

# Financial, Treasury and Forex Management **373**

Roll No. ....

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 7

Total number of printed pages : 7

- NOTE :** 1. Answer FIVE Questions including Question No.1 which is compulsory. All working notes should be shown distinctly.  
2. Tables showing the present value of ₹1 and the present value of an annuity of ₹1 for 15 years are annexed.

1. Comment on **any four** of the following :

- (i) It is not always necessary that inventory is held for smooth manufacturing and sales operations.
- (ii) Capital rationing does not always lead to optimum results.
- (iii) Corporate taxation creates incentive for advancement to the company by utilising borrowed funds for financing its growth schemes.
- (iv) Financial gearing is a double-edged sword.
- (v) Financial policy and corporate strategy are most significant concerns of top management.

(5 marks each)

2. (a) Ash Enterprises Ltd. generated the following forecast in real terms for a capital budgeting project :

	Year-0 (₹ in '000)	Year-1 (₹ in '000)	Year-2 (₹ in '000)
Capital expenditure	1,210	—	—
Revenue	—	1,900	2,000
Cash expenses	—	950	1,000
Depreciation	—	605	605

Ash, the President estimates the inflation to be 10% per year over the next two years. In addition, Ash believes that the cash flows of the project should be discounted at the nominal rate of 15.50%.

Required (Apply tax rate of 30%) —

- (i) Workout NPV based on normal cash flow technique.
- (ii) Workout NPV based on real cash flow technique.

(10 marks)

- (b) Prakash Motors Pvt. Ltd. purchases 9,000 spare parts for its annual requirements ordering one month usage at a time. Each spare part costs ₹20. The ordering cost per order is ₹15 and the carrying charges are 15% of unit cost. You have been asked to suggest the most economical purchasing policy for the company. What advice would you offer and how much would it save for the company per year ?

(5 marks)

- (c) Following are the details regarding operations of Radiance Enterprises Ltd. during a period of last 12 months :

	₹
Sales	12,00,000
Selling price ( <i>per unit</i> )	10
Variable cost ( <i>per unit</i> )	7
Total cost ( <i>per unit</i> )	9

Credit period allowed to customers is one month.

The company is considering a proposal for a more liberal credit by increasing the average collection period from one month to two months. This relaxation is expected to increase sales by 25%. You are asked to advise the company regarding adoption of new credit policy assuming that the company's required rate of return on investment is 30%.

(5 marks)

3. (a) The following data relate to Intel Projects (India) Ltd. :

<i>Year ending 31<sup>st</sup> March</i>	<i>Net Earnings Per Share</i> (₹)	<i>Net Dividend Per Share</i> (₹)
2006	32	17.50
2007	28	18.50
2008	26	20.00
2009	26	21.00
2010	24	22.00

There are 10 lakh equity shares issued and majority of these shares are owned by private investors. There is no debt in the capital structure of the company.

: 3 :

The company has been experiencing difficult trading conditions over the past few years. In the current year, net earnings are likely to be ₹2.20 crore, which will be just sufficient to pay a maintained dividend of ₹22 per share.

You are required to comment on the company's dividend policy between 2005-06 to 2009-10; and on its possible consequences for earnings.

(6 marks)

- (b) Hi-Fi Builders Ltd. needs to acquire the use of a crane for its construction business. The crane if purchased outright will cost ₹10,00,000. A hire-purchase and leasing company has offered the following two alternatives :

*Hire-Purchase* : ₹2,50,000 will be payable on signing of the agreement. Three annual installments of ₹4,00,000 will be payable at the end of each year starting from year one. The ownership in the crane will be transferred automatically at the end of the third year. It is assumed that the company will be able to claim depreciation on straight line basis with zero salvage value.

*Leasing* : ₹20,000 will be payable towards initial service fee upon signing of the lease agreement. Annual lease rent of ₹4,32,000 is payable at the end of each year starting from the first, for a period of three years.

The company is in 35% tax bracket and its discount rate is 20%. Should it hire-purchase or lease the crane ?

(8 marks)

- (c) How do firms manage economic risk due to fluctuations in forex market ?

(6 marks)

4. Distinguish between *any four* of the following :

- (i) 'Control need of widely-held company' and 'control need of closely-held company'.
- (ii) 'Capital structure' and 'financial structure'.
- (iii) 'Finance lease' and 'sale-and-lease back'.
- (iv) 'Net income approach to capital structure' and 'net operating income approach to capital structure'.
- (v) 'Financial risk' and 'business risk'.

(5 marks each)

5. (a) A Portfolio Manager has three stocks in his portfolio. Following information is available in respect of his portfolio :

<i>Company</i>	<i>Investment</i> (₹)	$\beta$
X Ltd.	6,00,000	1.3
Y Ltd.	3,00,000	1.4
Z Ltd.	1,00,000	0.9

Expected return on the market portfolio is 15% and the risk free rate of interest is 6%. On the basis of Capital Asset Pricing Model (CAPM), compute the following :

- (i) Expected return of the portfolio; and  
(ii) Expected  $\beta$  of the portfolio.

