Paper / Subject Code: 44804 / Finan[illegible]

TYBAF Sem V
Nov-2018

Financial Management

Time: 2:30 Hours Marks: 75

Note – All questions are compulsory with internal choice.

Round off upto 2 decimals unless specified in the question.

Q1A. Multiple Choice Questions (any 8) (08)

1. The lock in period for equity linked saving scheme is ---------.
   - a. 3years
   - b. 5 years
   - c. 8 years
   - d. 12 years
2. --------------funds will invest 65% to 80% of total assets in equities and 20% to 35% in debt instruments.
   - a. Balanced hybrid
   - b. Conservative
   - c. Aggressive hybrid
   - d. Multi asset allocation
3. The main objective in Accounts Receivable management is to --------------the Days Sales Outstanding (DSO) and processing costs whilst maintaining good customer relations.
   - a. Balance
   - b. Minimize
   - c. Maximize
   - d. None of the above.
4. "5/ 15 net 45" on an invoice represents ----------- discount provided by the seller to the buyer on account of prompt or pre – payment.
   - a. Trade
   - b. Cash
   - c. Partly trade partly cash
   - d. Credit
5. -------------- assumes to reinvest only positive cash inflows at the firm's cost of capital.
   - a. MIRR
   - b. IRR
   - c. NPV
   - d. Discounted Payback
6. A ------------ is a graphical depiction of a decision and every potential outcome of making that decision.
   - a. Sensitivity Analysis
   - b. Break Even Analysis
   - c. Scenario Analysis
   - d. Decision Tree Analysis
7. Functional strategy is a -----------plan for achieving one or more goals of a business by one or more functional areas.
   - a. Short term
   - b. Long term
   - c. Medium term
   - d. All of the above
8. -----------------is the concept of increasing the value of a business in order to increase the value of the shares held by stockholders
   - a. Profit
   - b. Sales
   - c. Wealth
   - d. None of the above

9. The higher the bond's duration, the -----------its sensitivity to the change (also known as volatility) and vice versa.

    a. Lower c. Greater
    b. Remains unaffected d. None of the above

10. Exit load is typically charged on ---------- prevailing at the time of sale of unit.

    a. Purchase Price c. Face value
    b. Profit Value d. NAV

Q1B. State whether following statements are true or false (any7) (07)

1. A mutual fund that invests in short-term debt instruments such as Treasury bills, commercial paper, and large CDs are referred to as money market fund (MMF).
2. The primary difference between a mutual fund transfer and stock transfer is that mutual fund shares do not involve physical certificates, whereas stock shareholders may demand a physical certificate.
3. Dividend signalling is a theory that suggests that when a company announcement of an increase in dividend pay-outs is an indication of future instability.
4. Hard capital rationing or "external" rationing occurs when the company faces problems in raising funds in the external equity markets.
5. Operations are usually defined as core revenue critical aspects of a business that are non-repeatable in nature.
6. When interest rate rises bond price also increases.
7. An aging schedule is an accounting table that shows the relationship between a company's bills and invoices and their respective due dates.
8. Projects with a benefit-cost ratio greater than 1 have greater benefits than costs.
9. A common use of simulation is for experimentation in a high -cost, high -risk environment.
10. Corporate strategy is hierarchically the highest strategic plan of the organization.

Q2A. Find the duration of bond with a face value of Rs 1000 making annual interest rate of 7% if it has 14 years until maturity. The bond is redeemable at 10% premium. The current annual market interest rate is 8%. (Calculate upto 4 decimal points) (10)

Q2B. Kirit invested Rs 60,000 in a long term mutual fund with tax benefits under section 80C at an NAV of Rs 45. Find the number of units acquired by him if there is entry load of 3 %. (05)

OR

Q2C. SUN Mutual fund provides you with the following data related to unbalanced mutual fund scheme. You are required to compute the Net Asset Value (NAV) on per unit basis as on 30th Sept 2018. (10)

