

MBA (EXECUTIVE) SEMESTER II

Batch 2019-21

FINANCIAL MANAGEMENT

ASSIGNMENT I

- Q1. (a) Which method is better method NPV or IRR? How is IRR different from NPV
(b) What is compounding and discounting?
- Q2. (a) What is WACC? What are the various component of cost of capital
(b) What do you understand by operational and financial leverage?
- Q3.(a) What is the nature of fixed cost and variable cost?
(b) What is breakeven point? Explain using examples
- Q4. Explain different Capital Structure Theories?
- Q5. Discuss Dividend Theories
- Q6. Explain the concept of Working Capital Management

ASSIGNMENT II

- Q1.** Mr. X promises Mr. Y to give Rs. 2,00,000/- in cash after 9 years. He has the following two options
- A. If Mr. X makes annual payments into a fund after 1 year how much will each have to be if the fund pays 8 %.
 - B. If Mr. X decides to invest a cumulative amount in the account after 1 year and let it compound annually, then how much will the lump sum? What should Mr. X do?
- Q2.** A company is considering an investment proposal to install new milling controls at a cost of Rs.50,000/- The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is used for tax purpose. The estimated cash flows and before depreciation and taxes are as follows. Calculate Pay Back Period, NPV at 10% discount rate, IRR.

Year	CFBT
1.	Rs.10,000/-
2.	Rs. 10,692 /-
3.	Rs. 12,769/-
4.	Rs. 13,462/-
5.	Rs. 20385/-

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Q3. The capital structure of XYZ Ltd. consist of an ordinary share capital of Rs.10, 00,000/- (shares of Rs.100 par value) and Rs.10,00,000/- of 10% . The company is considering to increase production by 20% from 1,00,000 units to 1,20,000 units, the selling price is Rs.10/- per unit, variable cost is Rs.6/- per unit and total fixed cost is Rs.2,00,000/- .Tax rate applicable is 35%. Calculate (i) % increase in EPS, (ii) DOL at 1,00,000 and 1,20,000 units, (iii) DFL at 1,00,000 and 1,20,000 units (iv) comment on the behavior of operating and financial leverage in relation to increase in the level of production. What do you advice the company? Justify your answer.

Q4. MEL and MDL are two firms in the same line of business and also have almost the same size. But they differ in the way they are financed. MDL has a debt of Rs.400 crore while MEL is free from debt. The cost of debt is 15%. Find out the value of the firm assuming tax of 35%, EBT level of 275 crore, and cost of equity 20% under net income approach. Also find the value of the MDL, the levered firm under the net operating income approach. What is the cost of equity and WACC of firms under NI and NOI approaches?

Q5. Udhaar Enterprise Limited has borrowed from the market by issue of debentures with the coupon rate of 10.5%. It is profitable enterprise paying 36% tax.

(What is the cost of debt if it sells at

- Par
- At 5% discount
- At 5% premium

If instead of debt the firm had issue preference share with the promised dividend of 10.5% what would be the cost of preference share if it sells at

- Par
- At 5% discount
- At 5% premium

Why do you think that there is a difference in the cost of debt and preference capital despite identical features and cash flows.

Q6. Prepare an estimate of net working capital of the company from the data given below.

Estimated cost	Rs. Per Unit
Raw Material	150
Direct labor	50
Overheads	100

The following additional information is provided:

- Selling Price is Rs. 350 per unit
- Level of Activity 2,08,000 units per annum
- Raw material in stock average 4 weeks
- Work in progress assume 100% completion of materials and 50% for labor and overheads average 2 weeks
- Finished goods in stock average 4 weeks'

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- Credit allowed by suppliers average 4 weeks
- Credit allowed by debtors average 8 weeks
- Lag in payment of wages 2 weeks
- Cash at bank Rs 1,00,000/-
- Assume that production is continuous for 52 weeks in the year.

Q7. You are required to determine the weighted average cost of capital for the Neerav Shah & Sons using (i) book value weights (ii) market value weights from the following information:

Debentures (Rs. 100 per debenture): Rs. 8, 00,000/-

Preference Shares (Rs. 100 per share): Rs. 2, 00,000/-

Equity Shares (Rs. 10 per share): Rs. 10, 00,000/-

All these securities are traded in the capital markets, recent prices are debentures @ Rs.110, preference shares @ Rs.120 and equity shares @ Rs. 22. Anticipated external financing opportunities are as follows.

- Rs. 100 per debenture redeemable at par: 20 year maturity, 8% dividend rate, 4% flotation costs, sale price Rs 100.
- Rs.100 preference share redeemable at par: 15 years maturity, 10% dividend rate, 5% flotation cost, sale price Rs. 100.
- Equity shares Rs. 2 per share flotation costs, sale price Rs. 22.

In addition the dividend expected on the equity at the end of the year Rs. 2 per share, the anticipated growth rate in dividends is 5% and the company has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 50%.

Q8. A levered company and a unlevered company are identical in every respect except that the levered company has 6% Rs.2, 00,000/- debt outstanding. As per the NI approach, the valuation of two firms is as follows.

	Unlevered Company	Levered Company
NOI	60,000	60,000
Cost of Debt	0	12%
Net Earnings	60,000	48,000
Equity Capitalization Rate	10%	11.1%
Market Value of Equity	6,00,000	4,32,000
Market Value of Debt	0	2,00,000
Total Value of Firm	6,00,000	6,32,000

Mr. X holds Rs.2,000/- worth of the levered company's shares. Is it possible for Mr. X to reduce his outlay to earn same return through the use of arbitrage? Illustrate.