Roll No. ______________________

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

[This paper consists of THREE Pages]

Jagan Institute of Management Studies

End-Term Examination, December 2017 – January 2018

Trimester II – PGDM (RM) 2017-19

Financial Management I

ET_RM_FM-I_0201

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

INSTRUCTIONS: Attempt any FIVE questions including Q1 which is compulsory.

Q 1 Answer the following questions:

a) List down possible cases of conflict between NPV and IRR **2**

b) Explain EBIT- EPS analysis. **2**

c) Explain Interest Tax Shield. **2**

d) Your grandfather is 75 years old. He has total savings of Rs. 80,000. He expects that he will live for another 10 years, and will like to spend his savings by then. He places his savings into a bank account earning 10% annually. He will draw equal amount each year – the first withdrawal occurring one year from now – in such a way that his account balance becomes zero at the end of 10 years. How much will be his annual withdrawal? **4**

e) A 7 year Rs. 100 bond of a firm can be sold for a net price of Rs. 97 and is redeemable at par. The coupon rate of interest is 15% and the tax rate is 50%. **4**

Q 2 Does optimum capital structure exist? Elucidate your answer on the basis of traditional theory of capital structure. **14**

Q 3 In what respect is the objective of wealth maximization superior to profit maximization? Explain. **14**

Q 4 The success of an IPO/FPO depends on the secondary market conditions. Do you agree? Justify your answer. Elaborate the role of Secondary market. **14**

Q 5 **a)** S & N Ltd. Has Rs. 10,00,000 allocated for capital budgeting purposes. The following proposals and associated P.I have been determined.

Project	Cash Outflows	P.I.
1	Rs. 3,00,000	1.22
2	1,50,000	0.95
3	3,50,000	1.20
4	4,50,000	1.18
5	2,00,000	1.20
6	4,00,000	1.05

Which of the above investments should be undertaken if projects are indivisible? **7**

b) ABC Ltd is evaluating the following two mutually exclusive proposals under the assumption that they can be repeated indefinitely.

	Project X	**Project Y**
Outlay	Rs 40,000	Rs 60,000
Annual net inflow	Rs 15,000	Rs 16,000
Life	4 years	7 years
Scrap value	R 5,000	Rs 3,000

Evaluate the proposal if the discount rate is 15%. **7**

Q 6 a) Shines Ltd having the required rate of return of 12%, is evaluating two mutually exclusive proposals A and B for which the relevant data is as follows:

Year	**Cash flows (A)**	**Cash flows(B)**
0	- 25,000	-28,000
1	15, 000	12,672
2	15, 000	12,672
3	25,640	12,672

Evaluate these proposals on the basis of NPV and IRR techniques. Which proposal would you accept and why? **7**

b) Elevations Ltd is evaluating two equally sized mutually exclusive projects A and B for which the respective cash flows together with associated probabilities are as follows

Project X		**Project Y**	
Cash flows (Rs)	**Probability**	**Cash flows (Rs)**	**Probability**
2,000	0.3	1,000	0.1
4,000	0.4	3,000	0.1
6,000	0.3	5,000	0.4
		7,000	0.3
		9,000	0.1

Find out the risk associated with each proposal in terms of the standard deviation and coefficient of variation. **7**

Q 7 a) SS International has the following capital Structure

Equity Share Capital (5000 shares of 100 each)	Rs 5,00,000
9% Preference Shares	Rs 2,00,000
10% Debenture	Rs 3,00,000

The equity shares of the company are quoted at Rs 102 and the company is expected to declare a dividend of Rs 9 per share for the next year. The company has registered a dividend growth rate of 5%.
Assuming the tax rate applicable to the company at 50%, calculate the Weighted Average cost of capital after tax. **7**

b) The following information is available for ABC & Co.

EBIT	Rs 11,20,000
EBT	3,20,000
Fixed Cost	7,00,000

Find:

i) Degree of Operating Leverage (DOL).
ii) Degree of Financial Leverage (DFL).
iii) Degree of Combined Leverage (DCL).

Also, calculate % change in EPS if the sales are expected to increase by 5%. **7**

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