Particulars	Rs. (In Crores)
Managers Salary	0.20
Operational Expenses	0.80
Amount payable on shares	0.25
Bonds and debentures at cost	0.60
Interest Income	0.32
Listed Securities at cost	0.93
Dividend Income	0.10
Cash in hand	0.24

Other information

1. Value of listed bonds and debentures is appreciated by 15% of Cost while unlisted display a downfall of 5% from cost.
2. All the listed securities were purchased when market index was 9500 and currently it is 9300.
3. Out of total bonds quoted above 30% of them are unlisted.
4. No of outstanding units is 3,50,000

Also calculate the amount receivable by an investor who wishes to sell 125 units at NAV as on 30th September with 5% exit load.

Q2D. A bond with face value 1000 yields 6% returns with maturity value of 4 years. Currently the market price of the bond is 840. Calculate the yield to maturity investment in the bond. (05)

Q3A. Angad Ltd is considering following projects which are divisible in nature, you are asked to choose the optimal project if capital constraint is Rs 65,00,000 (08)

Project	Initial Outlay (Rs)	NPV (Rs)
A	51,00,000	17,00,000
B	12,00,000	3,05,000
C	2,00,000	(16,000)
D	20,00,000	5,25,000
E	10,00,000	2,30,000

Q3B. Manju Ltd is evaluating 4 alternatives on investments whose returns are based on the state of economy (07)

State	Fair (Rs.)	Good (Rs.)	Great (Rs.)
Probability	0.2	0.5	0.3

The returns are as follows

Alternative	Fair (Rs.)	Good (Rs.)	Great (Rs.)
S	1000	9000	13600
U	0	10000	16000
N	(8000)	12000	17000

Draw decision Tree and determine the expected return for each alternative.

OR

Q3C. Meena Ltd has prepared the following projections for the next financial year (15)

Sales – 63ooo units @Rs 20 per unit (Credit period -- 30 days)
Variable Costs – Rs 12.50 per unit
Total Costs = Rs17.50 per unit
The CFO proposes to increase the credit by another 30 days resulting into increase in sales by 8%.
The company desires to earn 25% return on its investments. Assuming 360 days a year calculate

1. Incremental Contribution due to extension of credit period.
2. Incremental Investment on Funds based on Variable Costs only.
3. Incremental Investment on Funds based on Total Costs
4. Advise whether the proposal should be accepted or not based on total cost.

Q4A. Kaira Ltd is considering evaluating an investment proposal of Rs 7,00,000 with expected cash flows as below – (08)

Year	Cash flows after tax before depreciation. (Rs)
1	2,50,000
2	2,80,000
3	3,25,000
4	3,00,000

The company's cost of capital is 12% p.a . Compute the NPV, PI and Discounted Payback Period.

Q4B. The following data relates to Suraj Ltd – (07)

Rate of Return = 15% , Earning Per share = Rs 80.

Find the market price per share in the following cases using Gordon's Model –

Sr. No	Dividend Payout (%)	Cost of Capital (%)
1.	50	12
2.	60	18

Treat each case independently

OR

Q4C. Kadam Ltd has an EBIT of Rs 8 lakhs and 8% debentures of Rs 20,00,000. The overall capitalization rate is 10% based on which you are required to compute the present value of Kadam Ltd and equity capitalization rate. The company decides to further raise Rs 4 lakhs through 8% debentures and use the same to pay off the equity shareholders. Compute the proposed total value of the company and proposed equity capitalization rate based on Net Operating Income Approach. (15)

Q5A. Discuss the need and importance of financial planning at corporate level. (08)

B. Discuss the process of capital budgeting in brief. (07)

OR

Q5. Write Short notes on (any 3) (15)

1. Scenario Analysis
2. Wealth Maximization
3. Trade off Theory
4. Ethics in Mutual Fund Entities
5. Ageing Schedule

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