

**GUJARAT NATIONAL LAW UNIVERSITY
GANDHINAGAR**

Course: Financial Management
Semester-I (Batch: 2018-20)

MBA End Semester Examination: November-2019 (Repeat)

Date: 9th November, 2019

Duration: 3 hours

Max. Marks: 60

Instructions:

- Read the questions properly and write the answers in the given answer book.
- The respective marks for each question are indicated in-line.
- Do not write anything on the question paper.
- Indicate correct question numbers in front of the answers.
- No questions or clarifications can be sought during the exam period, answer as it is, giving reason, if any.
- Scientific calculators are permitted in the examination hall.
- PV&FV Tables will be provided in the examination hall.

Answer any six of the following questions

Marks

Q.1 Explain the following concepts in brief:

(4x2.5=
10)

- (a) Cross over rate
- (b) Systematic risk
- (c) Financial leverage
- (d) Economic order quantity

Q.2 Your firm's geologists have discovered an oil field in Bombay High Basin. The field is forecasted to produce a cash flow of $C_1 = \$5$ million in the first year. You estimate that you could earn an expected return of $r = 10\%$ from investing in some other investment opportunity with a similar degree of risk to your oil field. Calculate the present value for the following cases.

(2x5=
10)

- (a) The cash flows are forecasted to continue forever, with no expected growth or decline.
- (b) The cash flows are forecasted to continue for 20 years only, with expected growth of 3% per annum during that period.

Q.3 Akshay Kumar wants to invest in a solar power project in the state of Gujarat. The initial investment for the project is Rs 400 million. The cash flows from the project are shown in the table below:

(10)

Year	Cash-flows in INR in million
1	90
2	-30
3	100
4	125
5	250
6	350

The project is perceived to be as risk as long term fixed deposits with PSU banks in India. At present the expected return on the long term fixed deposit rates in PSU banks

is 10%. Calculate the NPV, MIRR, profitability index and discounted payback period of the project.

- Q.4 ABC Pvt Ltd is a textile manufacturing company operating in Ludhiana. The financial information of ABC Pvt Ltd for the year end 2019 has been mentioned below. (10)

Profit and Loss Account Data (Rs. million)		Balance Sheet data		
			Beginning of 2019	End of 2019
Sales	900	Inventory	80	110
Cost of goods sold	500	Accounts receivable	125	170
		Accounts payable	80	110

Calculate the length of the operating cycle and cash cycle. Assume a year comprises of 360 days.

- Q.5 Reliable India Pvt Ltd requires Rs.3.6 million in cash for meeting its transaction needs over the next 12 months, its planning horizon for liquidity decisions. The company currently has the amount in the form of marketable securities. The cash payments will be made evenly over the twelve months planning period. The company earns 12 percent annual yield on its marketable securities. The conversion of marketable securities into cash entails a fixed cost of Rs. 1,500 per transaction. What is the optimal conversion size as per the Baumol model? (10)
- Q.6 Answer the following questions in detail: (2x5=10)
- (a) What is NPV? What are the advantages and disadvantages of using NPV as an investment criterion?
- (b) As an expert in the area of Financial Management, respond to the following comments:
- (i) "I like the IRR rule. I can use it to rank projects without having to specify a discount rate."
- (ii) "I like the payback rule. As long as the minimum payback period is short, the rule makes sure that the company takes no borderline projects. That reduced risk."
- Q.7 Discuss the relationship between leverage and cost of capital as per the net income approach. (10)
