Roll No. ____________________
(Do not write anything on question paper except Roll No.)
[This paper consists of FOUR Pages]

Jagan Institute of Management Studies
End-Term Examination, April, 2017
Trimester III – PGDM 2016-18

Financial Management II
ET_PG_FM-II_2404

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

INSTRUCTIONS: Attempt any SIX questions including Q8 which is compulsory.

Q 1 Mardia Automobiles Ltd. is trying to determine the optimal order quantity for a critical spare part with the following particulars:

Annual usage	25,000 units
Price of each unit	Rs.60
Fixed cost per order	Rs.500
Inventory carrying cost	20 percent.

Recently a supplier of the company has offered a discount of Rs.5 per unit, provided the quantity ordered in a single purchase should at least be 5,000 units. What will be the net incremental benefit of ordering 5,000 units in comparison to the economic order quantity? **10**

Q 2 a) Consider the following information regarding Swapna Ltd.

Face value of the share	Rs.10
Market price of the share	Rs.30
Cost of equity capital	15%
Internal rate of return	13%
Expected earnings per share	Rs.10

If the market price per share has to increase by 100% from current level, according to Walter's model on dividend policy, compute the dividend payout ratio of the company.

d) Based on the current market price of Rs. 30/-, is Swapna Ltd following optimum dividend policy? If the same dividend payout is used (as obtained in (a) part), find the market price of share using Gordon's Model. **10**

Q 3 From the following particulars, prepare a monthly cash budget for the quarter ended 31st March, 2004. (Rs. In lakhs)

Month	Sales	Purchases	Wages	Expenses
Nov'03	5	1	2	0.4
Dec'03	6	2	2	0.4
Jan'04	4	3	2.2	0.5

Feb'04	5	2	2.2	0.5
March'04	6	1	2.4	0.5

Additional information:

- 10% sales and purchases are on cash.
- Credit to debtors: one month on an avg, 50% of debtors will make payment on the due date while the rest will make payment one month thereafter.
- Credit from creditors: 2 months.
- Wages to be paid with a lag of ½ month.
- Expenses are paid within the same month.
- Plant costing Rs. 1 lakh will be installed in Feb. on payment of 25% of the cost in additions to the installation cost of Rs 5,000, balance to be paid in three equal installments from the following month.
- Opening cash balance is 2,00,000. **10**

Q 4 The Board of Directors Toto Firms Ltd. requests you to prepare a statement showing the working capital requirement forecast for a level of activity of 1,56,000 units of production. The following information is available for your calculation:

	Rs. per unit
Raw material	90
Direct labour	40
Overheads	75

	205
Profit	60

Selling price per unit	265

i) Raw materials are in stock on average one month.
ii) Materials are in process, on avg. 2 weeks.
iii) Finished goods are in stock, on avg. one month.
iv) Credit allowed by suppliers – one month.
v) Time lag in payment from debtors – 2 months.
vi) Lag in payment of wages – 1.5 weeks.
vii) Lag in payment of overheads – one month.

20% of the output is sold against cash. Cash in hand and at bank is expected to be Rs 60,000. It is to be assumed that production is carried on evenly throughout the year. Wages and overheads accrue similarly and a time of one month is equivalent to 4 weeks. **10**

Q 5 Derivatives are used as a risk management and price discovery tool. Justify this statement with help of examples. Also differentiate between futures and options contracts. **10**

Q 6 ABZ Venture capital firm is approached by an entrepreneur for financial assistance of his new venture. The VC firm analyses the project using venture capital method of valuation that recognizes the realities and focus on the projected value of the company at the planned exit date of the venture capitalist. Explain the concept of venture capital and the possible routes for venture capitalist to exit the investment. **10**

Q 7 Write Short Notes on any **TWO** of the following:

a) Incremental Funds Needed (IFN).
b) Types of Leasing.
c) Negative working capital.
d) ABC analysis. **10**

Q 8 Read the following case and answer the questions given at the end:

The boards of Idea Cellular Ltd and Vodafone India Ltd have approved their merger, excluding the latter's 42% stake in Indus Towers Ltd, heralding the creation of India's largest telecom company in a $23 billion deal. The merger is aimed at dominating a market which billionaire Mukesh Ambani's Reliance Jio Infocomm Ltd has disrupted with free voice calls and low data prices. Jio, in which Ambani has invested $20 billion, launched its services in September.

The merger will create the worlds second largest and India's largest telco, overtaking Bharti Airtel Ltd. It will have almost 400 million customers with 35% customer and 41% revenue market share. It will have revenue of Rs81,600 crore and an operating profit of Rs24,400 crore. Together, Idea Cellular and Vodafone India have debt of Rs1.08 trillion. The merger is expected to be completed in 2018.

"For Idea shareholders and lenders who have supported us thus far, this transaction is highly accretive, and Idea and Vodafone will together create a very valuable company given our complementary strengths," said Kumar Mangalam Birla, chairman of Aditya Birla Group. According to Vodafone Plc. CEO Vittorio Colao, the combination will have the scale required "to ensure sustainable consumer choice ... and to expand new technologies—such as mobile money services—that have the potential to transform daily life for every Indian".

Idea Cellular's managing director Himanshu Kapania said in an investor call that the transaction is based on the principle of equal partnership, joint control and equal rights. Shares of Idea Cellular rose 11% but ended the day at Rs97.60 a piece on the BSE, down 9.55%, while the benchmark Sensex declined 0.44%. Idea Cellular's Kapania said the merged entity would derive synergy benefits of Rs13,400 crore by the end of the fourth year. "The managements of Idea and Vodafone are looking at cost optimization and synergies in consolidation of network sites leading to savings to the tune of almost $2.1 billion on an annualized basis," said Mayuresh Joshi, fund manager, Angel Broking Ltd.

Questions:

a) What are the motives behind this mega merger deal? Elaborate
b) How this merger would affect other players in telecom industry. Justify your answer. **20**

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