

# E 3Q

Reg. No. \_\_\_\_\_ Name: \_\_\_\_\_

**APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY**  
SECOND TRIMESTER MBA DEGREE EXAMINATION JANUARY 2017

## **MBA 25 :FINANCIAL MANAGEMENT I**

Max. Marks: 60

Duration: 3 Hours

*Use of Statistical Tables permitted*

### **Part A**

**Answer all questions. Each question carries 2 marks**

1. Explain Commercial Paper
2. Why does money have time value?
3. How is cost of equity shares under CAPM model calculated?
4. Who are Angel investors?
5. What is Capital rationing?

(5x2 marks = 10 marks)

### **Part B**

**Answer any 3 questions. Each question carries 10 marks**

6. (a) Explain the various functions of the Financial Manager in a corporate concern  
(b) Critically evaluate the goals of Profit Maximization and Wealth Maximization
7. Capital formation takes place in the primary market. How does it differ from the Secondary Market?
8. (a) An investor has two options to choose from: (A) Rs. 6000 after one year; (B) Rs. 9000 after four years. As an investor, he will choose the option which will give him more returns. Assuming a discount rate of (i) 10 percent and (ii) 20 percent, which alternative should he opt for?  
(b) Discuss the various sources of Long Term Finance and Short Term Finance for a corporate.
9. The rate of return (in percent) of ITC stock and the NSE index for 12 months period are given below. Calculate Beta for the ITC stock.

| Month | ITC   | NSE index |
|-------|-------|-----------|
| 1     | -0.75 | -0.35     |
| 2     | 5.45  | -0.49     |
| 3     | -3.05 | -1.03     |
| 4     | 3.41  | 1.64      |
| 5     | 9.13  | 6.67      |
| 6     | 2.36  | 1.13      |
| 7     | -0.42 | 0.72      |
| 8     | 5.51  | 0.84      |
| 9     | 6.80  | 4.05      |
| 10    | 2.60  | 1.21      |
| 11    | -3.81 | 0.29      |
| 12    | -1.91 | -1.96     |

## E 3Q

10. M/s Siphon Limited, a fast growing foreign company wants to expand its total assets by 50 percent by the end of the current year. Given below are the company's capital structure which it considers to be optimal.

|                      |               |
|----------------------|---------------|
| 8% debentures        | Rs. 4,00,000  |
| 9% preference shares | Rs. 1,00,000  |
| Equity shares        | Rs. 5,00,000  |
| Total                | Rs. 10,00,000 |

There are no short-term debts. The additional capital proposed to be increased by 50% will be as follows:

- New debentures would be sold at 11 percent coupon rate and will be sold at par. Preference shares will have a 12 percent rate and will also be sold at par.
- Equity shares currently selling at Rs. 100 can be sold to net the company Rs. 95. The shareholders' required rate of return is to be 17% consisting of a dividend yield of 10% and an expected growth rate of 7%.
- Retained earnings for the year are estimated to be Rs. 50,000
- The corporate tax is 35% (ignore depreciation)

You are required to calculate the following values for the additional capital to be raised:

- (a) What is the required amount of capital budget OR what is the additional capital proposed to be raised by the company?
  - (b) How much of the capital budget / additional capital must be financed by external equity (that is, issue of new equity shares) to maintain the capital structure?
  - (c) Calculate the cost of (i) new issues of equity shares and (ii) retained earnings
  - (d) Calculate the weighted average cost of additional capital using marginal weights.
- (3x10 marks = 30 marks)

### Part C

#### Compulsory question, the question carries 20 marks

11. M/s Meghalaya Limited has to select one of the following two projects. The estimated cash flows relate to four years and the initial investment for the projects are as follows:

| Particulars          | Project X (Rs) | Project Y (Rs) |
|----------------------|----------------|----------------|
| Initial investment   | 11000          | 10000          |
| Cash inflows         |                |                |
| 1 <sup>st</sup> year | 6000           | 1000           |
| 2 <sup>nd</sup> year | 2000           | 1000           |
| 3 <sup>rd</sup> year | 1000           | 2000           |
| 4 <sup>th</sup> year | 5000           | 10000          |

The cost of capital in Project X is 10% and Project Y is 15%. Calculate NPV and IRR for the Project X and Project Y.

(20 marks)