

Register No.: Name.:

SAINTGITS COLLEGE OF ENGINEERING (AUTONOMOUS)

(AFFILIATED TO APJ ABDUL KALAM TECHNOLOGICAL UNIVERSITY, THIRUVANANTHAPURAM)

SECOND SEMESTER MBA DEGREE EXAMINATION (S), December 2021

Course Code : 20MBA104

Course Name: Financial Management

Max. Marks : 60

Duration: 3 Hours

Students are allowed to use non programable scientific calculators

PART A

(Answer all questions. Each question carries 2 marks)

1. How will you classify financial markets based on maturity of claim
2. What is cost of bankruptcy
3. Distinguish between independent projects and mutually exclusive projects
4. Define Permanent Working Capital
5. What are Venture Capital Firms

PART B

(Answer any 3 questions. Each question carries 10 marks)

6. Given the following returns of two securities A and B

Year	1	2	3	4	5	6
Firm A	16	11	4	-12	13	22
Firm B	18	16	-15	19	5	11

Calculate

- a. Average returns of the two securities A and B (2 Marks)
 - b. Standard deviations of two securities A and B (5 Marks)
 - c. Compute the correlation between the two stocks and comment if they can be a part of a diversified portfolio (3 Marks)
7. State the assumptions of the approach and explain how the Net Operating Income Approach establishes that a firm's value depends on its investment decisions rather than its financing decisions.
 8. Shyam Metal Works has an option to replace its aging manually operated machines with a similar new manual machine shop or it can go in for a completely automated machine shop for its production facility. The investment required for the same and the cash flow after installation of the machine shop are as given below: (All amount are in Rupees Lakhs)

Description	Manual Machine Shop	Automate Machine Shop
Cost of Machine	Rs. 35,000	Rs. 85,000
Cash flow in Year 1	Rs. 3,650	Rs. 21,400
Cash flow in Year 2	Rs. 5,250	Rs. 22,500
Cash flow in Year 3	Rs. 6,900	Rs. 22,250
Cash flow in Year 4	Rs. 8,750	Rs. 22,150
Cash flow in Year 5	Rs. 10,950	Rs. 21,850
Estimated Salvage Value after 5 years	Rs. 2,365	Rs. 34,080

- a. Determine the ARR of both projects (4 Marks)
 - b. Compute the PB period for both project (4 Marks)
 - c. Compare the results from the Accounting Rate of Return and the Pay Back Method and comment on the reason for results obtained. (2 Marks)
9. Compute the duration of operating cycle for Tetra Biscuits Ltd. for the below mentioned two years and comment of the increase / decrease for each head

Stock	FY 2020	FY 2021
Raw Materials	Rs. 23,500	Rs. 27,000
Work in Progress	Rs. 11,520	Rs. 14,400
Finished Goods	Rs. 17,280	Rs. 21,600
Purchases	Rs. 96,135	Rs. 98,181
Cost of Goods Sold	Rs. 115,200	Rs. 144,000
Sales	Rs. 144,000	Rs. 180,000
Debtors	Rs. 28,400	Rs. 39,000
Creditors	Rs. 14,685	Rs. 20,455

Assume 360 days a year

Compute the Net operating cycle for the two years and attribute the reason for the increase or decrease in operating cycle based on its constituents covering debtors, creditors, raw material, WIP and finished goods turnover.

10. Write short notes on
- a. Cash Dividend
 - b. Share Dividend
 - c. Share Repurchase
 - d. Share Split

PART C

(Compulsory question, the question carries 20 marks)

11. Answer all subsections

A. An all-equity firm, excel enterprises is considering a capital investment with an outlay of Rs. 2000 crores on new machinery, all of which is incurred at the beginning of the project. The machinery has a useful life of 6 years. The project is expected to be terminated at the end of 5 years and a salvage value of Rs. 800 crores are expected on the sale of machinery at the end of the project.

The project is expected to bring in a revenue of Rs. 1660 crores in the first year and this amount is expected to grow by 20 crores every year for the next 4 years. The annual cost is expected to be 50% of the revenue of that year after excluding depreciation, interest, and tax. The effective tax rate is 30%. The initial capital investment can be depreciated using straight line method over the useful life of the asset. The cost of capital for the project is 18%.

a. Compute the Free Cash flow from the project in each of the 5 years from the point of view of all investors.

(5 Marks)

b. Find the NPV of the project and comment if the investment is a value creator for the firm.

(5 Marks)

B. Differentiate between Leasing and Hire Purchasing

(5 Marks)

C. What are the factors affecting the composition of Working Capital

(5 Marks)
