Name:

Enrolment No:

UPES
UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, Dec 2019

Course: Financial Management **Semester: III**
Program: B. Com (Hons) **Time: 3 Hours**
Course code: FINC 2019 **Max. Marks: 100**
Instructions: All Questions are compulsory

SECTION A **(10 * 2 Marks Each - 20 Marks)**

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Q 1	Amex Corporation finances with an equal mix of debt and equity. In consideration of new projects proposed, the company can issue 8% debt and estimate that their required rate of return on common equity is 20%. With a 40% tax rate, what is the WACC for Amex? a. 14.00% b. 28.00% c. 12.40% d. 11.40%	**2**	**2**
Q 2	Following is the capital structure of the Lotus Industries Ltd.(LIL) Rs. in lakh Particulars Amount Issued and paid up capital 500 10% debenture 400 8% term loan 250 If EBIT of the firm is Rs. 300 lakh, Degree of financial leverage is…. (Tax rate applicable to LIL is 30%) a. 1.45 b. 1.40 c. 1.35 d. 1.25	**2**	**3**
Q 3	A loan of Rs.4,00,000 is to be repaid in 10 equal annual installments. If the loan carries a rate of interest of 12% p.a (PVIFA – 5.65)., the equated annual installment is a. Rs.75,000 b. Rs.80,000 c. Rs.70,796 d. Rs.95,496	**2**	**1**
Q 4	Mahesh deposits Rs. 2,00,000 in a Bank Account which pays 10% interest. How much can be withdraw annually for a period of 15 years a. Rs. 27000 b. Rs. 28,000 c. Rs. 26295 d. Rs.27000	**2**	**2**

Q 5	Equity shares of XYZ ltd. are quoted in the market at Rs.17.00. The dividend expected a year hence is Rs.1.00. The expected rate of dividend growth is 8%. The cost of equity capital to the company is: a. 13.88% b. 12.88% c. 11.97% d. 10.45%	**2**	**3**
Q 6	Degree of Finance Leverage is defined as a. % change in EBIT/ % change in sales b. % change in EPS/ % change in EBIT c. % change in EBIT/%change in EPS d. Both (a) & (c) above	**2**	**3**
Q 7	Find the present value of an annuity of Rs 12000 per year for 10 years if the interest rate is 9 per cent. a. Rs 65000 b. Rs. 77016 c. Rs 75000 d. Rs.73000	**2**	**3**
Q 8	If the interest rate is 12%, what is the doubling period as per the rule of 69? a. 5.3 years b. 7.4 years c. 6.1 years d. 8.2 years	**2**	**2**
Q 9	The effective rate of interest for a nominal rate of interest of 6 per cent per annum compounded quarterly works out to: a. 6.24 per cent per annum b. 6.14 per cent per annum c. 6.04 per cent per annum d. 6.34 per cent per annum	**2**	**4**
Q 10	If the percentage change in EBIT is +80% and the percentage in Sales is +40 %, the degree of Financial Leverage is a. 2 b. 5 c. 10 d. 4	**2**	**2**
	SECTION B **(4* 5 Marks Each -20 Marks)**		
Q 1	Write Short Notes on the following: a. Wealth Maximization Approach – Objective of Financial Management **2 Marks** b. Dividend Model **3 Marks**	**5**	**4**

Q 2	(a) X deposits Rs. 2,00,000 in a Bank account which pays 10% interest. How much can be withdraw annually for a period of 15 years? (b) ABC Limited has just declared and paid dividend at the rate of 15% on the equity share of Rs. 100 each. The expected future growth in dividend is 12%. Find out the cost of capital for equity shares given that market value of the shares is Rs. 168	**5**	**4**
Q 3	ABC Company has debentures outstanding with 5 years maturity. The debentures are selling at Rs. 95 (Discount Rs. 5, Face Value Rs. 100). The Coupon Rate is 10% p.a. The Corporate Tax Rate is 30%. Floatation Cost is 5% of the Face Value. Calculate the Cost of Debentures	**5**	**5**
Q 4	How Capital Structure is constructed considering the impact on value of the firm and overall (WACC) cost of Capital using Net Operating Income Approach of Capital Structure?	**5**	**4**
	SECTION-C **(3* 10 Marks Each- 30 Marks)**		
Q 5	PTC has existing Capital Structure consisting of Rs. 40,00,000 Equity Capital (Price Per Share Rs. 100). Company required Rs. 40,00,000 for further expansion. The **Company has 4 alternative Financial Plans:** a. Raise Entire Money in the form of Equity Capital b. Raise 50% money in the form of Equity Capital and 50% money in the form of Debentures(Interest Rate 5%) c. Raise 50% money in the form of Equity Capital and 50% money in the form of Preference Shares (Dividend Rate 5%) d. Raise Entire Money in the form of Debentures (Interest Rate 6%) Tax rate 22% **Which Financial Plan company will choose based on EPS and Financial Breakeven point**	**10**	**4**

