

Code No: 762AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA II Semester Examinations, February/March - 2024

FINANCIAL MANAGEMENT

Time: 3 Hours

Max.Marks:75

- Note:** i) Question paper consists of Part A, Part B.
 ii) Part A is compulsory, which carries 25 marks. In Part A, Answer all questions.
 iii) In Part B, Answer any one question from each unit. Each question carries 10 marks and may have a, b as sub questions.

PART - A**(25 Marks)**

- 1.a) Explain importance of Time value of Money. [5]
 b) What is Marginal cost of capital? [5]
 c) Explain about Rights issue and share splits. [5]
 d) Give the various components of working capital. [5]
 e) Explain about factoring. [5]

PART - B**(50 Marks)**

- 2.a) Discuss the goals of finance function.
 b) A limited company borrows from a commercial bank of ₹ 10,00,000 at 10 percent rate of interest to be paid in equal annual end-of- year installments. What would the size of the instalment be? Assume the repayment period is 5 years. [5+5]

OR

- 3.a) Explain about Agency Theory. What are Agency Costs? [5+5]
 b) Brief on basic valuation model.

4. Amar Electronics is considering a proposal to replace one of its machine. The existing machine was bought 5 years ago for ₹10 lakh. It was depreciated at 20 percent per annum on reducing balance basis. It has remaining useful life of 5 years, but its annual maintenance cost is expected to increase by ₹ 70,000 from the sixth year of its installation. In present realizable value is ₹ 6 lakh. The company has several machines having 25 percent depreciation.

The new machine costs ₹ 16 lakhs and is subject to the same rate of depreciation. On sale after 5 years, it is expected to net ₹10 lakh. With the new machine, the annual operating costs (excluding depreciation) are expected to decrease by ₹ 1 lakh. In addition, the new machine would increase productivity on account of which net revenues would increase by ₹1.5 lakh annually.

The tax rate applicable to the firm is 35 percent and the cost of capital is 12 percent. Is the proposal financially viable? Advise the firm on the basis of NPV of the proposal. [10]

OR

- 5.a) Zee ltd. is forecasting a growth rate of 14 percent per annum in the next 2 years. The growth rate is likely to fall to 12 percent for the third year and the fourth year. After that, the growth rate is expected to stabilize at 10 percent per annum. If the last dividend was ₹1.50 per share and the investor's required rate of return is 14 percent, find out the intrinsic value per share of Zee ltd. as of date.
 b) Distinguish between Risk and Uncertainty. [5+5]

- 6.a) Explain NOI theory of capital structure.
 b) "Dividends are not irrelevant to the value of the firm" Discuss. [5+5]

7. The well-established company's most recent balance sheet is as follows:

Liabilities	Amount	Assets	Amount
Equity Capital(₹10 per share)	₹6,00,000	Net fixed assets	₹15,00,000
10% Lon-term debt	₹8,00,000	Current assets	₹ 5,00,000
Retained earnings	₹2,00,000		
Current liabilities	₹4,00,000		
Total	₹20,00,000	Total	₹20,00,000

The company's total assets turnover ratio is 3, its fixed operating costs are ₹10,00,000 and the variable costs ratio is 40 per cent. The income tax rate is 40 per cent.

- a) Calculate all the three types of leverages.
 b) Determine the likely level of EBIT if EPS is i) ₹1 ii) ₹3 and iii) zero. [5+5]
- 8.a) How are net working capital, liquidity, technical insolvency and risk related?
 b) Discuss the main forms of working capital advance by banks. [5+5]

OR

- 9.a) Explain in detail the importance of Operating Cycle.
 b) In your opinion is it required for the firms to plan for Working capital? Why? [5+5]

10. Discuss the utility of cash budget as a tool of cash management. What are the steps involved in the construction of a cash budget? [10]

OR

11.a) A manufacturer buys casting equipment from outside suppliers @ ₹ 30 per unit. Total annual needs are 800 units. The following data is given below:

- Annual return on investment, 10 percent
- Rent, insurance, taxes per unit per year ₹1
- Cost of placing an order, Rs.100

- Determine the economic order quantity.
 b) Discuss the performance of the recent mergers in the Banking sector. [5+5]

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