

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA- SEMESTER -II - EXAMINATION- SUMMER-2023**

**Subject Code: 2529304****Date: 14/07/2023****Subject Name: Financial Management****Time: 10:30 AM TO 1:30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make Suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

- Q.1** Explain the terms **14**
- a) Two sources of Working Capital Financing
  - b) Two methods of capital budgeting
  - c) Two inventory management techniques
  - d) Two peculiar characteristic of preference shares
  - e) Two current liabilities
  - f) Two types of leverages
  - g) Two financial functions
- Q.2 (a)** What is financial management? Explain goals of financial management. **07**
- Q.2 (b)** CFO of the Mind tree Co., expected ₹600 earnings per share for the next year. Further, its current market price is Rs.100. Find the cost of equity as per earning-price approach. **07**
- OR**
- Q.2 (b)** The She Ltd., wishes to calculate its cost of capital using the Capital Asset Pricing Model approach. Company's analyst found that its risk free rate of return equals 12 per cent, beta equals 1.7 and the return on market portfolio equals 14.5 per cent. As a financial manager of the company convey your calculation to your immediate superior. **07**
- Q.3** Company X and Company Y are in the same risk class, and are identical in every respect except that company X uses debt, while company Y does not. The leverage firm has ₹ 9,00,000 debentures, carrying 10 per cent rate of interest. Both the firms earn 20 per cent operating profit on their total assets of ₹15 lakhs. Assume perfect capital markets, rational investors and so on; a tax rate of 35 per cent and capitalization rate of 15 per cent for an all equity company. **14**
- A) Compute the value of firms X and Y using the Net Income Approach.
  - B) Compute the value of each firm using Net Operating Income Approach.
  - C) using the NOI approach, calculate the overall cost of capital (ko)for firms X and Y
- OR**
- Q.3 (a)** Suppose you deposit Rs.10,000 today in a bank which pays 10 percent interest compounded annually. How much will the deposit grow to after 8 years? **07**
- Q.3 (b)** At present you are doing job. You want to buy a house after 5 years when it is expected to cost ₹ 2 million. How much should you save annually if your savings earn a compound return of 12 per cent? **07**
- Q.4 (a)** Inventory management facilitates the smooth functioning of business and enhances sales, promotes cost-effectiveness, and improves customer experience. Describe three motives to hold inventory with this regards. **07**

- Q-4 (b)** As a financial manager you have to prepare cash budget for July, August and September from the following information of Silver Ltd., company. **07**

Month	Sales (₹)	Purchases(₹)	Wages(₹)	Expenses(₹)
April	80,000	45,000	20,000	5000
May	80,000	40,000	18,000	6000
June	75,000	42,000	22,000	6000
July	90,000	50,000	24,000	7000
August	85,000	45,000	20,000	6000
September	80,000	35,000	18,000	5000

*Additional Information:*

1. On July 01, cash balances are taken Rs.7500/-.
2. Credit purchases are settled after one month. Cash Purchases are 10% of the Total Purchases.
3. Cash sales are 20% of the Total Sales. The Collection period is of 15 days in a month.
4. The company pay Advance Tax in March and August.
5. There will be advance payment for machine installation in the September.

**OR**

- Q.4 (a)** Explain budgeting process. Why it is significant to prepare it? **07**

- Q.4 (b)** The Golden Company has been buying a given in lots of 1500 units which is three month's supply, the cost per unit is ₹ 15, order cost is ₹ 10 per order and carrying cost is ₹5. The Golden company need your advice as manager. You are required to calculate the EOQ and give your suggestion. **07**

- Q.5** Case Study: **14**

Nowadays, everyone is looking for a quick bite. At present there are many companies offering a variety of ready to eat snacks. But there have been many reports cautioning us about the unhygienic and unhealthy constituents in these snacks. The growing demand of snacks among youth and children and the absence of a healthier alternative, caught Baba Shyamdev's attention. With the vision of providing better and healthier snacks he launched his own company "Shyamdev Khanpan Pvt. Ltd". After three years of extensive research, his team came up with a great product and is looking to start manufacturing it. The company needs to incur capital expenditure of Rs. 80,00,000 in this respect. The cost of capital is 10%. It is expecting to generate the cash flows across five years as mentioned below:

Year 1	₹ 26,00,000
Year 2	₹ 16,00,000
Year3	₹ 28,00,000
Year 4	₹ 24,00,000
Year 5	₹ 22,00,000

Since the founders are not having financial background, they need your help with respect to the following:

- (a) Kindly suggest whether this investment is feasible for the start up or not using Net Present value (NPV) method. **07**
- (b) Calculate the discounted payback period for the start up. **07**

**OR**

- (a) Calculate the Internal Rate of Return (IRR) for the start up. **07**
- (b) The startup has another investment proposal (Proposal B) with NPV of Rs. 12,00,000 and IRR of 16%. Kindly suggest the company which investment proposal should it select? You may consider the existing investment proposal as Proposal A. **07**

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