Q 6	The following information of Swiggy Ltd is available to you for your perusal: The present book value capital structure is as follows: Debenture (Rs 100 per Debenture) Rs 4,50,000 Preference Shares (Rs 100 per Share) Rs 3,50,000 Equity Shares (Rs 100 per Share) Rs 6,50,000 Anticipated external financing opportunities are: a. Rs 100 per debenture redeemable at par; 5 year maturity,15% coupon rate , 2.5% flotation cost, 6% discount on Issue b. Rs 100, 12% preference shares redeemable at par: 15 years maturity, 4% flotation cost, Premium 3% on issue c. Equity shares Rs 100; Rs 5 per share of flotation cost, selling price in primary market is Rs 125. In addition, the dividend expected on the equity shares at the end of the year is Rs 8 per share; the anticipated growth rate in dividends is 8% and the company has the practice of paying all its earnings in the form of dividends. The corporate tax rate is 22%. You are required to determine the weighted average cost of capital using the book value weights	**10**	**4**
Q 7	The EPS of TLC Company is Rs.20. The company is examining to adopt dividend payout ratios of 0%, 25%, 50% ,75% and 100%. Calculate the market value of Company's share using Walter's model of dividend policy if the rate of return on investments is (i) 30% (ii) 15% given the Capitalization Rate (K_e) is 25%. What is your inference? Calculate Price of Shares also.	**10**	**5**

	Section D (3* 10 Marks Each- 30 Marks)		
Q 8	A firm sells the product at Rs. 200 per and variable cost is Rs. 100 per unit. Fixed Operating Costs of Rs. 1,00,000 per year. Given Sales Level is 8000 Units. Show the Degree of Operating Leverage if sales changes to 4000 Units and 12000 Units respectively	**10**	**4**
Q 9	While preparing a project report on behalf of a client, the following information pertaining to Client (JK Ltd.)is collected. You are required to estimate the net working capital. Add 10%to the computed figure to allow for contingencies.	**10**	**4**

Cost per unit in Rs.

Raw Material	160
Direct Labour	60
Overheads	120
Total Cost	340

Additional information:-

Selling Price Rs. 400 per unit

Level of Activity 2,10,000 units per annum

Raw Material in stock Average 4 weeks

Works – in – Process Average 2 weeks

(Assume 50% completion stage in respect of conversion costs (Labour and Overheads) and 100 % completion in respect of materials)

Finished goods in stock Average 4 weeks

Credit allowed by suppliers Average 4 weeks

Credit allowed to debtors Average 8 weeks

Lag in payment of Wages Average 1.5weeks

Cash at bank is expected to be Rs. 80,000

Assume that production is carried out on evenly throughout during the 52 weeks of the year and wages accrue similarly. All sales are on Credit basis only.

Q 10	Delta Chemicals Limited is considering 5 Projects – A, B, C, D, E with the following characteristics: Projects | Initial Investment (Year 0)- Rs. | Annual Net Cash Flow (Years 1 to 5) – Rs. A | 10,00,000 | 6,50,000 B | 6,50,000 | 1,70,000 C | 7,50,000 | 2,80,000 D | 9,00,000 | 3,25,000 E | 8,25,000 | 4,25,000 The Discounting rate is 15%. Rank the projects in terms of NPV and BCR criteria. Which Project will you recommend? OR How Capital Budgeting Techniques are used in Investment Decisions?	**10**	**5**

Projects	Initial Investment (Year 0)- Rs.	Annual Net Cash Flow (Years 1 to 5) – Rs.
A	10,00,000	6,50,000
B	6,50,000	1,70,000
C	7,50,000	2,80,000
D	9,00,000	3,25,000
E	8,25,000	4,25,000