JAIPURIA
INSTITUTE OF MANAGEMENT
LUCKNOW NOIDA JAIPUR INDORE

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (SM)
IV TRIMESTER (Batch 2017-19)
MID TERM EXAMINATIONS

Course Name	**Financial management-II**	Course Code	**FIN 404**
Max. Time	**1 hour**	Max. Marks	**20**

INSTRUCTIONS: Attempt all Qs. Students are allowed to bring their Present Value table.

1. Ballina Fuisce plc forecasts that if it sells each bottle of its Freuddwyd Whiskey for €20, then the demand for the product will be 15 000 bottles per year, whereas sales will be 90 per cent as high if the price is raised 10 per cent. Ballina Fuisce's variable cost per bottle is €10 and the total fixed cash cost for the year is €100 000. Depreciation and amortization charges are €20 000 and the firm is in the 30 per cent marginal tax rate. The firm anticipates an increased working capital need of €3 000 for the year. What will be the effect of the price increase on the firm's FCF for the year? (5 marks)

2. The Bush Oil Company is deciding whether to drill for oil on a tract of land that the company owns. The company estimates that the project will cost \$8 million today. Bush estimates that once drilled, the oil will generate positive net cash flows of \$4 million a year at the end of each of the next 4 years. While the company is fairly confident about its cash flow forecast, it recognizes that if it waits 2 years, it will have more information about the local geology as well as the price of oil. Bush estimates that if it waits 2 years, the project will cost \$9 million. Moreover, if it waits 2 years, there is a 90% chance that the net cash flows will be \$4.2 million a year for 4 years, and there is a 10% chance that the cash flows will be \$2.2 million a year for 4 years. Assume that all cash flows are discounted at 10%.

   a. If the company chooses to drill today, what is the project's net present value? (3 marks)
   b. Would it make sense to wait 2 years before deciding whether to drill? Explain. (3 marks)
   c. What is the value of the investment timing option? (2 marks)
   d. What disadvantages might arise from delaying a project such as this drilling project? (2 marks)

3. The earnings of a company have been growing at 15 percent over the past several years and are expected to increase at this rate for the next seven years and therafter, at 9 percent in perpetuity. It is currently earning Rs 4 per share and paying Rs 2 per share as dividend. What shall be the present value of the share with a discount rate of 12 percent for the first seven year and 10 percent thereafter? (5 marks)