



**Fourth Semester 5 Years B.B.A. LL.B. Examination, December 2012**

**FINANCIAL MANAGEMENT**

Duration : 3 Hours

Max. Marks : 100

- Instructions:**
1. Answer **all 5** questions.
  2. **One** essay type and **one** short note question or problem from **each** Unit have to be attempted, which is referred as Part (a) and Part (b).
  3. Figures to the **right** indicate **marks**.

**UNIT – I**

Q. No. 1. (a) Following are the details regarding capital structure of Infosys Co. Ltd.

Marks : 15

Sources	Amount	Cost
Equity shares	15,00,000	20%
Preference shares	6,00,000	15%
Retained Earnings	3,00,000	10%
Long term debt	6,00,000	10%

You are required to calculate WACC using

- a) Book value as weights.
- b) Book value as total cost.

OR

Wipro Ltd. has the following capital structure

Equity share capital (200000 shares of Rs. 10 each)	20,00,000
6% Preference share capital	5,00,000
8% Debentures	15,00,000

The market price of equity shares is Rs. 20 per share. The company is expected to pay dividend of Rs. 2 per share which will grow at 8%.

- a) Calculate WACC assuming that the company is under 50% tax bracket.
- b) Also calculate the new WACC if the company raises an additional Rs. 10,00,000 debt by issuing 10% debentures. This would result in increase in the expected dividend to Rs. 3 per share and leave the growth rate unchanged but the market price of the share will come down to Rs. 15 per share.



- (b) Write a short note on :  
 Advantages of cost of capital.  
 OR  
 Cost of retained earnings.

Marks :

### UNIT – II

- Q. No. 2. (a) A company has a total capitalization of Rs. 10,00,000 and it normally earns Rs. 1,00,000 (before interest and taxes). The financial manager of the firm wants to take a decision regarding the capital structure. After a study of the capital market, he gathers the following data :

Marks : 15

Amount of debt	Interest rate %	Equity Capitalisation rate (%)
0	—	10.0
1,00,000	4.0	10.5
2,00,000	4.0	11.0
3,00,000	4.5	11.6
4,00,000	5.0	12.4
5,00,000	5.5	13.5
6,00,000	6.0	16.0
7,00,000	8.0	20.0

What amount of debt should be employed by the firm if the traditional approach is held valid ?

OR

Explain various factors which influence the capital structure of a company.

- (b) Write a short note on :  
 Difference between capital structure and financial structure.  
 OR  
 MM Approach under capital structure theory.

Marks : 5

### UNIT – III

- Q. No. 3. (a) What is working capital management ? Explain the determinants of working capital management.

Marks : 15

OR

A proforma cost sheet of a company provides the following particulars :

Elements of cost	Amount/unit
Materials	40%
Direct labour	20%
Overheads	20%



The following further particulars are available :

- a) It is proposed to maintain a level of activity of 200000 units.
- b) Raw materials are expected to remain in stores for an average period of 1 month.
- c) Materials will be in process, on average of half a month.
- d) Selling price is Rs. 12 per unit.
- e) Finished goods are required to be in stock for an average period of one month.
- f) Credit allowed to debtors is two months.
- g) Credit allowed by suppliers is one month.

You may assume that sales and production follow a consistent pattern.

- (b) Write a short note on :  
Inventory Management.

Marks :5

OR

Need of working capital management.

#### UNIT – IV

- Q. No. 4. (a) TATA International, an India-based multinational company, is evaluating an overseas investment proposal. Tata International's exports of generic drugs have increased to such an extent that it is considering a project to build a plant in the UK. The project will entail outlay of ₹ 50 million and is expected to generate the following cash flows over its four year life.

Marks : 15

Year	Cash flow (in million)
1	₹ 20
2	₹ 30
3	₹ 20
4	₹ 10

The current spot exchange rate is 70 per British pound, the risk free rate in India is 10% and risk free rate in UK is 6%. Tata International's required rupee return on a project of this is 20%. What is the NPV of the project ?

OR



Videsh ventures, a India-based Co. is considering a project to be set up in the US. The project will entail an initial outlay of \$ 200 million and is expected to generate the following cash flow over its year life.

<b>Year :</b>	1	2	3	4	5
<b>Cash flow :</b>	\$ 50	\$ 70	\$ 90	\$ 105	\$ 80
<b>(in million)</b>					

The current spot exchange rate is Rs. 40/US \$. The risk free rate in India is 11% and in US is 6%. Videsh venture's required rupee return on a project of this kind is 18%. Calculate the NPV of the project using the home currency approach.

(b) Write a short note on :

Marks :5

Factors peculiar to multinational firms.

OR

Management accounting by Multinationals.

### UNIT – V

Q. No. 5. (a) Tata Co. is acquiring Corus Co. Tata will pay 0.5 of its shares to the share holder of Corus Co. for each share held by them. The data for the two Co.'s are as given below :

Marks : 15

	<b>Tata Co.</b>	<b>Corus Co.</b>
PAT	150	30
No. of shares	25	8
EPS	6	3.75
MP/Share	78	33.75
P/E ratio	13	9

Calculate the earnings per share of the surviving firm after the merger. If the P/E ratio falls to 12 after the merger. What is the premium received by the share holder of Corus Co. (using the surviving firm's new price) Is merger is beneficial for Tata Co. share holders.

OR

What is merger ? Explain various reasons for merger.

(b) Write a short note on :

Marks : 5

Types of Merger

OR

Deed structuring