

Roll No.

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 11

NOTE : 1. Answer **ALL** Questions.

2. Tables showing the present value of ₹ 1 and the present value of an annuity of ₹ 1 for 15 years are annexed.
3. Suitable assumptions, if considered necessary, may be made while answering a question. However, such assumptions must be stated clearly.
4. Working notes should form part of the answer.

PART-I

1. Comment on the following :

- (a) Profit maximization is the sole objective of Financial Management.
- (b) The firm is not required to pay dividends on retained earnings, so it may be argued that the retained earnings have no cost as such.
- (c) The interest rate given by a bank for deposits and the repo rate are the decisive factors in the calculation of Marginal Cost of Funds based Lending Rate (MCLR).

(5 marks each)

: 2 :

Attempt all parts of either Q. No. 2 or Q. No. 2A

2. (a) X Ltd. issues 1,000, 6% preference shares of ₹ 100 each redeemable after a maximum period of 20 years at face value. The floatation cost is ₹ 4 per share. Find the cost of capital.

(3 marks)

- (b) Calculate Reorder level, Minimum level and Average stock level from the following information of X Ltd. :

Normal usage	50 units per week
Minimum usage	25 units per week
Maximum usage	75 units per week
Re-order quantity	300 units
Re-order period	4 to 6 weeks

(3 marks)

- (c) From the following data, calculate the degree of operating leverage of the two companies X Ltd. and Y Ltd. :

	X Ltd.	Y Ltd.
Sales (₹)	20,00,000	25,00,000
Variable expenses	40%	30%
Fixed cost (₹)	5,00,000	10,00,000

Also state which company has the greater business risk and why ?

(3 marks)

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- (d) The present credit term of X Ltd. are 1/10 net 30. Its annual sales are ₹ 40,00,000, its average collection period is 20 days. Its variable cost and average total costs to sales are 0.85 and 0.95 respectively and its cost of capital is 10%. The proportion of sales on which customers currently takes discount is 0.50.

X Ltd. is considering relaxing the discount terms to 2/10 net 30. Such relaxation is expected to increase sales by ₹ 5,00,000, reduce the average collection period to 14 days and increase the proportion of discount sales to 0.80. What will be the effect of relaxing the discount policy on company's profit ? Take year as 360 days.

(3 marks)

- (e) The following information is available in respect of the rate of return on investment (r), the capitalisation rate (K_e) and earnings per share (E) of X Ltd. :

$$r = 12\%, \quad E = 20.$$

Determine the value of shares, assuming the following :

$$\text{D/P ratio} = 10, \quad \text{Retention Ratio} = 90, \quad K_e = 20\%.$$

(3 marks)

OR (Alternate question to Q. No. 2)

- 2A. (i) Company X and Company Y are in the same risk class, and are identical in every respect except that company X uses debt, while company Y does not. The levered firm has ₹ 4,50,000 debentures, carrying 10% rate of interest. Both the firms earn 20% operating profit on their total assets of ₹ 7,50,000. Assume perfect capital markets,

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rational investors and so on; a tax rate of 35% and capitalisation rate of 15% for an all-equity company.

Compute the value of company X and Y using the Net Income (NI) approach.

(5 marks)

- (ii) X Ltd. belongs to a risk class for which the approximate capitalisation rate is 10%. It currently has outstanding 2,500 shares selling at ₹ 100 each. The company is contemplating the declaration of dividend of ₹ 5 per share at the end of the current financial year. It expects to have a net income of ₹ 25,000 and has a proposal for making new investments of ₹ 50,000. Show that under the MM assumptions, the payment of dividend does not affect the value of the firm.

(5 marks)

- (iii) X Ltd. has furnished the following information :

Earnings per share (EPS)	₹ 8
Dividend payout ratio	25%
Market price per share	₹ 80
Tax rate	30%
Growth rate of dividend	8%

The company wants to raise additional capital of ₹ 10,00,000 including debt of ₹ 4,00,000.

The cost of debt (before tax) is 10% up to ₹ 2,00,000 and 15% beyond that. Compute the after tax cost of equity and debt and the weighted average cost of capital.

(5 marks)

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3. Differentiate between the following :

- (a) 'Investment' and 'Speculation'
- (b) 'Markowitz model' and 'Sharpe index model'
- (c) 'Capital Budgeting' and 'Capital Rationing'.

