C 3716 (Pages : 3) Name..............................

Reg. No..............................

SECOND SEMESTER M.B.A. DEGREE (REGULAR/SUPPLEMENTARY) EXAMINATION, JULY 2021

M.B.A. (CUCSS)

BUS 2C 11—FINANCIAL MANAGEMENT

Time : Three Hours Maximum Weightage : 36

Part A

Answer **all** *questions.*
Each question carries 1 *weightage.*

1. What is EVA ? State the merits of EVA.
2. What are the merits of discounted cash flow techniques ?
3. Distinguish between "temporary" and "permanent" working capital.
4. What is the total value principle as it applies to capital structure ?
5. Discuss the role of debentures as source of long-term finance.
6. What does agency theory suggests ?

(6 × 1 = 6 weightage)

Part B

Answer any **four** *questions.*
Each question carries 3 *weightage.*

7. Explain briefly the reasons for conflicting ranking by NPV and IRR in mutually exclusive projects.
8. Genyses Company currently pays a dividend of Rs. 1.60 per share on its common stock. The company expects to increase the dividend at a 20 percent annual rate for the first four years and at a 13 percent rate for the next four years, and then grow the dividend at a 7 percent rate thereafter. If investor requires a 16 percent return to invest in this stock. What value should you place on a share of this stock ?
9. Dixon Limited has two investment proposals which have the following characteristics :

Period	Project A (Rs.)			Project B (Rs.)		
	Cost	Profit after taxes	Net cash flow	Cost	Profit after taxes	Net cash flow
0	9,000	—	—	12,000	—	—
1		1,000	5,000		1,000	5,000
2		1,000	4,000		1,000	5,000
3		1,000	3,000		4,000	8,000

For each project, compute its payback period, its net present value, and its profitability index using a discount rate of 15 percent.

Turn over

10. Mica Ltd. spends Rs. 2,20,000 per annum on its collection department. The company has Rs. 12 million in credit sales, its average collection periodis 2.5 months, and the percentage of bad debt losses is 4 percent. The company believes that, it if were to double its collection personnel, it could bring down the average collection period to 2 months and bad-debt losses to 3 pecent. The added cost is Rs. 1,80,000 bringing total collection expenditures to Rs.4,00,000 annually. Is the increased effort worthwhile if the before-tax opportunity cost of funds is 20 percent ?

11. What is leasing ? Discuss the advantages and disadvantages of leasing.

12. Outline the approaches available for computing cost of capital.

(4 × 3 = 12 weightage)

Part C

Answer any **three** *questions.*
Each question carries 4 *weightage.*

13. Explain briefly the capital budgeting techniques.

14. Daram Company currently has Rs. 3 million in debt outstanding, bearing an interest rate of 12 percent. It wishes to finance a Rs. 4 million expansion program and is considering three alternatives : additional debt at 14 percent interest (option 1), preferred stock with a 12 percent dividend (option 2), and the sale of common stock at Rs. 16 per share (option 3). The company currently has 800,000 shares of common stock outstanding and is in a 40 percent tax bracket.

    If earnings before interest and taxes are currently Rs. 1.5 million, what would be earnings per share for the three alternatives, assuming no immediate increase in operating profit ?

15. Signiti Corporation has earnings before interest and taxes of Rs. 3 million and a 40 percent tax rate. It is able to borrow at an interest of 14 percent, whereas its equity capitalization rate in the absence of borrowing is 18 percent. The earnings of the company are not expected to grow, and all earnings are paid out to shareholders in the form of dividends. In the presence of corporate but no personal taxes, what is the value of the company in an M&M world with no financial leverage ? With Rs. 4 million in debt ? With Rs. 7 million in debt ?

16. Decibel Company currently has total assets of Rs. 3.2 million, of which current assets comprise Rs. 0.2 million. Sales are Rs. 10 million annually, and the before tax net profit margin (the firm currently has no interest-bearing debt) is 12 percent.

    Given renewed fears of potential cash insolvency, an overly strict credit policy and imminent stock outs, the company is considering higher levels of current assets as a buffer against adversity. Specifically, levels of Rs. 0.5 million and Rs. 0.8 million are being considered instead of the Rs. 0.2 million presently held. Any additions to current assets would be financed with new equity capital.

    Determine the total asset turnover, before tax return on investment, and before-tax net profit margin under the three alternative levels of current assets.

17. Firms with high growth rates tend to have low dividend payout ratios and firms with low growth rates tend to have high dividend-payout ratios. Discuss.

(3 × 4 = 12 weightage)

Part D (Compulsory)

It carries 6 weightage.

18. The proforma cost sheet of Alpha Limited provides following data :

Cost (per unit)	(in Rs.)
Raw materials	52.0
Direct labour	19.5
Overheads	39.0
Total cost (per unit)	110.5
Profit	19.5
Selling price	130.0

The following is the additional information available :

(a) Average raw material in stock : one month ; average materials in process ; half a month.

(b) Credit allowed by suppliers : one month.

(c) Credit allowed to debtors : two months.

(d) Time lag in payment of wages : one and a half weeks.

(e) Overheads : one month.

(f) One-fourth of sales are on cash basis.

(g) Cash balance is expected to Rs. 120,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units of output. You may assume that production is carried on evenly throughout the year and wages and overheads accrue similarly.

(1 × 6 = 6 weightage)