(8 marks)

- (b) The following data is related to X Ltd., Y Ltd. and Z Ltd. for the current financial year :

	<i>X Ltd.</i>	<i>Y Ltd.</i>	<i>Z Ltd.</i>
Variable cost as a % of sales	70	75	50
Interest expense (₹)	20,000	30,000	1,00,000
Degree of operating leverage	5:1	6:1	2:1
Degree of financial leverage	3:1	4:1	2:1
Corporate tax rate	30%	30%	30%

You are required to prepare their income statements.

(12 marks)

6. Unichem Ltd. sells its products on a gross profit margin of 20% on sales. The following figures and ratios are extracted from its annual accounts for the year ended 31<sup>st</sup> March, 2010 :

Sales for the year (all credit)	₹40,00,000
Fixed assets turnover (Cost of goods sold basis)	1.6
Stock turnover (Cost of goods sold basis)	8
Liquid ratio	1 : 1
Current ratio	1.8 : 1
Debtors collection period	1 Month
Reserves and surplus to share capital	0.6 : 1
Capital gearing ratio	0.5
Fixed assets to net worth	1.25 : 1

: 5 :

On the basis of above details, you are required to prepare —

- (i) Balance sheet of the company; and
- (ii) The statement showing working capital requirement, with a provision for contingencies @ 10% of net working capital.

(20 marks)

7. Write notes on *any four* of the following :

- (i) Forfeiting
- (ii) Financial distress
- (iii) Cost of retained earnings
- (iv) Advantages of commodity trading
- (v) Services provided by venture capital fund.

(5 marks each)

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TABLE - 1 : PRESENT VALUE OF RUPEE ONE

RATE	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17
5%	0.9524	0.9070	0.8638	0.8227	0.7835	0.7462	0.7107	0.6768	0.6446	0.6139	0.5847	0.5568	0.5303	0.5051	0.4810		
6%	0.9434	0.8900	0.8396	0.7921	0.7473	0.7050	0.6651	0.6274	0.5919	0.5584	0.5268	0.4970	0.4688	0.4423	0.4173		
7%	0.9346	0.8734	0.8163	0.7629	0.7130	0.6663	0.6227	0.5820	0.5439	0.5083	0.4751	0.4440	0.4150	0.3878	0.3624		
8%	0.9259	0.8573	0.7938	0.7350	0.6806	0.6302	0.5835	0.5403	0.5002	0.4632	0.4289	0.3971	0.3677	0.3405	0.3152		
9%	0.9174	0.8417	0.7722	0.7084	0.6499	0.5963	0.5470	0.5019	0.4604	0.4224	0.3875	0.3555	0.3262	0.2992	0.2745		
10%	0.9091	0.8264	0.7513	0.6830	0.6209	0.5645	0.5132	0.4665	0.4241	0.3855	0.3505	0.3186	0.2897	0.2633	0.2394		
11%	0.9009	0.8116	0.7312	0.6587	0.5935	0.5346	0.4817	0.4339	0.3909	0.3522	0.3173	0.2858	0.2575	0.2320	0.2090		
12%	0.8929	0.7972	0.7118	0.6355	0.5674	0.5066	0.4523	0.4039	0.3606	0.3220	0.2875	0.2567	0.2292	0.2046	0.1827		
13%	0.8850	0.7831	0.6931	0.6133	0.5428	0.4803	0.4251	0.3762	0.3329	0.2946	0.2607	0.2307	0.2042	0.1807	0.1599		
14%	0.8772	0.7695	0.6750	0.5921	0.5194	0.4556	0.3996	0.3506	0.3075	0.2697	0.2366	0.2076	0.1821	0.1597	0.1401		
15%	0.8696	0.7561	0.6575	0.5718	0.4972	0.4323	0.3759	0.3269	0.2843	0.2472	0.2149	0.1869	0.1625	0.1413	0.1229		
16%	0.8621	0.7432	0.6407	0.5523	0.4761	0.4104	0.3538	0.3050	0.2630	0.2267	0.1954	0.1685	0.1452	0.1252	0.1079		
17%	0.8547	0.7305	0.6244	0.5337	0.4561	0.3898	0.3332	0.2848	0.2434	0.2080	0.1778	0.1520	0.1299	0.1110	0.0949		
18%	0.8475	0.7182	0.6086	0.5158	0.4371	0.3704	0.3139	0.2660	0.2255	0.1911	0.1619	0.1372	0.1163	0.0985	0.0835		
19%	0.8403	0.7062	0.5934	0.4987	0.4190	0.3521	0.2959	0.2487	0.2090	0.1756	0.1476	0.1240	0.1042	0.0876	0.0736		
20%	0.8333	0.6944	0.5787	0.4823	0.4019	0.3349	0.2791	0.2326	0.1938	0.1615	0.1346	0.1122	0.0935	0.0779	0.0649		
21%	0.8264	0.6830	0.5645	0.4665	0.3855	0.3186	0.2633	0.2176	0.1799	0.1486	0.1228	0.1015	0.0839	0.0693	0.0573		
22%	0.8197	0.6719	0.5507	0.4514	0.3700	0.3033	0.2486	0.2038	0.1670	0.1369	0.1122	0.0920	0.0754	0.0618	0.0507		
23%	0.8130	0.6610	0.5374	0.4369	0.3552	0.2888	0.2348	0.1909	0.1552	0.1262	0.1026	0.0834	0.0678	0.0551	0.0448		
24%	0.8065	0.6504	0.5245	0.4230	0.3411	0.2751	0.2218	0.1789	0.1443	0.1164	0.0938	0.0757	0.0610	0.0492	0.0397		
25%	0.8000	0.6400	0.5120	0.4096	0.3277	0.2621	0.2097	0.1678	0.1342	0.1074	0.0859	0.0687	0.0550	0.0440	0.0352		

