0442

Fourth Semester 5 Year B.B.A.,LL.B. (Hons.) Examination, December 2012

FINANCIAL MANAGEMENT

Duration : 2½ 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) What is Cost of Capital ? Explain the following terms : Marks : 9

1) Cost of Equity Capital
2) Cost of Debenture Capital
3) Cost of Preference Capital
4) Cost of Retained Earnings

OR

The TATA Mills Ltd. has the following cost of capital along with the indicated book value and market value weights.

Sources	**Cost**	**B.V. Weights**	**M.V.Weights**
Equity Capital	0.20	0.50	0.60
Preference shares	0.15	0.25	0.15
Long term debt	0.10	0.25	0.25
		1	1

Calculate the WACC using Book Value and Market value weights.

(b) Write a short note on : Marks : 5

Reliance Co. issues 10 year, 10,000 10% preference shares of Rs. 10 each. Commission paid to the brokers is Rs. 2 per share. Calculate the cost of preference capital if these shares are issued at par, 5% premium, 5% discount. Shares are to be redeemed at 10% premium.

OR

Capital Asset Pricing Model.

UNIT – II

Q. No. 2. (a) Explain various factors which influence the capital structure of a company. Marks : 9

OR

The following is the data regarding two companies x and y belonging to the same equivalent risk class.

Particulars	**x**	**y**
No. of Equity shares	90,000	1,50,000
MP/share	1.2	1.0
6% Debentures	60,000	–
EBIT	18,000	18,000

All profits after debenture interest are distributed as dividend. There are no retained earnings. Explain how under MM approach, an investor holding 10% of shares in Co. x will be better off in switching off his holdings to company y.

(b) Write a short note on : Marks : 5

Types of Dividend Policy.

OR

MM Approach under dividend theory.

UNIT – III

Q. No. 3. (a) Prepare an estimate of 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) Percentage of net profit on sales is 25%
d) Average credit period allowed to customers 8 weeks
e) Average credit period allowed by suppliers 4 weeks
f) Average stock holding in terms of sales requirement is 12 weeks
g) Allow 10% for contingencies.

OR

Explain the techniques of Inventory Management.

(b) Write a short note on : Marks : 5

Debtors Management.

OR

Cash Management.

UNIT – IV

Q. No. 4. (a) Bharat International, an India based multinational company, is evaluating an overseas investment proposal. Bharat Internationals exports of generic drugs have increased to such an extent that it is considering a project to build a plant in the U.K. The project will entail outlay of £ 50 million and is expected to generate the following cash flows over its four year life.

Year	**Cash flow (in million)**
1	£ 20
2	£ 30
3	£ 20
4	£ 10

The current spot exchange rate is 70 per British pound, the risk free rate in India is 10% and risk-free rate in U.K. is 6%. Bharat international's required rupee return on a project of this is 20%. What is the NPV of the project ? Marks : 9

OR

Explain the following concepts of Multinational Working Capital Management.

1) Cash Management
2) Credit Management
3) Inventory Management

(b) Write a short note on :

Multinational Capital Budgeting Decisions. Marks : 5

OR

Multinational Management Accounting.

UNIT – V

Q. No. 5. (a) S Co. is being acquired by L Co. on a share exchange basis. Their selected data are as follows :

Particulars	**L Co.**	**S Co.**
PAT	56	21
No. of shares	10	8.4
EPS	5.6	2.5
P/E ratio	12.5	7.5
MPS	70	18.75

Calculate the EPS 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 holder of S Co. (using the surviving firm's new price) ? Is merger beneficial for L Co's share holders ?

Marks : 9

OR

Vodafone Ltd. decides to take over Hutchison Ltd. following is the data available.

	Vodafone Ltd.	**Hutchison Ltd.**
No. of shares	4,00,000	3,00,000
EPS	10	8
P/E	6	5
MPS	60	40

Exchange ratio is 0.8 shares for every share of Hutchison Ltd.

Find out : Post merger EPS, P/E ratio and MP of shares.

(b) Write a short note on :

Reasons for mergers and Acquisitions. Marks : 5

OR

Types of mergers along with examples.