


**NAVRACHANA
UNIVERSITY**
a UBC recognized University

School: School of Business and Law
Program/s: MBA
Year: 1st **Semester:** 2nd
Examination: End Semester Examination
Examination year: May 2023

Course Code: FIN201 **Course Name:** Financial Management

Date: 18/05/2023

Time: 10.00 am to 12:00 pm

Total Marks: 40

Total Pages: 2

Instructions:

→ Write each answer on a new page.

Q. No.	Details	Marks																																																
Q.1	<p>Explain the importance of Leverage from various perspectives for the business with relevant example.</p> <p style="text-align: right;">OR</p> <p>From the following details of the company, find out Combined Leverage, Financial Leverage and Operating Leverage also. Find out based on Proposed A-X, A-Y, B-X and B-Y details provided.</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Current Level</th> <th>Proposed -A</th> <th>Proposed-B</th> </tr> </thead> <tbody> <tr> <td>Capacity Utilized</td> <td>600</td> <td>1200</td> <td>1800</td> </tr> <tr> <td>Selling Price</td> <td>10</td> <td>9.95</td> <td>9.75</td> </tr> <tr> <td>Variable Cost</td> <td>4</td> <td>3.95</td> <td>3.90</td> </tr> <tr> <td>Fixed Cost</td> <td>1500</td> <td>1500</td> <td>1500</td> </tr> <tr> <td>Capital Requirement</td> <td>10000</td> <td>10000</td> <td>10000</td> </tr> <tr> <td>Tax Rate</td> <td>20%</td> <td>20%</td> <td>20%</td> </tr> </tbody> </table> <p style="text-align: center;">Capital Structure</p> <table border="1"> <thead> <tr> <th>Details</th> <th>Current Level</th> <th>Proposed -X</th> <th>Proposed-Y</th> </tr> </thead> <tbody> <tr> <td>Equity</td> <td>80%</td> <td>50%</td> <td>75%</td> </tr> <tr> <td>Debt</td> <td>20%</td> <td>50%</td> <td>25%</td> </tr> <tr> <td>Rate of Interest</td> <td>10%</td> <td>12%</td> <td>11%</td> </tr> <tr> <td>Equity Face Value</td> <td>10</td> <td>10</td> <td>10</td> </tr> </tbody> </table>	Details	Current Level	Proposed -A	Proposed-B	Capacity Utilized	600	1200	1800	Selling Price	10	9.95	9.75	Variable Cost	4	3.95	3.90	Fixed Cost	1500	1500	1500	Capital Requirement	10000	10000	10000	Tax Rate	20%	20%	20%	Details	Current Level	Proposed -X	Proposed-Y	Equity	80%	50%	75%	Debt	20%	50%	25%	Rate of Interest	10%	12%	11%	Equity Face Value	10	10	10	10
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Q-2	<p>Answer any Two of the following:</p> <ol style="list-style-type: none"> 1. Explain 5 types of Valuation Techniques with relevant examples. 2. Currently, the shares of Prefios Ltd. have 10,00,000 shares issued to public and 8,00,000 shares are held by the promoters and the current price is Rs. 247 per share. Company has received an offer of Rs 21 Crore. <ol style="list-style-type: none"> 1. What is the market price by using Market Capitalization method? 2. Should they accept the offer if they are considering Market Capitalization method of valuation. 3. A debt laden company is left with no choice but to go for shutting down its operations. Asset Reconstruction company is offering them Rs. 1 crore. However, the company's valuer has assessed and given a report in following order. Realizable Value in %. 	10																																																

1. What is the fair price according to the report?
2. Is the offer from Asset Reconstruction Company lucrative to be considered or rejected?

Particulars	Book Value	Realizable Value
Vehicle	2500000	70
Patent	5000000	95
Land	10000000	110
Machine	20000000	45
Debtors	50000	98
Cash	800000	100
Creditors	4800000	100
Loan from HDFC Bank	5000000	100
Loan from SBI	5000000	100

Q-3

Explain Working Capital with special reference to Temporary and Permanent Working Capital for a Start-up as well as an established company. Point out the difference in the requirement of Working Capital with rationale.

OR

Find out Net Working Capital Requirement for Sammonos Ltd. from the following information:

	Cost per unit	Rs.
Raw Materials	1100	
Direct labour	400	
Overheads	800	
Total Cost	2300	
Additional Information:		
Selling-Price	Rs.3,000 per unit	
Output	52,000 units per annum	
Raw Material in stock	average 4 weeks	
Work-in-process:		
(assume 50% completion stage with full material consumption)	average 2 weeks	
Finished goods in stock	average 4 weeks	
Credit allowed by suppliers	average 4 weeks	
Credit allowed to debtors	average 8 weeks	
Cash at bank is expected to be	Rs.100,000	

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Q-4

Rectify the following Statement (Any Five):

1. One should consider Financial Leverage only.
2. Risk Premium in CAPM is the difference between Beta and Risk Free.
3. Financial Leverage is all about managing Assets well.
4. NPV method is best suited when initial outlay of fund is different.
5. Cashflow method is inferior to Accounting method in Capital Budgeting.
6. Permanent Working Capital is seasonal in nature.
7. Wealth Maximization is synonymous to Profit Maximization.

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