JAIPURIA
INSTITUTE OF MANAGEMENT
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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM/PGDM(MM)/PGDM(SM)
Second Trimester (Batch 2017-19)
END TERM EXAMINATIONS

Course Name	Financial Management - I	Course Code	FIN 202
Max. Time	2 hours	Max. Marks	40

Note: Attempt all questions. Use of TVM tables and scientific calculators is allowed.

Q.1) The credit terms of a firm currently is "net 30". It is considering changing it to "60". This will have the effect of increasing the firm's sale. As the firm will not relax credit standards, the bad- debt loses are expected to remain at the same percentage, i.e., 3 percent of sales. Incremental production, selling and collection costs are 80 percent of the sales, and are expected to remain constant over the range of anticipated sales increases. The relevant opportunity costs for receivables is 15 percent. Current credit sales are Rs 300 crores and current level of receivables is Rs 30 crores. If the credit terms are changed, the current sale is expected to change to Rs 360 crores and the firm's receivables levels will also increase. The firm's financial manager estimates that the new credit terms will cause the firm's collections period to increase by 30 days.

a) What level of receivables is implied by the new collection period?
b) Determine the increased investment in receivables if the new credit terms are adopted.

Are the new credit terms desirable? (2.5*2)

Q.2) Apple Ltd at present has all equity capital structure of 200000 shares of Rs 10 each. To finance its new investment project it now wants to raise additional Rs 2000000 for which it has identified three alternative funding sources as follows

a) Additional 200000 shares of Rs 10 each
b) Debt at 14% interest
c) Rs 100 Preference capital at 12% dividend

The present EBIT of the company is Rs 600000 per annum but with new project the EBIT will rise to Rs 1400000 per annum tax rate is 30%

i) Using the EBIT-EPS analysis decide which financing alternative to be accepted
ii) What is the level of EBIT indifference point for different financing? (2*5)

Q.3) Anil Industries turns over its inventory 6 times each year; it has an average collection period of 45 days and an average payment period of 30 days. The firm's annual operating-cycle investment is $3 million. Assume a 360-day year. (5)

I. Calculate the firm's cash conversion cycle, its daily cash operating expenditure, and the amount of resources needed to support its cash conversion cycle.
II. Find the firm's cash conversion cycle and resource investment requirement if it makes the following changes simultaneously.
    1. Shortens the average age of inventory by 5 days.
    2. Speeds the collection of accounts receivable by an average of 10 days.
    3. Extends the average payment period by 10 days.

Q.4) News Extract from Economic times dt 23rd Dec 2017

Infosys India's second largest IT services company, said it received 499.98 per cent higher response to the proposed share buyback plan. The Bengaluru-headquartered company had in August announced a Rs 13,000 crore share buyback plan and promised to repurchase more than 113 million equity shares aggregating up to 4.92 per cent of the paid-up equity share capital at a price of Rs 1150 a piece. It received applications for tendering more than 565 million equity shares, nearly five times more than reserved number of shares in the buyback, said Infosys in a notification

a) What are the reason for company to bring buy back issue and how does it change the capital structure of the company?
b) How is buy back different from issuing a bonus share and stock split? (2.5*2)

Q.5) Consider the following two projects. The cash flows are given below Cost of capital is 9%.pa

	Co	C1	C2	C3
Project P	-840	700	350	70
Project Q	-840	70	420	760

a) Evaluate them on basis of NPV and IRR.
b) Comment on both these techniques and when will these techniques may give contradicting results
c) How is MIRR better than IRR? (4+2+2)

Q.6) The present capital structure of Alpha Ltd is as follows:
Amount in Millions

Equity share (Face value = 10)	240
Reserves	360
11% Preference Shares (Face value = Rs.10)	120
12% Debentures	120
14% Term Loans	360
	1,200

Additionally the following information is available:

Company's equity beta	1.06
Yield on long-term treasury bonds	10%
Stock market risk premium	6%
Current ex-dividend equity share price	Rs 15
Current ex-dividend preference share price	Rs 12
Current ex-interest debenture market value	Rs 102.50 per Rs 100
Corporate tax rate	40%

The debentures are redeemable after 3 years and interest is paid annually. Ignoring flotation costs, calculate the company' weighted average cost of capital (WACC). (7)