JAYPEE UNIVERSITY OF INFORMATION TECHNOLOGY, WAKNAGHAT

TEST-3 (MAY-2012)

B. Tech (IV Semester) All Branches

COURSE CODE: 10B11PD411 | MAX. MARKS: 35

COURSE NAME: Financial Management | COURSE CREDITS: 3

MAX.TIME: 2HRS

Note: All questions are compulsory

Q1. A company is considering a project with an initial investment of Rs 400 lakh. The project would last for 8 years after which 10% of the initial investment will be realized. The company charges depreciation of Rs 45 lakh each year throughout the 8 year life of the project. A PBT of Rs52 lakh is exp[illegible] for each of the next 8 yrs. Tax rate payable by the company is 30% and its cost of capital [illegible]%. Evaluate the project on the basis of NPV and IRR and recommend acceptance or rejection of the project.

(7 marks)

Q2. CEL Ltd. has an earning level of Rs 5 crores and if this is invested back in business today, profit will increase by Rs 1.5 crores. The investors of CEL Ltd. expect a return of 35% from the company. Use the Walter's model to calculate the following:

a) The value of the company if it follows a payout of 0%, 30% and 60%.
b) The optimum payout ratio and the maximum value of the company.

(5 marks)

Q3. Answer the following in about 50-60 words. Each part is for 2 marks.

a) How does the management of fixed and current assets differ?
b) Explain the three phases in the operating cycle of a manufacturing firm.
c) Explain the difference between expansion and diversification with suitable examples.
d) In which condition, the dividend effect on the share value can be described as the "Bird-in - hand" argument?
e) Why is NPV method considered to be superior to the IRR method of capital budgeting

(10 marks)

Q4. The assets and liabilities of two companies are given below:

	A Ltd. (Rs Lakh)	B Ltd. (Rs Lakh)
Current assets	400	400
Net Fixed assets	800	800
Total Assets	1200	1200
Accounts Payable	80	80
Notes Payable	------	150

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Other Current Liabilities	80	80
Long term debt@ 11.5%	150	---
Common Equity	970	970
Total Liabilities	1200	1200

The EBIT of the two firms is Rs 200 lakh. In view of the sudden spurt in seasonal demand, both the companies have made additional investment in inventories to the tune of Rs 150 lakh. A ltd. financed this extra requirement by long term debt and B Ltd. used short term debt for three months carrying an interest of 7.5% p.a. The tax rate applicab~~le to the two firms is 30%.~~ Calculate the PAT, Current ratio, Net Working Capital and Return on Total Assets of the firm and comment on its profitability – liquidity position.

(4 Marks)

Q5. Rohan is thinking of taking a home loan to buy a property worth 50 lakh rupees. The bank has offered him the loan at 12% rate of interest for 10 years. It has also imposed the condition that the loan would be for a maximum of 85% value of the property, 15% will have to come from Rohan's savings. He has requested the bank to work out the loan repayment on annual basis. Prepare the loan amortization schedule.

(5 Marks)

Q6. Calculate the cost of equity for a firm that is expecting to pay a dividend of Rs3 per share next year, the current market price is Rs125 and the dividends have been growing @6% p.a. in the past.

(2 Marks)

Q7. What are the disadvantages of equity as a source of finance?

(2 Marks)