

R19

Code No: 762AC

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA II Semester Examinations, February/March - 2025

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) How do companies organize their finance functions? [5]
- b) Explain the traditional methods of capital budgeting. [5]
- c) What is the bird-in-the-hand argument of dividend? [5]
- d) Describe the determinants of working capital needs. [5]
- e) Elaborate the types of mergers. [5]

PART - B

(50 Marks)

- 2.a) What is wealth maximization? How is it superior to profit maximization? Discuss. [6+4]
 - b) Brief on Risk-Return Trade Off. [6+4]
- OR**
- 3.a) You are set to receive \$50,000 in 7 years. If the annual interest rate is 10%, what is the present value of that amount today?
 - b) You invest \$2,000 at the end of each year into an account that earns 5% annually. How much will the investment be worth after 6 years? [5+5]

4. A company is evaluating a project that requires an initial investment of ₹ 8,00,000 and will generate the following cash inflows over a 4-year period:

Year 1: ₹2,00,000

Year 2: ₹2,50,000

Year 3: ₹3,00,000

Year 4: ₹3,50,000

The company's cost of capital is 10%.

- a) Calculate the Internal Rate of Return (IRR) for the project.
- b) Compare the IRR with the company's required rate of return and recommend whether the project should be accepted.
- c) What are the advantages and disadvantages of using IRR as a capital budgeting tool? [3+4+3]

OR

5. XYZ Ltd. has the following capital structure:

Equity: The company has 200,000 shares outstanding, each priced at ₹40. The expected dividend for the next year is ₹4 per share, and the dividend growth rate is expected to be 5%.

Debt: The company has outstanding bonds worth ₹6,00,000 with a coupon rate of 9%. The bonds are expected to be issued at par, and the company's tax rate is 25%.

- a) Calculate the cost of equity using the Dividend Discount Model (DDM).
- b) Calculate the cost of debt (after tax).
- c) Calculate the company's WACC assuming the company's capital structure is 50% equity and 50% debt.
- d) Explain the concept of the cost of capital and its role in investment decisions. How does the company's capital structure affect its WACC? [10]

6. 'The MM thesis is based on unrealistic assumptions.' Evaluate the reality of the assumptions made by MM theory. [10]

OR

7.a) Suppose that a firm has no debt in its capital structure. It has an expected annual net operating income of Rs. 100,000 and the equity capitalization rate, k_e , of 10 percent. Let us assume that the firm changes its capital structure replacing equity by debt of Rs. 300,000 at 7 percent interest rate. Assuming net income approach, what is the firm's weighted average cost of capital? What is its value?

b) Explain the essence of Walter's model. [5+5]

8. ABC Ltd. is a manufacturing company and has submitted the following details :

Current Assets:

Inventory: ₹50,00,000

Receivables: ₹30,00,000

Cash and Bank Balances: ₹5,00,000

Other Current Assets: ₹2,00,000

Current Liabilities:

Payables: ₹20,00,000

Short-term Borrowings: ₹10,00,000

The company is required to maintain a margin of 25% in the working capital finance and the standard Tandon Committee norms apply.

Calculate the Maximum Permissible Bank Finance (MPBF) for ABC Ltd. [10]

OR

9. Explain the importance of trade credit and accruals as sources of working capital. What is the cost of these sources? [10]

10.a) Explain the methods of preparing short-term cash forecasts.

b) Describe the steps in managing accounts receivable. [5+5]

OR

QA QA QA QA QA QA QA G

11.a) A manufacturing company has an expected usage of 50,000 units of certain product during the next year. The cost of processing an order is ₹20 and the carrying cost per unit is ₹0.50 for one year. Lead time on an order is five days and the company will keep a reserve supply of two days' usage. You are required to calculate (i) the economic order quantity and (ii) the reorder point. (Assume 250-day year).

b) What is the strategic rationale of Mergers and Acquisitions? [5+5]

---oo0oo---

QA QA QA QA QA QA QA G

QA QA QA QA QA QA QA G

QA QA QA QA QA QA QA G

QA QA QA QA QA QA QA G

QA QA QA QA QA QA QA G

QA QA QA QA QA QA QA G