Paper / Subject Code: 44804 / Financial Management - II

Time: 2 1/2 Hours **Marks: 75**

N.B.:
1. **Q.1 is compulsory.**
2. **Q.2 to Q.5 are compulsory with internal choice.**
3. **All questions carry equal marks.**
4. **Working notes should form part of your answer.**
5. **Use of simple calculator is allowed.**

Q.1A) Select the correct option and complete the sentence. (Any 8) **(8)**

1. Top management of the company is involved in framing _____strategy as it has long term impacts on the company's future.
a) corporate b) business c) functional d) departmental
2. Which of the following methods of capital budgeting ignores the time value of money?
a) Profitability Index b) Net Present Value (NPV) c) Internal Rate of Return (IRR) d) Payback period
3. The level of sales at which NPV is equal to_____ will be the financial break-even point.
a) zero b) one c) two d) three
4. As per ______approach, the cost of debt (kd) remains constant upto a certain level of leverage but rises thereafter at an increasing rate.
a) Net Income b) Net Operating Income c) Modigliani-Miller d) Traditional
5. According to ______ the dividend policy is irrelevant.
a)Walter's Model b) Gordon's Model c) Modigliani-Miller d) Graham and Dodd
6. Mutual fund is a ____that pools together the funds of many investors to make investments in assets.
a) company b) trust c) bank d) partnership firm
7. Mutual Funds are regulated by _____.
a) RBI b) SEBI c) AMFI d) NISM
8. The possibility that a bond issuer will not be able to pay interest or principal amount when they are due is called _______.
a) reinvestment risk b) liquidity risk c) legislative risk d) default risk
9. Customer evaluation is performed taking into consideration the ______ model.
a) 2C's b)3C's c) 4 C's d) 5C's
10. Receivables Management deals with _______.
a) receipts of raw materials b) debtors collection c) creditor's management d) inventory management

Q.1B) State whether the following statements are True or False (any seven) **(7)**

1. Business Strategy focuses on specific market segment or business unit (SBU).
2. The project with highest net present value shall be ranked first.
3. Capital rationing is used by companies to ensure that only the most feasible and profitable investments are made.
4. A decision tree is a diagram representing a decision problem as a series of decisions to be taken under conditions of uncertainty.
5. A mix of various long term finances used by a company is called capital structure.
6. Stable dividend policy has negative impact on the market price of shares.
7. A close – ended mutual fund is one that sells and repurchases units at all times.
8. Current yield is same as Yield to Maturity (YTM).
9. When credit period is increased, bad debt expenses decreases.
10. Mutual Fund schemes offer guaranteed returns to investors.

Q.2 A) Blue Ocean Ltd is considering the following two machines for purchase: **(15)**

Particulars	Year	Machine A	Machine B
Initial cash outflow (Rs)	0	2,00,000	1,90,000
Expected life (years)		5	5
Salvage value at the end of year 5 (Rs)		0	10,000
Earnings before depreciation and taxes (Rs)	1	40,000	60,000
	2	50,000	50,000
	3	70,000	30,000
	4	80,000	70,000
	5	90,000	85,000

The required rate of return is 12%. The tax rate applicable to the company is 30%.
Depreciation on Machines is charged on straight line method.
You are required to assist the company on selection of machine using:
a) Net Present Value (NPV) b) Profitability Index c) Discounted Payback method.

OR

Q.2 B) Compassion Ltd. has Rs 10,00,000 available for capital budgeting purpose. The following projects and associated profitability indexes have been determined: **(8)**

Project	Cost Rs	Profitability Index
1	3,00,000	1.20
2	1,50,000	0.90
3	3,50,000	1.20
4	4,50,000	1.18
5	2,00,000	1.20
6	4,00,000	1.05

Which all from the above investments should be undertaken? Assuming that the projects are indivisible, you are required to use NPV method to rank the projects. Assume that there is no alternative use of the money allocated for capital budgeting.

