Roll No:

DEPARTMENT OF MANAGEMENT
School of Management & Business Studies
JAMIA HAMDARD

Even Semester Examination 2022

MBA-II Semester

Subject Name: Financial Management **Max. Marks: 75**
Subject Code: MBA-CG-203 **Time: 03 Hours**

Attempt any 5 questions, each question carries equal marks

Please read all the questions carefully:

Q.1 a) Wiley Co. Ltd has a capitalization rate of 10%. It currently has 1,00,000 shares of Rs.100 each. The company is planning to pay a dividend of Rs.5 on each share. The profit of the company for the year is Rs.10,00,000. If the company is planning an investment of Rs.15,00,000 for the next year, which will be funded by retained earnings and issuance of new equity shares. What will be the price of the shares at the end of the year if the dividend is declared and if the dividend is not declared? How much new shares should be issued by the company in both the cases. Answer these questions on the basis of MM model and assume there is no taxes. (10 marks)
b) According to Walter's Model of Dividend Decision, explain why do young growing companies do not pay dividend? (5marks)

Q.2 a) PLC Ltd expects a net income of Rs. 1,00,000. It has Rs. 1,50,000, 10 % debentures. The equity capitalization rate of the company is 12%.
i) Calculate the value of the firm and overall capitalization rate according to the Net Income Approach (ignoring income-tax). .
ii) If the debenture debt increased to Rs. 2,00,000, what shall be the value of the firm and the overall capitalization rate? (10 marks)
b) Explain how operating leverage impacts a firms profit when the sales increases with the help of an example (5 marks)

Q.3 **a)** What will be your choice of financing a company, equity or debt. What are the various factors you will consider before making such decision? (5 marks)
b) Mehta and Co. currently provides 45 days of credit to its customers. Its present sales are Rs. 80 million. The firms cost of capital is 13% and Profit on sales is 25%. The firm is considering extending its credit period to 60 days. Such an extension is likely to push up the sales by Rs. 20 million. The additional cost of collection of bad debts will be 10%. Suggest whether the company should increase its credit period or not. (5marks)
c) A firm can never have a negative cash cycle. Comment (5 marks)

Q.4 You are planning to purchase a house 5 years from now. The value of the property is Rs.30,00,000 today and is expected to grow at 5% p.a in the next five years. What amount should you save annually to pay 20% as down payment for the same in an account that pays 10% interest annually. How much will be the EMI if you are planning to pay the loan back in 20 years if the interest on loan is 15% per annum. (15 marks)

Q.5. Pinnacle Ltd is planning to invest in either of the three mutually exclusive project. You are required to help Pinnacle Ltd by suggesting the most profitable project of the three. Which method of capital budgeting will you use for this problem, and why? (15 marks)

Year	Project A	Project B	Project C
0	1,15,000	1,20,000	1,18,000
1	30,000	35,000	(20,000)
2	45,000	40,000	45,000
3	30,000	40,000	45,000
4	(20,000)	40,000	45,000
5	50,000	-	45,000
6	16,000	-	

Q.6 a) NKM Manufacturer provides the following information about its cash management system. The annual yield on marketable securities is 20 percent. The fixed cost of per transaction of marketable securities transaction is Rs. 1500. The standard deviation of the change in daily cash balance is Rs.4000. The minimum cash balance is Rs.40000. Calculate the spread, upper limit and return point for NKM using Miller and Orr Model. (8 marks)
b) Explain Operating Cycle and all its elements with the help of an example. (7 marks)

Q.7. a) Explain briefly the factors affecting dividend policy of a company. Also enumerate the legal formalitities governing payment of dividend in India (8 marks)
b) Explain Pecking order theory with appropriate example (7 marks)

Q.8 a) Anish, a financial analyst, would like to have Rs. 20,000 saved in his bank account at the end of 3 years. The bank offers a return of 10% per annum compounded monthly. Calculate the amount Anish will receive after 3 years, also calculate the effective annual rate. (5 marks)

b) ABC Ltd.has a paid up capital of Rs. 10,00,000 equity shares of Rs. 10 each. The firm is expecting the EBIT of Rs.1,50,000 per annum on an investment Rs.5,00,000, is considering the finalization of the capital structure. The company has access to raise funds of Rs.5,00,000 by issuing equity share capital, 12% preference share and 10% debenture or any combination thereof. Assuming that ABC Ltd. belongs to 50% tax bracket show the impact of the following options on EPS of the firm.

i) 100% financed by equity share capital
ii) 100% financed by preference share capital
iii) 100% financed by debentures
iv) 50% by equity and 50% by debentures.
v) 50% by equity and 50% by preference share. (10 marks)