(5 marks each)

4. (a) X Ltd. plans to manufacture and sell 400 units of electronic appliances per month at a price of ₹ 600 each. The ratios of cost to selling price are as follows :

Raw Material	30%
Packing Material	10%
Direct Labour	15%
Direct Expenses	5%

Fixed overhead are estimated at ₹ 4,32,000 per annum.

The following norms are maintained for inventory management :

Raw Material	30 days
Packing Material	15 days
Finished goods	150 units
Work-in-progress	7 days

Other details are :

- (a) Credit sales represent 80% of total sales and dealers enjoy 30 days credit.

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- (b) Creditors allow 21 working days credit for payment.
- (c) Lag in payment of overhead and expenses are 15 working days.
- (d) Cash requirement to be 10% of total current assets (excluding cash balance).
- (e) Working days in year are taken as 300 days.
- (f) Degree of completion is 100% for Raw Material and 50% of other expenses.

Calculate the net working capital required and the maximum permissible bank finance under second method of financing as per Tondon Committee norms.

(8 marks)

- (b) X Ltd. has a machine having an additional life of 5 years, which costs ₹ 2,00,000 and has a book value of ₹ 80,000. A new machine costing ₹ 4,00,000 is available. Though its capacity is the same as that of the old machine, it will mean a saving in variable costs to the extent of ₹ 1,40,000 per annum. The life of the machine will be 5 years at the end of which it will have a scrap value of ₹ 40,000. The rate of income tax is 46% and it is the policy of the company not to make an investment if the yield is less than 12% per annum. The old machine, if sold today, will realise ₹ 20,000; and will have no salvage value if sold at the end of 5th year. Advise X Ltd. whether or not the old machine should be replaced. Assume capital gain to be tax free and ignore income tax saving on depreciation as well as on loss due to sale of existing machine.

(7 marks)

PART-II

5. (a) A private bank, as a part of Comprehensive Internal Management Study, has opted to modernise the banking system. The situation is very tough for the banking players in the current dynamic scenario. The CEO of the bank wants to initiate the change whereas the Chairman wants to wait and watch to take any decision. Analyse and evaluate the strategies of CEO and Chairman to bring about corporate change in the existing banking system. (4 marks)
- (b) A startup company is thinking of launching a low cost detergent powder in the market. The market for the said product is already dominated by big FMCG players. As a strategic professional put forward your suggestions to the Company Management Committee to deal with the nature of “entry barriers” while launching the low cost detergent powder. (4 marks)
- (c) A company ABC is finding difficult to adapt itself in the changing environment. A strategic consultant has advised it to go for an environmental scanning to deal with the current problem. Being company’s consultant, submit a report stating the strategic fit between external and internal environment so as to enable the company to regain its previous sustainable market position. (4 marks)

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- (d) A food processing company has started losing its market share for its products. Based on the result of market survey for its products, it observed that the customers were not being satisfied with the existing quality of products.

Hence, in the light of above, explain the concept of continuous improvement by TQM.

(4 marks)

- (e) Two firms A and B are belonging to the service sector. They are identical except growth rate and market share because of locational and other external reasons. Firm A has high market share and high growth rate while firm B has a high market share with a low business growth rate.

You need to identify the category of firm A and B to which they belong referring to the BCG matrix and advise them right strategy so as to remain competitive in the market.

(4 marks)

Attempt all parts of either Q. No. 6 or Q. No. 6A

6. Comment on the following :

- (a) Management is the art of getting things done through people.

(5 marks)

- (b) Strategic Management is of paramount significance for a company secretary.

(5 marks)

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(c) Strategic Financial Management (SFM) is concerned with taking three key financial decisions.

(5 marks)

(d) TOWS strategies are product of trade off between internal and external factors.

(5 marks)

OR (Alternate question to Q. No. 6)

6A. Comment on the following :

- (i) The first and foremost managerial function is 'planning'.
- (ii) Business environment is aggregate of all conditions, events and influences that surround and affect the business.
- (iii) The nature of business strategy is executive and governing, whereas the corporate strategy is deterministic and legislative.
- (iv) Strategy formulation and strategy implementation are not supplanting each other but supplementing each other.

(5 marks each)

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TABLE - 1 : PRESENT VALUE OF RUPEE ONE

RATE	YEAR	YEAR	YEAR	YEAR	YEAR															
	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	
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					

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

RATE	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	YEAR 7	YEAR 8	YEAR 9	YEAR 10	YEAR 11	YEAR 12	YEAR 13	YEAR 14	YEAR 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