Q.2 C) Peace Ltd is considering a new project with the following details: **(7)**

Sr.No.	Particulars	Rs in crores
1	Initial capital cost	500
2	Sales p.a.	700
3	Variable cost p.a.	200
4	Fixed cost p.a.	120
5	Discount rate	8%

The life of the project is 3 years. **Compute NPV of the project.**
From the above given project details, **calculate the sensitivity of the (a)Project cost (b) Variable cost and (c) Sales. Indicate the most sensitive variable.**

Q.3 A) Two companies Seeta Ltd and Geeta Ltd are identical in all respects except the degree of leverage. Seeta Ltd has 9% debt of Rs 7 lakhs, whereas Geeta Ltd has no debt. Both the companies are earning profits before tax of Rs 5 lakhs each. The equity capitalisation rate is 11% and the corporate tax rate is 30%. **(8)**
You are required to compute market value of the two companies (levered and unlevered) using Modigliani –Miller theory with Corporate Taxation.

Q.3 B) Jolly Ltd is expecting an annual EBIT of Rs 8,00,000. The company has raised Rs 20,00,000 from 10% Debentures. The cost of equity capital or capitalisation rate is 18%. **You are required to calculate the total value of the company and overall cost of capital.** **(7)**

OR

Q.3 C) Following information is given for Joy Ltd **(15)**

Earnings per share	Rs 40
Dividend per share	Rs 8
Cost of Capital (ke)	17%
Internal Rate of Return (r)	22%

You are required to calculate market price per share using:

(a) Gordon's formula
(b) Walter's formula

Q.4 A) Sunder Mutual Fund provides you the following portfolio of its balanced advantage scheme as on 30th September, 2024. **(15)**

Portfolio holding	Cost in Rs lakhs
Listed equity shares of TCS Ltd (500 shares @ Rs 4,000)	20
Listed equity shares of SBI (3000 shares @ Rs 500)	15
Listed equity shares of HDFC Bank(500 shares @ Rs 1,000)	5
Dividend receivable on above shares	2
Bonds at cost of purchase	16
Interest receivable on bonds	2
Expenses payable	5
Cash at Bank accounts	3

Additional information:

1. Number of units of Rs 10 face value each is 10,00,000.
2. The closing market price of the equity shares as on 30th September, 2024 are as under:

TCS Ltd	Rs 4,400
SBI	Rs 800
HDFC Bank	Rs 1,500

3. Value of Bonds have appreciated by 10% of purchase price as on 30th September, 2024.
   You are required to compute the Net Asset Value (NAV) per unit on 30th September, 2024.

OR

Q.4 B) Corola Ltd is considering investment in one of the following Bonds. **(8)**

Bonds	Coupon	Maturity	Purchase price (face value Rs 100)
REC	6%	8 years	120
NHAI	7%	7 years	80

Compute YTM of both the bonds and give your suggestion for selection of bond

Q.4 C) Gambit Ltd.'s present sale is Rs 30,00,000 per annum with 20 days credit period. **(7)**
Present variable cost is 70% of sales and total fixed cost is Rs 5,00,000 per annum. The company expects pre-tax return on investment @ 20%. To increase sales, the CFO of the company is contemplating to relax the credit policy. With increase in credit period, the sales are expected to increase as follow:

Credit Policy	Average collection period (Days)	Expected Annual Sales (Rs)
A	30	35,00,000
B	40	40,00,000

You are required to advise the CFO of the company regarding the best credit policy which should be adopted. Assume 360 days in a year.

Q.5 A) What are the three levels of strategy? Explain each of these with diagram and suitable examples. **(8)**

Q.5 B) Explain any seven factors determining Capital Structure of a company. **(7)**

OR

Q.5 C) Write Short Notes on the following. (Any three) **(15)**

1. Significance of dividend policy.
2. Decision Tree Analysis
3. Wealth maximization
4. Advantage of Mutual Fund
5. Discounted Payback Period

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