

Nirma University

University Elective Course

Semester End Examination (IR) / SPE, February - 2022

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

Roll / Exam No.

Supervisor's initial
with date

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.

Time: 2 hr.

Max Marks: 50

Q-1 ABC Ltd is considering a project requiring initial cash outlay of Rs. **10**

40,000. The project is expected to generate following cash inflows over 5 years:

Year 1 – Rs. 10,000

Year 2 – Rs. 30,000

Year 3 – Rs. 10,000

Year 4 – Rs. 20,000

Year 5 – Rs. 10,000

The appropriate discount rate for the project is 15%. You are required to calculate payback period, net present value, and profitability index for this project. Based on your calculations suggest 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. 15

Required rate of return – 11%

Return on investments – 12%

What will be the market price of the share using the Gordon model if the dividend payout ratio is 10%, 30% and 50%?

B) A firm's sales, variable cost, and fixed cost amount to Rs 75,00,000; Rs. 40,00,000; and Rs. 5,00,000 respectively. It has borrowed Rs 5,00,000 at 9%. Its equity share capital is Rs. 50,00,000 consisting of shares of Rs 10 each. Using this information, calculate all the three types of leverages.

C) CN Ltd. has a beta of 0.8. The current risk-free rate is 6.5% and the expected return on the market is 16%. The company has a debt-equity ratio of 2:1. The pre-tax cost of debt is 10%. The tax rate applicable to company is 30%. You are required to calculate weighted average cost of capital.

Q-3 "The working capital needs of a firm are influenced by several factors." **10**
Comment on this statement with a focus on factors affecting working capital.

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

A) DP Ltd. projects that cash outlays of Rs. 30 crores will occur uniformly throughout the year. DP 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 10% and the cost per transaction of converting securities to cash is Rs. 5000. Use the Baumol model to determine the optimal transaction size.

B) Aries Ltd. sells on terms 2/20, net 30. The total sales for the year are Rs. 15 million. The cost of goods sold is Rs. 7 million. Customers accounting for 20 % of sales avail discount while others pay after 30 days of their purchase. Calculate: (a) the average collection period, and (b) the average investment in receivables.

C) Virgo Ltd.'s present capital structure consists of 2,00,000 equity shares. It requires Rs. 1 million of external financing for which it is considering the following alternatives:

Alternative A: Issue 50,000 equity shares of Rs 10 at Rs 20 each

Alternative B: Issue 10,000 equity shares of Rs 10 at Rs 20 each and Rs 8,00,000 of debentures carrying 14% interest rate.

The tax rate applicable to the company is 40%.

What is the EPS-EBIT indifference point for alternatives A and B?
