

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA-SEMESTER-I-EXAMINATION-SUMMER-2025**

**Subject Code: MB01095031**  
**Subject Name: Financial Management**  
**Time: 02:30 PM TO 05:30 PM**

**Date: 03/06/2025**

**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 Answer the following in brief. 14

(a) Perpetuity  
(b) Indifference Point  
(c) Cost of Financial Distress  
(d) Operating cycle  
(e) Capital Rationing  
(f) Yield to Maturity  
(g) Commercial Paper

Q – 2 Explain the interrelationship between Investment, Financing and Dividend 7  
(A) Decision.

Q – 2 (B) Explain the Net Income (NI) and Net Operating Income (NOI) approaches with 7  
graph.

**OR**

Q – 2 (B) Discuss the factors which are relevant for determining the dividend payout ratio. 7

Q – 3 What is cost of capital? Elaborate its significance in various key financial 7  
(A) decisions.

Q – 3 (B) Ankur Ltd.'s earnings and dividend have been growing at the rate of 15%. This 7  
growth is expected to continue for 4 years. After that the growth rate will fall to 12% for next 4 years. Thereafter the growth rate is expected to be 6% forever. If the last dividend per share was Rs. 3 and required rate of return is 10%, what is the intrinsic value per share?

**OR**

Q – 3 Efficient management of working capital is pre-requisite for running a business 7  
(A) successfully. Explain the major factors affecting the need for working capital.

Q – 3 (B) The net profit for the Tirth corporation for the year 2016 is Rs. 20,00,000. The 7  
number of outstanding shares are 5,00,000. The rate of return on the investment is 18%. The rate of return required by the shareholders is 15%. Calculate the price per share as per Walter Model and Gordon Model if the dividend payout ratio is 40% and 60%.

Q – 4 Ajuba Ltd is planning a plantation project costing Rs. 30,00,000. The company is 7  
(A) considering two alternatives. Under the first alternative, it can issue shares of Rs. 20,00,000 at Rs. 50 each. And raise the remaining amount of Rs.10,00,000 by loan at the rate of 12%. Under the second alternative, it can issue shares worth Rs. 15,00,000 at a price of Rs.50 each. It can raise the remaining Rs. 15,00,000 by loan at 14%. The firm pays tax at 30%. The company wants to know the level of EBIT at which both these alternatives are indifferent to EPS. Also calculate Degree of

Financial Leverage (DFL) for both the firms if the projected EBIT is Rs.50,00,000.

Q – 4 (B) Discuss various sources of long-term sources finance with their key features. 7

**OR**

Q – 4 (A) A company belongs to a risk class for which the approximate capitalization rate is 10 per cent. It currently has outstanding 25,000 shares selling at 100 each. The firm is contemplating the declaration of a dividend of Rs. 5 per share at the end of the current financial year. It expects to have a net income of Rs. 2,50,000 and has a proposal for making new investments of Rs. 5,00,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm? 7

Q – 4 (B) Briefly discuss the objectives, scope and functions of financial management. 7

Q – 5 (A) The present credit terms of MiniMax Company are 2/15, net 45. Its sales are 200 million, its average collection period, is 30 days, its variable costs to sales ratio is 0.80, and its cost of capital is 12 per cent. The proportion of sales on which customers currently take discount is 0.50. MiniMax is considering relaxing its discount terms to 3/15, net 45. Such a relaxation is expected to increase sales by 10 million, reduce the ACP to 27 days, and increase the proportion of discount sales to 0.60. MiniMax's tax rate is 40 per cent. What will be the effect of liberalizing the cash discount on residual income? 7

Q – 5 (B) The market price of a Rs. 1000 par value bond carrying a coupon rate of 14 percent and maturing after 5 years in Rs. 1050. What is the yield to maturity (YTM) on this bond? What will be the realized yield to maturity if the re-investment rate is 12 percent p.a.? 7

**OR**

Q – 5 (A) A Ltd & B. Ltd are identical in all respect except A Ltd issued 12% debentures of Rs. 30,00,000 while B Ltd issued only equity capital. Both companies earn 24% before interest and tax on their total assets of Rs. 50,00,000. Tax rate is 40% and cost of equity is 18%. Find the value and WACC for both firms using NI and NOI approach. 7

Q – 5 (B) A Company is Considering an investment proposal to install new milling control equipment at a cost of Rs. 50000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line method of depreciation and the same is allowed for tax purposes. The estimated cash flow before depreciation and tax (CFBT) from the investment proposal are as follows : 7

Year	CFBT (Rs.)
1	10000
2	10692
3	12769
4	13460
5	20385

If company cost of Capital of 10%, what will be NPV and PI of the investment proposal and what you advise, whether the company should undertake above investment or not.

\*\*\*\*\*