Code No.: **4B110**

MR14

MALLA REDDY ENGINEERING COLLEGE (AUTONOMOUS)

(Affiliated to JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD)
Gundlapochampally (H), Maisammaguda (V), Medchal (M), Medchal-Malkajgiri (Dist), Hyderabad.-500 100.

MBA II SEMESTER SUPPLEMENTARY EXAMINATIONS, AUGUST-2017

SUBJECT: **FINANCIAL MANAGEMENT**

Time: **3 Hours** Max Marks: **60**

PART-A

Answer the following Question **1 X 20Marks=20 Marks**

1. The following information relates to two companies P Ltd. and Q Ltd.

Particulars	P Ltd. (Rs. in lakh)	Q Ltd. (Rs. in lakh)
Sales	500	1000
Variable costs	200	300
Fixed costs	150	400

P Ltd. had taken a loan of Rs.500 lakh and Q Ltd. had taken a loan of Rs.1,000 lakh. Both the loans carried an interest rate of 10% per annum. Calculate operating, financial and combined leverages for both the companies and comment on the relative risk position of them.

PART-B

Answer any 5 questions **5 X 8 Marks=40 Marks**

1. Anand Industries has three sources of capital - the equity shares, preference shares and straight debt whose after-tax costs are 18%, 15% and 7% respectively. The proportions of different kinds of capital as reflected in the balance sheet and as per the market values are as under. Find out the WACC based on (a) book values and (b) market values.

Capital	Proportions	
	Book Value	Market Value
Equity Shares	50%	70%
Preference Shares	20%	15%
Debt	30%	15%

2. Assuming no taxes and given the earnings before interest and taxes (EBIT), interest (I) at 10 percent and equity capitalisation rate (Ke) below, calculate the total market value of each firm using the Net Income (NI) approach. Also, determine the weighted average cost of capital for each firm.

Firms	EBIT	Debt	Ke
X	Rs. 2,00,000	Rs. 2,00,000	12%
Y	Rs. 3,00,000	Rs. 6,00,000	16%

3. The present share capital of the ABC Ltd. consists of 1000 shares of Rs.100 each. The company is contemplating a dividend of Rs.10 per share for the year. The capitalization rate is 20%. The net income is Rs.25000.

What will be the price of the share at the end of the year if i) dividend is not declared and ii) dividend is declared.

Presuming that the company pays a dividend and wants to make an investment of Rs.48000, how many new shares may be issued? Use M&M approach.

4. The following information about a company is available.

Sales	**Jan**	**Feb**	**Mar**
	2,50,000	3,00,000	4,25,000

Expected Sales	**April**	**May**	**June**
	2,75,000	4,72,000	4,00,000

i. 30% of the sales are cash sales and the rest 70% is received one month later
ii. Cost of Goods Sold is 50% of the sales. Half of it paid in the same month, the other half is paid the immediate next month
iii. The company has to pay rent of Rs. 1,25,000 every month
iv. The company needs to pay Rs. 1,75,000 as advance tax in the month June
v. Selling expense is 30% of the sales and is paid one month later
vi. The company gets a revenue from other sources to a tune of Rs. 2,000 every month
vii. The opening balance of the company in the month of April is Rs. 1,00,000. The company maintains a minimum balance of Rs. 1,00,000

You are required to prepare a cash budget for the months of April, May and June.

5. The following information relates to Vignesh Ltd. Earnings per share is Rs.9, Internal rate of return is 18%, Capitalisation rate is 12%, Dividend pay-out ratio is 33.33%. Compute the market price under the Walters model. How will your answer change if the pay-out ratio is increased to 66.66%? Which option is better as per Walters model and why?

6. What is 'indifference point'? Explain it in relation to EBIT-EPS analysis.

7. Explain in detail about various capital budgeting tools along with their advantages and limitations.