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UNIVERSITY OF PETROL
AND ENERGY STUI

End Semester Examination, May 2017

Program/course: MBA General | **Semester – II**
Subject: Financial Management | **Max. Marks : 100**
Code : MBCF773 | **Duration : 3 Hrs.**
No. of page/s:3

Structure of the question paper and allocation of the marks is given below.

Note: All Sections are compulsory

Section –A (Objective Type) **(20*1=20) Marks Each**

Multiple Choice Questions

Q 1: Walter's model suggests for 100% DP ratio when:

a. Ke = r
b. Ke < r
c. Ke > r
d. Ke = 0

Q 2: Discount/Premium is computed as a % of

a. Time Value of Money
b. Face Value
c. Redeemable value
d. Both a & b above

Q3: If the investment of the machinery is Rs. 50000 and it will generate Rs. 10000 each year for 10 years, Pay Back Period is

a. 5 years
b. 4 years
c. 3 years
d. 2years

Q4: If EBIT is Rs. 1,00,000 and Ko is 15% then the value of V would be.

a. Rs. 6,66,667
b. Rs. 8,00,000
c. Rs. 6,00,000
d. Rs. 4,00,000

Q 5: Company Mahan ltd. has EPS of Rs. 10 per share , Cost of Equity (Capitalization Rate) = 10%, Rate of Return on Investment = 15%, b= 50%. The price per share as per Gordan Model is

a. Rs. 200
b. Rs. 275
c. Rs.120
d. Rs.40

Q 6: Price Increases with the Increase in the D/P ratio. This is the proposition of

a. Net Operating Income Approach
b. Gordan Model

c. MM Approach

d. Walter Approach

Differentiate the Following:

Q7: Gross Working Capital and Net Working Capital

Q 8: IRR and ARR

Q 9: Operating Leverage and Financial Leverage

Fill in the Blanks

Q 10: Market value of Equity is Rs. 20, 00,000 and the Market Value of Deb is Rs. 10,00,000 .Cost of Debt is 10% and Cost of equity is 15%. The Overall Cost of Capital is…….(Using $K_o = K_i (B/V) + K_e (S/V)$

Q 11: A …… rate of dividend is payable on preference share.

Q 12: Operating Cycle is defined as …… ……..

Q 13: A debenture or a bond may be issued at ……, at…… or at……..

Q 14: If the company does not meet the expectations of its shareholders regarding…….. of dividend it will have …….. effect on the market price of the shares.

Q 15: Capital Structure is defined as……

Q 16: Net working capital is equal to…… ……..

Q 17: Cost of Equity (As per Dividend Growth Model) is equal to……

Q 18: Time Value of Money is defined as……

Q 19: Net Operating Income of Capital Structure interprets that.....

Q 20: Unsystematic Risk is defined as ……..

Section B

Short Answer Questions (4*5=20)

Q 1: How Capital Structure is constructed considering the impact on value of the firm and overall (WACC) cost of Capital using Net Income Approach of Capital Structure?

Q 2: What is Optimum Capital Structure? Bring out the qualities of an Optimum Capital Structure

Q3: How Gordan Model of Dividend Policy functions? Explain with Example?

Q4 ABC Company has debentures outstanding with 5 years maturity. The debentures are selling at Rs. 95 (Discount Rs. 5, Face Value Rs. 100). The Coupon Rate is 10% p.a. The Corporate Tax Rate is 30%. Floatation Cost is 5% of the Face Value. Calculate the Cost of Debentures

Section C

Descriptive Type Questions **(3*10=30)**

Attempt any 3 questions

Q5 ABC Ltd. having an EBIT of Rs. 2,00,000. Presently it is a 100% equity firm with equity capitalization rate K_e of 16%. The firm has to redeem the capital by introducing debt financing up to Rs. 3,00,000 of total funds or up to Rs. 5,00,000 i.e. 50% of total funds. It is expected that for the debt financing up to 30% the rate of interest will be 10% and the K_e will increase to 17%. However, if the firm opts for 50% debt financing, then interest will be payable at the rate of 12% and the K_e will be 20%. Find out the value of the firm and its WACC under different levels of debt financing.

Q 6 X Ltd issues 2,00,000, 8% redeemable debentures of Rs 100 each at Rs 96. Underwriting commission was paid @ 2.5 % brokerage @0.5% of **issue price.** Other expenses of the issue amounted to to Rs 50,000. The debentures after redeemable after 10 years. You are required to calculate:

i) Before tax cost of debt
ii) After tax cost of debt assuming the tax rate @ 40%

Q 7 How is traditional approach different from Net Operating Income approach? Illustrate your answer with diagrams and suitable example.

Q 8 The following information are available in respect of the company:

Capitalisation rate (ke) = 10%
Earning Per Share = Rs 8

Calculate the market price of share under Walter's Model by assuming a rate of return on investment (r) of

1) 15% ii) 10% iii) 5% and dividend payout ratio of 0%, 25%, 50%,75%, and 100%.

Section D

Analytical/Case Study **(1*30=30)**

Q 9: R Ltd. has the following capital structure:

Equity Shares(2,00,000 shares)	40,00,000
10% Preference Shares	10,00,000
9% Debentures	30,00,000

The share of the company sells for Rs 20. It is expected that the company will pay next year a dividend of Rs 2 per share which will grow at 7% for ever. Assume a 35 % tax rate

a) Compute the WACC based on the existing capital structure.
b) Compute the new WACC if the company raises an additional 30,00,000 debt by issuing 10% debentures. This would increase the expected dividend to Rs 3 and leave the growth rate unchanged, but the price of share will fall to Rs 15 per share.