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Roll No ....

MAM-403

MAM/MBA (Dual Degree/Integrated Course), IV Semester

Examination, May 2018

Financial Management

Time : Three Hours

Maximum Marks : 70

Note: i) Attempt any Five questions.
ii) Each question carries equal marks.

1. Explain the meaning of financial management and describe its functions.

2. Describe the assumptions of MM theory.

3. Management of Kailash Ltd. Has the option to buy either machine A or machine B. machine A has a cost of Rs. 75,000. Its expected life is 6 years with no salvage value at the end. It would generate net cash flows of Rs. 20,000 per year. Machine B on the other hand would cost Rs. 50,000. Its expected life is 6 years with no salvage value at the end. It would generate net cash flow of Rs. 15,000 per year. Assuming that the cost of capital of both the machines is 10%. You are required to calculate:
   I. Net present value for each machine
   II. Internal rate of return for each machine
   III. Which machine should be recommended and why?
   Present value of an annuity of Re. 1.

Interest Rate

Year	14%	15%	16%	17%	18%	20%
1-6	3.889	3.784	3.685	3.589	3.498	3.326

The present value factors at 10% rate of discount for the years 1 to 6 are respectively:

Year	1	2	3	4	5	6
P.V. Factor at 10%	.909	.826	.751	.683	.621	.564

4. The following data relates to Z Ltd.
   EPS Rs. 15
   Capitalization rate 15%
   Rate of return 20%
   Determine market price per share under Gordon's model if retention is (a) 20%, (b) 40% and (c) 60%.

5. Veer Ltd. is engaged in large scale customer retailing. From the following information, you are required to forecast its working capital requirements for the year 2013-14.

Projected annual sales	Rs. 65,00,000
Percentage of net profit on cost of sales	20%
Average credit allowed to debtors	10 weeks
Average credit allowed to creditors	4 weeks
Average stock carrying (in terms of sales requirements)	8 weeks

Add 10% to computed figures to allow for contingencies.

6. Rohith Ltd has currently an all equity capital structure consisting of 20,000 equity shares of Rs. 100 each. Now it is planning to raise another Rs. 30,00,000 to finance a major expansion programme and is considering three alternative methods of financing:
   I. To issue 30,000 equity shares of Rs. 100 each
   II. To issue 30,000, 12% debentures of Rs. 100 each
   III. To issue 30,000, 8% preference shares of Rs. 100 each
   Company expects its earnings before interest and taxes as Rs. 10,00,000. Assume that the corporate taxes shall be at 40%. Determine EPS in each alternative and comment which alternative is best and why?

7. Bharathi Ltd. Expects an annual EBIT of Rs. 1,00,000 the company has Rs. 4,00,000 in 10% debentures. The equity capitalization rate is 12.5% the company proposes to issue additional equity shares of Rs. 1,00,000 and use the proceeds for redemption of debentures of Rs. 1,00,000. Calculate the value of the firm (V) and the overall cost of capital (K_0).

8. Explain 'optimum management of portfolios'.

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