry a dividend of Rs. 12 per share. The earnings per share is Rs. 2. The firm is planning to raise Rs. 10 million of external financing. Two financing alternatives are being considered: (1) issuing 1000000 equity shares of Rs. 10 each, (2) issuing debentures for Rs.10 million carrying 15 percent interest.

From the above details:

a) Compute the EPS-EBIT indifference point
b) Define the alternative which maximizes EPS for various levels of EBIT

(C) The relevant information for Zenith Limited is given below:

Particulars	Beginning of 2010 (in Rs.)	End of 2010 (in Rs.)
Inventory	60	64
Accounts receivables	80	88
Accounts payable	40	46

The amount of Sales and Cost of goods sold is Rs. 500 and Rs. 360, respectively. What is the length of the Operating cycle and cash cycle? Also comment on the Operating cycle and cash cycle.

Q – 5. Attempt **any two** of the following problems. [16]

(A) "The requirement of working capital depend on various factors."- Do you agree? Justify.

(B) "Financial management has various objectives." – Do you agree? Justify.

(C) "Various short and long-term sources of finance are available for business." – Do you agree? Justify.

Q – 6. Mr. Patwari has recently set up a small restaurant. His business is good but because of heavy personal withdrawals, he is facing a liquidity problem. To get a better hand over his cash flows, he requests you to prepare a cash budget for the next quarter, January through March, for him. He has provided you with the following information: [10]

a) Sales are expected to be: Rs. 50000 in January, Rs. 55000 in February, and Rs. 60000 in March. All sales will be in cash.
b) His estimated purchases are: Rs. 20000 in January, Rs. 22000 in February and Rs. 25000 in March. Payments for the purchase will be made after a leg of one month. Out standings on account of purchases in December last are Rs. 22000.
c) The rent per month is Rs. 5000 and his personal withdrawal per month is Rs. 5000.
d) Salaries and other expenses, payable in cash, are expected to be Rs. 15000 in January, Rs. 18000 in February and Rs. 20000 in March.
e) He plans to buy a furniture worth Rs. 25000 on cash payment in February.
f) Cash balance at present is Rs. 5000. His target cash balance, however, is Rs. 8000. What will be the surplus/deficit of cash in relation to his target cash balance?

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