

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

IInd TRIMESTER (Batch 2016-18)

REAPPEAR EXAMINATIONS

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

Instructions: Attempt all questions.

Q1(a). Sun company system limited has forecasted returns on its share with the following probability distribution:

Return (%)	probability
-10	0.2
10	0.3
20	0.4
30	0.1

Calculate the expected return, variance and standard deviation of returns for Sun and interpret the result.

(Marks: 04)

Q1(b). 'Diversification is a strategy of investing in two or more assets whose values do not always move in the same direction'. Do you agree? If yes, illustrate the concept with example.

(Marks: 04)

Q2. A company is considering the following investment projects:

Projects	C ₀	C ₁	C ₂	C ₃
A	-10000	10000		
B	-10000	7500	7500	
C	-10000	2000	4000	12000
D	-10000	10000	3000	3000

(A) Rank the project according to each of the following methods: (i) IRR (ii) NPV; assuming discount rate of 12%

(Marks: 10)

(B) Assuming the projects are independent, which should be accepted and why?

(Marks: 02)

Q3. The following capital structure is extracted from Delta Ltd.'s balance sheet as on 31st March 2009:

	(₹' 000)
1. Equity (₹ 25 par)	66,412
2. Reserves	65,258
3. Preference (₹ 100 par)	3,000
4. Debentures	30,000
5. Long term loans	5,360
Total	1,70,030

The current year EPS of the company is 6.80 and average growth rate is 22%. The equity share of the company is selling for ₹ 50. The preference dividend rate and interest rate on debentures respectively are 10% and 13%. The long term loans are raised at an interest rate of 14% from the financial institution. The equity dividend is ₹ 4 per share. Calculate the weighted average cost of capital for Delta Ltd. Make necessary assumptions if required. (Marks: 08)

Q4. Explain a stock split? Why is it used? How does it differ from a bonus shares? (Marks: 04)

Q5. XYZ Cements Limited sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the current year ended 31st December.

	₹
Sales at 3 months credit	40,00,000
Raw material	12,00,000
Wages paid – average time lag 15 days	9,60,000
Manufacturing expenses paid – one month in arrears	12,00,000
Administrative expenses paid - one month in arrears	4,80,000
Sales promotion expenses – payable half yearly in advance	2,00,000

The company enjoy one month's credit from the suppliers of raw materials and maintains a 2 month's stock of raw materials and one and half month's stock of finished goods. The cash balance is maintained at ₹. 1,00,000 as a precautionary measure. Assuming a 10% margin, find out the working capital requirements of XYZ Cements Ltd. (Marks: 08)

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