

|  |
| --- |
| **Semester: Nov 24 to Mar 25****Maximum Marks: 50 Examination: ESE Examination Date: 01/04/2025**  **Duration: 10:30 AM to 12:30 PM** |
| **Programme code: 01****Programme: MBA** | **Class: FY** | **Semester: II** |
| **College:**  **K. J. Somaiya Institute of Management** | **Name of the department/Section/Center: Finance and Law** |
| **Course Code:** **317P01C203** | **Name of the Course: Financial Management** |
| **Instructions:** * **Question Number 1 is compulsory. Attempt ANY 3 of the remaining questions.**
* **All subparts of the question must be solved together.**
* **All working must form part of the solution.**
 |

|  |  |  |
| --- | --- | --- |
| **Question No.** |  |  **Max.****Marks** |
| **1** | Outstanding Limited, a rapidly growing manufacturing company, is exploring opportunities to expand its production capabilities. As part of its strategic growth initiatives, management is considering investing in a new machine. To ensure financial prudence, the company seeks to evaluate the investment's feasibility using both the Net Present Value and Profitability Index method, with a cost of capital set at 14%.Machine Details* Initial Cost: Rs. 6,00,000
* Useful Life: 5 years
* Residual Value: Rs. 75,000
* Depreciation Method: Straight-line
* Fixed Annual Operating Costs: Rs. 2,60,000 (Excluding Depreciation)
* Working Capital Requirement: Rs. 1,00,000
* Tax Rate: 30%

The projected sales details include annual sales volumes, a constant selling price per unit for the first three years, and an increased price for the last two years. The variable cost as a percentage of the selling price remains constant. Based on the following data, calculate the Net Present Value and Profitability Index for the investment and provide a recommendation on whether Outstanding Limited should proceed with the purchase of the machine.

| Year | Expected Sales (Units) | Selling Price Per Unit | Variable Cost % of Selling price per unit |
| --- | --- | --- | --- |
| 1 | 1,10,000 | 10 | 60% |
| 2 | 1,15,000 | 10 | 60% |
| 3 | 1,20,000 | 10 | 60% |
| 4 | 1,25,000 | 15 | 60% |
| 5 | 1,30,000 | 15 | 60% |

 | **14** |
| **2** |  From the following capital structure of Mena Ltd. determine the weighted average cost of capital using book value and market value weights.

|  |  |
| --- | --- |
| Equity shares (face value Rs.10) | ₹25,00,000 |
| Retained earnings | 25,00,000 |
| Preference shares – irredeemable (face value Rs.100) | 20,00,000 |
| Debentures (face value Rs.100) | 30,00,000 |
| Bank loan (Long term) | 10,00,000 |

Additional information:1. Equity shares were issued at Rs.42 per share; flotation cost is Rs. 2, growth rate of dividends is 7%. The current market value of equity shares is Rs.50 per share.
2. The earnings per share and dividend per share expected at the end of current year are Rs. 12 and Rs.4 respectively.
3. Dividend on preference shares is 13 %.
4. Pre-tax cost of debentures is 12 %. Debentures were issued at par and are redeemable at par after 5 years. The market value of debentures is Rs.30,60,000.
5. Interest on bank loan is 14 %
6. Corporate tax is 35%
7. Market value of preference shares is Rs.24,00,000.
8. Cost of retained earnings may be assumed to be the same as cost of equity.
 | **12** |
| **3** | 1. Super sports has annual sales of 50 Lakhs currently and has a credit period of 30 days. The Variable cost is 80% of sales and Fixed cost is 6 Lakhs per annum. The required Pre-tax return on investment is 20%. The Marketing manager wants to adopt a more liberal credit policy and wants your opinion on the credit policy to be adopted. Decide on the best credit policy. Assume 1 year to be 360 days. All workings should form the part of the answer.

|  |  |  |
| --- | --- | --- |
| Credit Policy | Collectionperiod (Days) | Sales(Rs in lakhs) |
| A | 45 | 56 |
| B | 60 | 60 |

1. An executive is due for retirement at age of 60. His employer has offered 2 options: (i) Accept 40,00,000 Lumpsum or (ii) accept Rs.5,00,000 at the end of each year for 10 years. Assuming 10% p.a. interest which option is better?
 | **12** |
| **4** | Swift Auto Parts Ltd. is a company engaged in the manufacturing of automobile components. The company has an installed capacity of **2 lakh units per annum**, with a present capacity utilization of **75%**. The major raw materials used in production are **Steel** and **Plastic**, which are sourced from domestic suppliers.Each unit of components is sold for Rs.1,500. The estimated cost structure per unit is given below:**Cost Structure per Unit (Rs.)*** Raw material - Steel: Rs.400
* Raw Material -Plastic: Rs.250
* Direct Labour: Rs.200
* Factory Overhead: Rs.350
* Total Cost: Rs.1,200
* Selling Price: Rs.1,500

**Additional Information**1. Inventory Holding Period:
* Steel: 2 months
* Plastic: 1.5 months
1. Work-in-Progress (WIP) Period: 0.5 month (50% COMPLETION STAGE). Material to be charged at full cost , and conversion cost at 50% completion stage
2. Finished Goods Holding Period: 1 month
3. Debtor Collection Period: 2.5 months (Debtors to be valued at Total cost)
4. Creditors' Payment Period:
* Steel: 2 months
* Plastic: 1 month
1. Outstanding Wages Payment Lag: 0.5 months
2. Outstanding Overheads Payment Lag: 1 month
3. Minimum Desired Cash Balance: Rs.30 lakh

Determine the **Net Working Capital (NWC)** requirement for Swift Auto Parts Ltd. Show working notes wherever required. Present your answer in a tabular form. | **12** |
| **5** | 1. You have recently joined ABC Ltd as a Manager in the Finance department. The company undertakes real-estate construction projects which usually take 6-8 years for completion. You report to the Chief Financial Officer who has worked with the company for the past 40 years and has been evaluating the financial feasibility of the projects using the payback period method. You know that this traditional technique suffers from some drawbacks and must be replaced by modern methods of evaluation. Outline the arguments with which you will convince your boss to abandon the traditional method and move to modern methods of evaluation of capital projects.
2. XYZ & Co. are planning to start a new business with an initial capital investment of Rs.10 crore. They have not yet decided upon the nature of the business. They have hired you as a consultant to advise them about the factors that would decide the level of working capital that they would need to maintain in the new business. What would be your advice?
 | **12** |