SVKM'S NMIMS

SCHOOL OF TECHNOLOGY MANAGEMENT& ENGINEERING, NAVI-MUMBAI

Academic Year: 2022-2023

Program: B.tech Stream: CSBS Year: VI Semester: VII

Subject: FINANCIAL MANAGEMENT Time: 45 MINS (11:30AM to12:30PM)

Date: 28/09/2022 No. of Pages: 2

Marks: 20

Mid-Term Examination II

Instructions: Candidates should read carefully the instructions printed on the question paper and on the cover of the Answer Book, which is provided for their use.

1) **Question 1 is compulsory.**
2) **Answer any 3 out of 4 Questions in Question 2.**
3) **Answer to each new question to be started on a new page.**
4) **Figures in brackets on the right-hand side indicate full marks.**
5) **Calculators are allowed.**
6) **Assume Suitable data if necessary.**

<table>
<tr><th>Q.No.</th><th>Statement of the question</th><th>CO/ SO/ BL</th><th>Marks</th></tr>
<tr><td>Q.1 (a)</td><td>Distinguish between Unique Risk and Market Risk.</td><td>CO- 2</td><td>(2)</td></tr>
<tr><td>Q.1 (b)</td><td>Explain Indifference Analysis.</td><td>CO- 2</td><td>(2)</td></tr>
<tr><td>Q.1 (c)</td><td>Cost of capital is affected by various Factors which are within the control of the firm. Explain</td><td>CO- 2</td><td>(2)</td></tr>
<tr><td>Q.1 (d)</td><td>What is Beta? Explain the relationship of Beta with Expected Returns.</td><td>CO- 2</td><td>(2)</td></tr>
<tr><td>Q.2 (a)</td><td>The rate of return on stocks of A and N under different states of the economy are presented below along with the probability of the occurrence of each state of the economy.
<table>
<tr><td></td><td>Boom</td><td>Normal</td><td>Recession</td></tr>
<tr><td>Probability of Occurrence</td><td>0.3</td><td>0.5</td><td>0.2</td></tr>
<tr><td>Rate of Return on stock A (%)</td><td>30</td><td>50</td><td>70</td></tr>
<tr><td>Rate of Return on stocks N (%)</td><td>70</td><td>50</td><td>30</td></tr>
</table>
a) Calculate the expected rate of return and standard deviation of return on both the stock.
b) If you invest in either A and N, but not in both which stock would you prefer and why?</td><td>CO- 2</td><td>(4)</td></tr>
</table>

Q.2 (b)	The Aaroha company has the following capital structure: Common shares (40000 shares) – 80,00,000 6% Preference shares – 20,00,000 8% Debentures – 60,00,000 10% Debentures – 40,00,000 The share of the company sells for Rs.15. It is expected that company will pay next year a dividend of ₹3 per share which will grow at 7% forever. Assume 35% tax rate. Compute a weighted average cost of capital based on existing capital structure.	CO- 2	(4)
Q.2 (c)	(a) Calculate Degree of Operating Leverage, Degree of financial leverage from the following data: Sales of 2200 units is ₹220000 Variable cost per unit at Re. 0.50 Fixed Cost : ₹ 66000 Interest Charge: ₹ 22000.	CO- 2	(4)
Q.2 (d)	Suma Corporation manufacturers of travelling bags. Its debt –equtiy ratio is 0.8. Its WACC is 15% and its tax rate is 30%. (a) If Suma's cost of equity is 20%, what is its pre-tax cost of debt? (b) If Suma can issue at an interest rate of 13%. What is its cost of equity?	CO- 2	(4)