



Fourth Semester Five Year B.B.A., LL.B. (Hon's) Examination, June/July 2012
FINANCIAL MANAGEMENT

Duration : 2¹/₂ Hours

Max. Marks : 70

- Instructions:**
1. Answer all 5 Questions.
 2. One essay type and **one** short note question or problem from **each** Unit have to be attempted, which is referred to as Part (a) and Part (b) in all the Units.
 3. Figures to the right indicate marks.

UNIT – I

Q. No. 1. (a) You are required to determine the WACC of Bata Ltd.

The following information is available for your perusal.

Marks : 9

	Rs.
Debentures (Rs. 100 per debenture)	8,00,000
Preference shares (Rs. 100 per share)	2,00,000
i) Rs. 100 per debenture redeemable at par: 20 year maturity, 8% coupon rate, 4% floatation costs, sale price Rs. 100.	
ii) Rs.100 preference share redeemable at par : 15 year maturity 10% dividend rate, 5% floatation costs, sale price Rs. 100.	

OR

Explain the following concepts :

- 1) Cost of Equity Capital
- 2) Cost of Preference Capital
- 3) Cost of Debenture Capital
- 4) Cost of Retained Earnings
- 5) Overall cost of capital.

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Marks

- (b) Write a short note on :
Advantages of cost of capital.

OR

Total company issued 15000 ten years 8% debentures of Rs. 100 each at 4% discount. Under the terms of debentures trust, these debentures are to be redeemed after 10 years at 5% premium. The cost of issue is 2%. Calculate the cost of debt capital presuming a tax rate of 50%.

UNIT – II

- Q. No. 2. (a) Explain various factors which influence dividend policy of a firm.

Marks : 9

OR

Company U and L are identical in every aspect, except that U is unlevered while L is levered. Company L has Rs. 20 lakh of 8% debentures outstanding. Assume :

- 1) that all the MM assumptions are met,
- 2) that the tax rate is 35%
- 3) that EBIT is Rs. 6 lakh and Equity capitalisation rate for company U is 10%.
 - a) What would be the value for each firm according to the MM's approach ?
 - b) Suppose $V_U = \text{Rs. } 25,00,000$ and $V_L = \text{Rs. } 35,00,000$

According to MM do they represent equilibrium values ? If not, explain the process by which equilibrium will be resorted.

- (b) Write a short note on :
Traditional Approach under dividend theory.

Marks : 5

OR

Types of Dividend Policy.



UNIT – III

- Q. No. 3. (a) Prepare an estimate for working capital requirement from the following information of a trading concern : Marks : 9
- a) Project annual sales 1,00,000 units
 - b) Selling price per unit Rs. 8
 - c) Average credit period allowed by suppliers – 4 weeks
 - d) Average credit period allowed to customers – 8 weeks
 - e) Percentage of net profits on sales is 25%
 - f) Average stock holding in terms of sales requirements – 12 weeks
 - g) Allow 10% for contingencies.

OR

What is working capital ? Explain the importance of working capital management.

- (b) Write short note on : Marks : 5
Inventory Management.

OR

Debtors Management.

UNIT – IV

- Q. No. 4. (a) Videsh Ventures, a India based Co., is considering a project to be set up in the US. The project will entail an initial outlay of \$ 200 million and is expected to generate the following cash flow over its year life. Marks : 9

Year	:	1	2	3	4	5
Cash flow (in million)	:	\$ 50	\$ 70	\$ 90	\$105	\$ 80

The current spot exchange rate is Rs. 40/ US \$. The risk free rate in India is 11% and in US is 6%. Videsh ventures required rupee return on a project of this kind is 18%.

Calculate the NPV of the project using the home currency approach.

OR

Explain various factors which are peculiar to multinational firms.

- (b) Write a short note on : Marks : 5
Multinational Working Capital Management.

OR

Multinational Capital Budgeting decisions.


UNIT – V

- Q. No. 5. (a) Gama Co. is taking over Theta Co. The share holders of theta would receive 0.8 shares of Gama for each shares held by them. The merger is not expected to yield in economies of scale and operating synergy. The relevant information for the two companies are as follows :

Marks : 9

Particulars	Gama	Theta
Net sales (Rs. in crores)	335	118
No. of shares (in crores)	12	3
EPS	4.83	4
Market value/share	30.00	20.00
P/E ratio	6.21	5.00
PAT (Rs. in crores)	58	12

For the Combined Co. (After merger), you are required to calculate :

- EPS
- P/E ratio
- Market value of shares.

OR

Tata company is acquiring Corus company. Tata company will pay 0.5 of its shares to the share holders of Corus Co. for each share held by them. The data for the two companies are as given below :

	Tata	Corus
PAT	150	30
No. of shares	25	8
EPS	6	3.75
MPS	78	33.75
P/E ratio	13	9

Calculate the earnings per share of the surviving firm after the merger. If the P/E ratio falls to 12 after the merger, what is the premium received by the share holders of Corus Co. (Using the surviving firm's new price) ? Is merger beneficial for Tata Co.'s share holders ?

- (b) Write a short note on :

Marks : 5

Characteristics of Mergers and Acquisitions.

OR

Types of Mergers.