Roll No. _____

(Do not write anything on question paper except Roll No.)

[This paper consists of TWO Pages]

Jagan Institute of Management Studies

End-Term Examination, April, 2017

Trimester III – PGDM (IB) 2016-18

Financial Management II

ET_IB_FM-II_2404

Time: 3 Hrs. *M. Marks: 70*

INSTRUCTIONS: Attempt any SIX questions including Q1 & Q7 which are compulsory.

Q 1 Attempt any **SIX** of the following:

a) Why is the consideration of time important in financial decision making? How can time value be adjusted? Illustrate your answer.

b) What is a risk free security? What is risk premium? How can it be estimated from historical data?

c) Define opportunity cost of equity.

d) Discounted payback ensures that you don't accept an investment with negative NPV, but it can't stop you from rejecting projects with a positive NPV. Illustrate why this can happen.

e) The equity capital is cost free. Do you agree? Give reasons.

f) Define forward and future contracts. What are the differences between forward and future contracts?

g) According to Walter's model the optimum payout ratio can be either zero or 100 per cent. Explain the circumstances when this is true.

h) Explain with example i) Horizontal Merger ii) Vertical Merger iii) Conglomerate Merger **18**

Q 2 **a)** The call option on a dollar with an exercise price of Rs. 70 is available for Rs. 6 while a put option, on the same with an exercise price of Rs. 80 is available for Rs. 8. Determine the profit/loss for different range of dollar price if dollar in the spot is trading at 55, 62,68,75,73,85 for both call & put option.

b) On what basis Exporter /Importer will decide to go with call or put option. **10**

Q 3 The following data relate to a firm; earnings per share Rs 10, ke are 10 percent, retention ratio 40 per cent. Determine the price per share under Walter's and Gordon's models if the internal rate of return is 15 per cent, 10 per cent and 5 per cent.

Also analyse the price with internal rate of return & recommend which is the best option for the company under different circumstances **10**

Q 4 X co. has made plans for the next year. It has estimated that the company will employ total assets of Rs. 8,00,000; 50 per cent of the

assets being financed by borrowed capital at an interest cost of 8 per cent per year. The direct costs for the year are estimated at Rs. 480,000 and all other operating expenses are estimated at Rs. 80,0000. The goods will be sold to customers for 4500000. Tax rate is assumed to be 50 per cent.

You are required to calculate;

i) Net profit margin;
ii) Return on assets;
iii) Assets turnover
iv) Return on owner's equity. **10**

Q 5 A company is considering the lease of an equipment which has a purchase price of Rs. 3,50,000. The equipment has an estimated economic life of 5 years, the depreciation is straight line method with zero scrap value. The lease rentals per year are Rs. 1,20,000. Assume that the company's marginal corporate tax rate is 50 per cent. If the before tax borrowing rate for the company is 16 per cent, should the company lease the equipment or buy on loan? Ignore tax shield on depreciation after 5 years. **10**

Q 6 a) What is financial risk? How does it differ from business risk? How does the use of financial leverage result in increased financial risk?

b) The contention that dividends have an impact on the share price has been characterized as the '*bird in the hand*' argument. Explain the essentials of this argument. Why this argument is considered fallacious?

c) Explain takeover code as per SEBI GUIDELINES with reference to M&A. **10**

Q 7 A company is considering two mutually exclusive projects. Both require an initial cash outlay of Rs. 15,0000 /- each, and have a life of five years. The company's required rate of return is 10 percent and pays tax at a 30 percent rate. The projects will be depreciated on a straight line basis. The earnings before taxes cash flows expected to be generated by the projects are as follows:

	EBIT (Rs.)				
Project	1	2	3	4	5
A	40000	40000	40000	40000	40000
B	60000	30000	20000	50000	50000

Calculate for each project:

i) the payback,
ii) the internal rate of return
iii) the net present value and profitability index, and
iv) Which project should be accepted and why? **12**

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