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TABLE - 2 : PRESENT VALUE OF AN ANNUITY OF RUPEE ONE

RATE	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR	YEAR
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15			
5%	0.9524	1.8594	2.7232	3.5460	4.3295	5.0757	5.7864	6.4632	7.1078	7.7217	8.3064	8.8633	9.3936	9.8986	10.3797			
6%	0.9434	1.8334	2.6730	3.4651	4.2124	4.9173	5.5824	6.2098	6.8017	7.3601	7.8869	8.3838	8.8527	9.2950	9.7122			
7%	0.9346	1.8080	2.6243	3.3872	4.1002	4.7665	5.3893	5.9713	6.5152	7.0236	7.4987	7.9427	8.3577	8.7455	9.1079			
8%	0.9259	1.7833	2.5771	3.3121	3.9927	4.6229	5.2064	5.7466	6.2469	6.7101	7.1390	7.5361	7.9038	8.2442	8.5595			
9%	0.9174	1.7591	2.5313	3.2397	3.8897	4.4859	5.0330	5.5348	5.9952	6.4177	6.8052	7.1607	7.4869	7.7862	8.0607			
10%	0.9091	1.7355	2.4869	3.1699	3.7908	4.3553	4.8684	5.3349	5.7590	6.1446	6.4951	6.8137	7.1034	7.3667	7.6061			
11%	0.9009	1.7125	2.4437	3.1024	3.6959	4.2305	4.7122	5.1461	5.5370	5.8892	6.2065	6.4924	6.7499	6.9819	7.1909			
12%	0.8929	1.6901	2.4018	3.0373	3.6048	4.1114	4.5638	4.9676	5.3282	5.6502	5.9377	6.1944	6.4235	6.6282	6.8109			
13%	0.8850	1.6681	2.3612	2.9745	3.5172	3.9975	4.4226	4.7988	5.1317	5.4262	5.6869	5.9176	6.1218	6.3025	6.4624			..
14%	0.8772	1.6467	2.3216	2.9137	3.4331	3.8887	4.2883	4.6389	4.9464	5.2161	5.4527	5.6603	5.8424	6.0021	6.1422			..
15%	0.8696	1.6257	2.2832	2.8550	3.3522	3.7845	4.1604	4.4873	4.7716	5.0188	5.2337	5.4206	5.5831	5.7245	5.8474			..
16%	0.8621	1.6052	2.2459	2.7982	3.2743	3.6847	4.0386	4.3436	4.6065	4.8332	5.0286	5.1971	5.3423	5.4675	5.5755			
17%	0.8547	1.5852	2.2096	2.7432	3.1993	3.5892	3.9224	4.2072	4.4506	4.6586	4.8364	4.9884	5.1183	5.2293	5.3242			
18%	0.8475	1.5656	2.1743	2.6901	3.1272	3.4976	3.8115	4.0776	4.3030	4.4941	4.6560	4.7932	4.9095	5.0081	5.0916			
19%	0.8403	1.5465	2.1399	2.6386	3.0576	3.4098	3.7057	3.9544	4.1633	4.3389	4.4865	4.6105	4.7147	4.8023	4.8759			
20%	0.8333	1.5278	2.1065	2.5887	2.9906	3.3255	3.6046	3.8372	4.0310	4.1925	4.3271	4.4392	4.5327	4.6106	4.6755			
21%	0.8264	1.5095	2.0739	2.5404	2.9260	3.2446	3.5079	3.7256	3.9054	4.0541	4.1769	4.2784	4.3624	4.4317	4.4890			
22%	0.8197	1.4915	2.0422	2.4936	2.8636	3.1669	3.4155	3.6193	3.7863	3.9232	4.0354	4.1274	4.2028	4.2646	4.3152			
23%	0.8130	1.4740	2.0114	2.4483	2.8035	3.0923	3.3270	3.5179	3.6731	3.7993	3.9018	3.9852	4.0530	4.1082	4.1530			
24%	0.8065	1.4568	1.9813	2.4043	2.7454	3.0205	3.2423	3.4212	3.5655	3.6819	3.7757	3.8514	3.9124	3.9616	4.0013			
25%	0.8000	1.4400	1.9520	2.3616	2.6893	2.9514	3.1611	3.3289	3.4631	3.5705	3.6564	3.7251	3.7801	3.8241	3.8593			