

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 01– • EXAMINATION – WINTER 2014

Subject Code: 2820003

Date:

Subject Name: Financial Management

Time:

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q1 (A) Answer the following Question:

[6]

Internal rate of return on a bond investment is its

- | | |
|--------------------------|----------------------|
| A. Current yield | B. Yield to maturity |
| C. Holding period return | D. Realised yield |

The constant-growth dividend discount model will not produce a finite value if the dividend growth rate is

- | | |
|---|---|
| A. Above its historical average | B. Below its historical average |
| C. Above the market capitalisation rate | D. Below the market capitalisation rate |

Limited growth prospects are indicated by

- | | |
|------------------|------------------------------------|
| A. High dividend | B. High P/E ratio |
| C. Low dividend | D. High dividend and low P/E ratio |

Riskier stocks have

- | | |
|------------------------|-----------------------|
| A. Higher P/E multiple | B. Lower P/E multiple |
| C. Higher variance | D. (b) and (c) |

Intrinsic value of a security is its

- | | |
|---------------|--------------------------------|
| A. DCF value | B. Book value |
| C. Real value | D. Market capitalization value |

Which one of the following is not a major driver of growth?

- | | |
|-----------------------|----------------------|
| A. Sales growth ratio | B. Plough back ratio |
| C. Return on equity | D. All the above |

Q1 (B): Explain the Terms

[4]

1. Float
2. Capitalisation
3. Marginal Cost of Capital
4. Discounting

Q1(C): Distinguish traditional and Modern phase of Financial Management.

[4]

- Q2 (A): Money has time Value – Explain [7]
 Q2 (B): If you deposit Rs. 5000 today @ 12% rate of interest in how many years will this amount grow to Rs. 160000? Work this problem using the rule of 72 [7]

OR

- Q2(B): Mr. vinay plans to send his son for higher studies abroad after 10 years. He expects the cost of these studies to be Rs. 100000. How much should he save annually to have a sum of Rs. 100000 at the end of 10 yrs., if the interest rate is 12%? [7]

- Q3(A): The risk-free return is 8 percent and the return on market portfolio is 16 percent. Stock X's beta is 1.2; its dividends and earnings are expected to grow at the constant rate of 10 percent. If the previous dividend per share of stock X was Rs.3.00, what should be the intrinsic value per share of stock X? [7]

- Q3 (B): Risk & Return Go Hand in Hand – Explain [7]

OR

- Q3 (A) The following table, gives the rate of return on stock of Apple Computers and on the market portfolio for five years [7]

Year	Return on the stock Apple Computers (%)	Return Market Portfolio (%)
1	-13	-3
2	5	2
3	15	8
4	27	12
5	10	7

- (i) What is the beta of the stock of Apple Computers?
 (ii) Establish the characteristic line for the stock of Apple Computers.

- Q3 (B) Factor affecting Working Capital [7]

- Q4 (A) Explain techniques of Capital Budgeting [7]

- Q4 (B) Cash flows associated in an investment are given below: [7]

Year	Cash flow
0	(100000)
1	25000
2	40000
3	50000
4	40000
5	30000

If COC is 15% then find NPV and PI.

OR

- Q4 (A): What do you understand by WACC? Briefly explain the factors affecting WACC. [7]
 Q4 (B): Portland Ltd is having WACC as 11% and its tax rate is 35%. The company's pretax cost of debt is 10% and its D/E ratio is 0.6:1. The risk free rate is 8% and market risk premium is 7%. What will be beta of the company? [7]

Q5: Mike has recently graduated from a B School and looking forward to establish his own business. Pratik is looking forward to establish a corrugated manufacturing plant near Rajkot city. However, he puzzled over how should he arranged for the capital for his business. Also, he wants to make sure the long term assets are financed with long term sources and shorts ones with short term sources. [14]

Q1: explain the sources of finance available to Pratik

Q2: what care he should take while designing capital structure of his business?

OR

Q5: Bluto is middle class young guy who is working with the private company since last two years. With good increase in salary he is looking forward to invest his money. But he wants to make sure that investment should give him return of 15%. Annually he can save Rs. 2 lacs. Thus he is considering to invest in Provident Fund which offers 9% assured return annually. He wants make balanced investment between Equity and provident fund.

He is considering to invest in RIL and TCS stock for which returns along with SENSEX are as under:

RIL	TCS	SENSEX
5	8	6
7	4	7
9	6	4
6	9	5
3	9	6

Answer the following Question:

1. How much should be the market return in order to earn 15% return on portfolio?
2. What happens to the rate of return if investment Ratio is revised to 3:7 with more emphasis on risk free return?
3. Also calculate beta of RIL and TCS. Advise Bluto on the same.