Registration No. : | | | | | | | | | | |

*Total number of printed pages – 3*

**MBA**

**MBA 202**

# Second Semester Examination – 2013

## FINANCIAL MANAGEMENT

**QUESTION CODE : A 461**

**Full Marks – 70**

**Time : 3 Hours**

*Answer Question No.* ***1*** *and* ***2*** *which are compulsory and any* ***four*** *from the rest.*

*The figures in the right-hand margin indicate marks.*

1. Answer the following questions : 2 ×10

   (a) When can there arise a conflict between Shareholders' goals and Managers' goal ? How does this conflict get resolved ?

   (b) How does the use of financial leverage result in increased financial risk ?

   (c) What is financial distress ? How does it after the value of a firm ?

   (d) What is the bird-in-the-hand argument in the context of dividend policy ? Is the argument fallacious ?

   (e) What is a stock-split ?

   (f) What is meant by financial flexibility ?

   (g) Is a flexible capital structure costly ?

   (h) What is agency conflict ?

   (i) What do you mean by time preference of money ?

   (j) Explain "arbitrage process".



2. **CASE ANALYSIS :** 10

   Sushmita Ltd. produces an electronic component with a selling price of Rs.100. Fixed cost amounts to Rs.2 lakh. 5,000 Units are produced and sold each year. Annual profits amount to Rs. 50,000. The company's all equity financed assets are Rs.5 lakh.

The company proposes to change its production process, adding Rs.4,00,000 to investment and Rs.50,000 to fixed operational costs. The consequences of such a proposal are :

(i) Reduction in variable costs per unit Rs.10.

(ii) Increase in output by 2,000 units, and

(i) Reduction in selling price per unit to Rs.95.

Assuming an average cost of capital at 10%, examine the proposal and advise whether the company should make the change. Also, measure the degree of operating leverage and breakeven point.



3. A company is considering three methods of attracting customers to expand its business by undertaking – (A) advertising campaign, (15) display of neon signs and (C) direct delivery service. The initial outlay for each alternative is as under :

(A) Rs.1,00,000

(B) Rs.1,50,000

(C) Rs.1,50,000

If A is carried out, but not B, it has an NPV of Rs.1,25,000. If B is done, but not A, B has an NPV of Rs. 45,000. However, if both are done, then NPV is Rs. 2,00,000. The NPV of the delivery system C is Rs.90,000. Its NPV is not dependent on whether A or B is adopted and the NPV of A or B does not depend on whether C is adopted.

Which of the investments should be made by the company if

(i) firm has no budget constraint, and

(ii) the budgeted amount is only Rs.2,50,000 ? 10

4. Sushant Ltd. has the following capital structure :

| | Rs. |
|---|---|
| Equity share | 50,00,000 |
| 10% Preference shares | 10,00,000 |
| 14% Debentures | 20,00,000 |
| | 80,00,000 |

Equity shares of the company are sold at Rs.25 per share in the market. It is expected that the company will pay next year a dividend of Rs.4 per share which will grow at 8% forever. Assume a tax-rate of 30%.

Compute the new weighted average cost of capital, if the company raises an additional Rs.20,00,000 debt by issuing 15% debentures. This would increase the expected dividend to Rs.5 per share with dividend growth rate unchanged, but the price of share will fall to Rs.20 per share. 10

5. (a) Distinguish between 'Financial viability of a project' and 'commercial viability of a project'. 5

   (b) Explain important motives to hold cash. 5



6. What is meant by Capital Structure of a company ? What factors are taken into account while designing the Capital structure ? Does the dividend policy affect the Capital structure ? If so, explain. 10

7. (a) State the basic financial management decisions. How does a financial manager conduct risk-return trade off ? Explain with an example. 5

   (b) Discuss the challenges faced by financial manager in India. 5

8. (a) Explain with examples, the various approaches used for valuation of equity shares. 5

   (b) The market price of a bond is Rs. 1,800 whose par value is Rs. 2,000, coupon rate 9% and maturity after 8 years. What rate of return would an investor earn if he buys this bond from the market and holds it till maturity. Use the interpolation method. 5

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