

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA-SEMESTER-II-EXAMINATION-SUMMER-2025

Subject Code: 2529304**Date: 06/06/2025****Subject Name: Financial Management****Time: 10:30 AM TO 01:30 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) Capital Structure
 - b) Retained Earnings
 - c) Leverage in finance
 - d) Debenture
 - e) Capital budgeting
 - f) Flotation cost
 - g) Flexible budget

- Q.2 (a)** How does the 'modern' financial manager differ from the 'traditional' financial manager? Does the 'modern' financial manager's role differ for the large diversified firm and the small to medium size firm? **07**

- Q.2 (b)** In what ways is the wealth maximization objective superior to the profit maximization objective? Explain. **07**

OR

- Q.2 (b)** A company issues 10 per cent irredeemable preference shares. The face value per share is ₹ 100, but the issue price is ₹ 95. What is the cost of a preference share? What is the cost if the issue price is ₹ 105? **07**

- Q.3 (a)** Lohia Chemicals Ltd has the following book value capital structure on 31 March 2004: **07**

Source of Finance	Amount (₹ 000)	Proportion (%)
Share capital	450,000	45
Reserve and surplus	150,000	15
Preference share capital	100,000	10
Debt	300,000	30
TOTAL	1000,000	100

The expected after-tax component costs of the various sources of finance for Lohia Chemicals Ltd are as follows:

Source	Cost (%)
Share capital	18
Reserve and surplus	18
Preference share capital	11
Debt	8

Find weighted average cost of capital of Lohia Chemicals Ltd, based on the existing capital structure.

Q.3 (b) The Niraj 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 0.85 and the return on market portfolio equals 14.50 per cent. As a financial manager of the company convey your calculation to your immediate superior. **07**

OR

Q.3 (a) Suppose that a project requires a cash outlay of ₹ 20,0,000, and generates cash inflows of ₹ 80,000; ₹ 70,000; ₹ 40,000; and ₹ 30,000 during the next 4 years. What is the project's payback? **07**

Q.3 (b) Your company is considering investing in a new **digital payment gateway project** aimed at improving customer transaction experiences and enhancing operational efficiency. **07**

The initial investment required for this project is ₹ 25,000. The project is expected to generate additional year-end cash inflows of:

- ₹ 9,000 in Year 1,
- ₹ 8,000 in Year 2,
- ₹ 7,000 in Year 3,
- ₹ 6,000 in Year 4, and
- ₹ 5,000 in Year 5.

The company's **opportunity cost of capital (discount rate)** is estimated to be **10%**, reflecting the return expected from alternative investments with similar risks.

As the Finance Manager, your task is to evaluate whether this project should be accepted based on the **Net Present Value (NPV) method**.

- **Your recommendation should include:**
 1. A detailed NPV calculation.
 2. An explanation of the decision criteria.
 3. A final conclusion on whether the project is financially viable.

Q.4 (a) What is capital budgeting, and why is it crucial for a company's financial decision-making process? **07**

Q-4 (b) A firm has 7 different items in its inventory. The average number of each of these items held, along with their units costs, is listed below. The firm wishes to introduce an ABC inventory system. Suggest a breakdown of the items into A,B and C classifications. **07**

Item number	Average number of units in inventory	average cost per unit (₹)
1	20,000	60.80
2	10,000	102.40
3	32,000	11.
4	28,000	10.28
5	60,000	3.40
6	30,000	3.00
7	20,000	1.30

OR

Q.4 (a) How does working capital management impact the day-to-day operations of a business, and what are its key objectives in ensuring smooth financial functioning? **07**

Q.4 (b) Suppose you deposit Rs.40,000 today in a bank which pays 10 percent interest compounded annually. How much will the deposit grow to after 10 years? **07**

Q.5 Case Study:

Bright Tech Solutions

Background:

Bright Tech Solutions, a company specializing in smart home devices, has the following financial details for its current operations:

- **Current Sales (@ ₹150 per unit):** ₹30,00,000
- **Variable Cost:** 40% of sales
- **Fixed Cost:** ₹12,00,000
- **Loan Borrowed:** ₹12,00,000 @ 8% p.a. interest
- **Equity Share Capital:** ₹12,00,000 (₹100 each share)

The company is planning a new marketing campaign to boost sales and expects an increase of ₹8,00,000 in revenue in the coming months.

As the Financial Manager, evaluate the impact of this sales increase by answering the following:

- (a) What is the **current profit** of the company? **07**
- (b) What will be the **new profit** after the expected sales increase? **07**
- OR**
- (a) Calculate the **degree of financial leverage (DFL)** before and after the sales increase. **07**
- (b) Assess whether the promotional strategy is financially beneficial for the company. **07**
