



UNIVERSITY OF PETROLEUM & ENERGY STUDIES, DEHRADUN

End Term Examination-May 2018

Examination : End Term	Programme : MBA (AVM)
Max. Marks : 100	Semestre : II
Duration : 3 hours	Course Code : FINC 7018
Course Title : Financial Management	

SECTION A

(Marks: 2*10)

(Answer all the following Questions)

Fill in the Blanks

1. Beta as per CAPM model- Cost of Equity Calculation is defined as.....
2. NOI theory of Capital Structure postulates:
3. Net working capital =
4. FV=
5. Combined Leverage =
6. Cash Cycle =

Choose the correct answer

7. Discount/Premium is computed as a % of

a. Time Value of Money	c. Redeemable value
b. Face Value	d. Both a & b above
8. If the investment of the machinery is Rs. 50000 and it will generate Rs. 10000 each year for 10 years, Pay Back Period is

a. 5 years	c. 3 years
b. 4 years	d. 2years
9. Share Price Increases with the Increase in the D/P ratio. This is the proposition of

a. Net Operating Income Approach	b. Gordon Model
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c. MM Approach

d. Walter Approach

10. The point or level of EBIT where EPS is ZERO is:

- (a) Maximum Point (b) Minimum Point (c) Indifference Point (d) Break Even Level

SECTION B

(Marks: 4*5)

(Answer any four of the following Questions)

Write Short Notes on the following:

- 11. Playing with Float
- 12. Estimation of Working Capital
- 13. Walters theory of Dividend
- 14. Book Building
- 15. Venture Capital

SECTION C

(Marks: 2*15)

(Answer any two of the following three Questions)

16. The following data are available for the Broadway and Midway Corporation:

	Broadway co.	Midway co.
Sales volume	10000 Units	10000 units
Selling price per unit of output	Rs.200	Rs.200
Variable cost per unit of output	Rs.120	Rs.150
Fixed operating cost per unit of output	Rs.60	Rs.30
Equity	Rs.300000	Rs.600000
Preference shares	Rs.100000	--
Debt	Rs.600000	Rs.400000
Interest rate on debt	16.25%	15%
Dividend rate on preference share	13%	--
Tax rate	60%	60%

Calculate the Return on Equity, Degree of Operating Leverage, Degree of Financial Leverage, Degree of Combined leverage.

17. XYZ Ltd for its project investments intends to raise 1200 crores from debt, preference, common equity and retained earnings with a volume of Rs 200 crores, 300 crores, 400 crores and 300 crores respectively. The company considers the following heads of capital for its capital structure.

The company intends to raise the debt by issuing 13 %, 8 year redeemable debenture to be redeemed at a premium of 18 % at the end of the maturity period. The face value of the debenture is Rs100 and it is intended to be issued at a discount of 20 % and a flotation cost of 10% on realized value. The applicable tax rate for the interest is 28 %. The company decides to calculate the cost of debt without incorporating time value of money.

The company also considers issuing a 5-year Preference equity with a face value of Rs 10 at a premium of 12 %. The flotation cost is 8 % of the face value. The preference equity is planned to be redeemed in following manner over the period of maturity.

Year	Redemption of Face Value (Rs)
1	2
2	3
3	1
4	1
5	3

The company also considers paying a premium of 25 % to be paid at the end of the maturity period. The company decides to incorporate time value of money for the estimation of cost of preference equity. The expected tax rate is 30% for this scenario.

For the equity issue the bankers have advised that the company would have to offer a discount of 20 % on the current market price of Rs 400 per share. The face value of the share is Rs 100. The company can go ahead with plan of dividend of Rs 15 in the very first year. The flotation cost would be 12 % of the issue proceeds.

The simulated past information regarding the dividend of an equal size organization is as follows:

Year	Dividend
1	16
2	6
3	8
4	10
5	4

- A. Suggest the Weighted Average cost of Capital for the firm
- B. Suggest whether the company should accept the proposal of the merchant bankers if the expected market return on the project is 24 %.

18. Discuss the difference in the approach of NI and NOI theory of capital structure with suitable estimations based on assumptions.

SECTION D

(Marks: 30)

(Answer the following Question)

16. A company decides to purchase a mechanical set up to augment the company's installed capacity to meet the growing demand for its products. There are two machines under consideration of the management. The relevant details including estimated yearly expenditure and sales are given below: All Sales are on cash. Corporate income tax rate is 30%. Interest on Capital may be assumed to be 20 %. The proposed debt equity ratio for the investment is 4:6. The anticipated revenue and expenditure for the setup is as follows:

Particulars	Machine 1	Machine 2
Initial Investment Required	30,00,000	30,00,000
Estimated Annual Sales	5,00,000	4,00,000
Cost of Production(Estimated):		
Direct Materials	2,00,000	2,50,000
Direct Labor	5,00,000	3,50,000
Factory overheads	600,000	5,60,000
Administration costs	3,00,000	4,00,000
Selling and Distribution Costs	1,00,000	50,000

The economics life of Machine 1 is 4years, while it is 6 years for the other. The scrap values are Rs.2,00, 000, and Rs.3,00, 000 respectively. The depreciation is tobe charged at a rate of 20% by written down value method. The sales and direct expenses are expected to increase by 15% and all indirect expenses are expected to increase by 20% Year on Year. The applicable tax rate is 30%. Suggest the most profitable investment based on various project appraisal techniques of Pay Back Period, Discounted Payback period, ARR, IRR and NPV.