JAIPURIA INSTITUTE OF MANAGEMENT
LUCKNOW NOIDA JAIPUR INDORE

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)
IInd TRIMESTER (Batch 2016-18)
END TERM EXAMINATIONS

Course Name	Financial Management - I	Course Code	FIN202
Max. Time	2 hours	Max. Marks	40

Q1(a). You are trying to choose between two investments. The first investment, portfolio 'A' has an expected return of 15% with a standard deviation of returns of 35% over the next year. The second investment, portfolio 'B' has an expected return 22% with a standard deviation of return of 40%. What is the coefficient of variation for each of these investments, and what do these coefficients tell us? **(Marks: 04)**

Q1(b). 'Investors care about only systematic risk'. Do you agree? Discuss in the light of different type of risks. **(Marks: 04)**

Q2. An all equity firm has 1 lakh shares outstanding at a face value of Rs 10 each. The value of the firm is Rs 20 crore. It decides to issue 20% stock dividend. Do the necessary calculations to explain the effect of this dividend on the balance sheet of the company and on the investment of a shareholder with 100 shares. **(Marks: 08)**

Q3. The following is the capital structure of X Ltd. As on 31 December 2009.

		(Rs. in million)
1.	Equity Capital (Paid-up)	563.50
2.	Reserve and Surplus	485.66
3.	10% Redeemable Preference Shares	84.18
4.	15% Term loans	377.71
	Total	**1,511.05**

The share of the company is currently selling for Rs. 36. The expected dividend next year is Rs. 3.60 per share anticipated to be growing at 8% indefinitely. The redeemable preference shares were issued on 1st January 2003 with twelve years maturity period. The company had raised the term loan from a nationalized bank in 1993. A similar loan will cost today at 10%. Assume an average tax rate of 30%. Calculate the weighted average cost of capital for the company using book value weights.

(Marks: 08)

Q4. Fun Time Ltd. produces pens, selling 2 ,000,00 pens a year. Each pen produced has a variable operating cost of Rs. 2.75 and sells for Rs. 5.00. Fixed operating costs are Rs. 3, 00,000. The Firm has annual interest charges of Rs. 50, 000, preferred dividends of Rs. 25,000 and a 30% tax rate.

1. Use the degree of operating leverage (DOL) formula to calculate DOL.
2. Use the degree of financial leverage (DFL) formula to calculate DFL.
3. Use the degree of total leverage (DTL) formula to calculate DTL.
4. Evaluate and comment on the operating, financial and total risk of the company.

(Marks: 08)

Q5. A company currently has annual sales of Rs. 5,00,000 and an average collection period of 30 days. It is considering a more liberal credit policy. If the credit period is extended, the company expects sales and bad debt losses to increase in following manner:

Credit Policy	Increase in Credit Period	Increase in Sales (Rs.)	Bad Debt% of Total Sales
A	10 days	25000	1.2
B	15 days	35000	1.5
C	30 days	40000	1.8
D	42 days	50000	2.2

The selling price per unit is Rs. 2. Variable cost per unit is Rs. 1.20. If the current bad debt loss is 1% of sales and RoI pre tax is 20%, which credit policy should be undertaken assume 360 days a year?

(Marks: 08)