

Enrollment No./Seat No.:

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER - I EXAMINATION - WINTER 2025

Subject Code: MB01095031

Date: 19-01-2026

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.**

	Marks
Q.1 ALL 7 Questions must be Compulsory.	14
(a) Yield to maturity	
(b) Rule of 72	
(c) Operating cycle and cash cycle	
(d) Working capital	
(e) MIRR	
(f) Floatation cost	
(g) Indifference point	
Q.2 (a) Explain the Modigliani and Miller approach of Capital Structure.	07
(b) Mr. Sachin deposits Rs.10,00,000 in a bank which pays 8 percent interest p.a. How much can he withdraw annually for the Period of 22 Years to whittle down the account balance to zero by end of the period?	07
OR	
(b) Shami Ltd.'s earnings and dividend have been growing at the rate of 12%. This growth is expected to continue for 4 years. After that the growth rate will fall to 8% for next 4 years. Thereafter the growth rate is expected to be 5% forever. If the last dividend per share was Rs.1.50 and required rate of return is 14%, what should be the intrinsic value per share?	07
Q.3 (a) Critically evaluate the goals of maximization of profit.	07
(b) Rohit Ltd.'s Equity Beta is 1.2 and the Market Risk premium is 7 percent. Risk free rate is 10 percent, Uranus has a debt equity ratio of 2:3. Its Pre-tax cost of debt is 14 percent, if the tax rate is 35%. What is the WACC of Uranus Ltd?	07
OR	
(a) Explain with example the process of capital budgeting.	07
(b) Kohli and Company ltd borrows ₹ 500,000 at an interest rate of 14 percent. The loan is to be repaid in 4 equal annual instalments payable at the end of each of the next 4 years. Prepare the loan amortisation schedule.	07

Q.4 (a) Explain all four credit policy variables in detail.

07

(b) ICC Limited expects its cash flow to behave in a random manner. Calculated return point and upper control limit from the following information-

07

a. Annual yield on investment is 10%.
b. The fixed conversion cost is Rs.2500.
c. The standard deviation of change in daily cash balance is Rs.10,000.
d. Minimum cash balance Rs.2,00,000.

OR

(a) Discuss the investment options available to a firm for managing surplus cash.

07

(b) Gill Ltd is considering relaxing its collection effort. Its sales are currently Rs.100 million, average collection period is 30 days, variable cost to sales ratio is 0.75, cost of capital is 14%, bad debt ratio is 4%. The relaxation in collection effort is expected to push sales up by Rs 10 million, increase the average collection period to 40 days and raise the bad debt ratio to 5%. Tax rate is 30%. Should the company implement this change? Calculate residual income

07

Q.5 Rohit Ltd. is one of the leading manufacturing firms in the edible oil market. The company is quite innovative and has a strong R & D department. From time to time, it launches new varieties of oil.

The management of the company is facing a dilemma at present. The company has two options. Option A is an extension of an existing product line, while Option B involves a new product launch. The management wants to optimistically evaluate both the options. Option A requires investment of Rs. 5,00,000 while Option B requires an investment of Rs. 8,00,000.

The expected net cash flow from Option A and B over a period of four years are mentioned below:

Year	Option A	Option B
0	(₹ 500,000)	(₹ 800,000)
1	₹ 200,000.00	₹ 300,000.00
2	₹ 250,000.00	₹ 400,000.00
3	₹ 400,000.00	₹ 450,000.00
4	₹ 420,000.00	₹ 500,000.00

(a) Calculate the payback period for both the options. Which option should the company select?

07

(b) If the cost of capital is 12%, which option should the company invest in as per NPV method. **07**

OR

(a) If the cost of capital is 12%, which option should the company invest in as per Profitability Index (PI) method. **07**

(b) What will be the discounted payback period if the cost of capital is 12%. **07**
