JAIPURIA INSTITUTE OF MANAGEMENT, Noida

PGDM/SM/M

FOURTH TRIMESTER (Batch 2017-19)

END TERM EXAMINATIONS (October, 2018)

SET NO.: 1

Course Name	Financial Management-II (FM-II)	Course Code	FIN-404
Max. Time	2 hours	Max. Marks	40

Instructions: Attempt all the questions.

Q1. Four years ago, Inga Sorenson bought six-year, 5.5 per cent coupon bonds issued by AGA AB for SKr 947.68. If she sells these bonds at the current price of SKr 894.52, what will be the realised yield on the bonds? Assume annual coupons on similar coupon-paying bonds. (5 marks)

Q2. Last year Rattner Robotics had $5 million in operating income (EBIT). Its depreciation expense was $1 million, its interest expense was $1 million, and its corporate tax rate was 40%. At year-end, it had $14 million in current assets,

$3 million in accounts payable, $1 million in accruals, and $15 million in net plant and equipment. Assume that Rattner's only noncash item was depreciation.

a. What was the company's net income? (2 marks)

b. What was its net working capital (NWC)? (2 marks)

c. Rattner had $12 million in net plant and equipment the prior year. Its net working capital has remained constant over time. What is the company's free cash flow (FCF) for the year that just ended? (3 marks)

Q3. What is capitalization of interest and its importance in regulated utilities companies?

Draw a table as mentioned below and identify the effect (higher or lower) of interest capitalization and expensing on each component. Justify your answer with suitable example. (10 marks)

Overall	Initially		Later years	
	Capitalizing	Expensing	Capitalizing	Expensing
Net Income				
EBIT				
EBITDA				
CFO				
CFI				
Total asset turnover ratio				
Fixed asset turnover ratio				
ROA				
ROE				
Time interest earned				

Q4. Read the case and answer below questions:

a. Calculate those ratios that you think would be useful. (5 marks)
b. Construct a DuPont equation and compare the company's ratios to the industry average ratios. (5 marks)
c. Do the balance sheet accounts or the income statement figures seem to be primarily responsible for the low profits? (5 marks)
d. Which specific accounts seem to be most out of line relative to other firms in the industry? (3 marks)

[P.T.O. for the Case)

DuPONT ANALYSIS A firm has been experiencing low profitability in recent years. Perform an analysis of the firm's financial position using the DuPont equation. The firm has no lease payments but has a $2 million sinking fund payment on its debt. The most recent industry average ratios and the firm's financial statements are as follows:

Industry Average Ratios

Current ratio	2x	Fixed assets turnover	6x
Debt/total assets	30%	Total assets turnover	3x
Times interest earned	7x	Profit margin	3%
EBITDA coverage	9x	Return on total assets	9%
Inventory turnover	10x	Return on common equity	12.86%
Days sales outstanding[a]	24 days		

[a]Calculation is based on a 365-day year.

Balance Sheet as of December 31, 2008 (Millions of Dollars)

Cash and equivalents	$ 78	Accounts payable	$ 45
Net receivables	66	Notes payable	45
Inventories	159	Other current liabilities	21
Total current assets	$303	Total current liabilities	$111
		Long-term debt	24
		Total liabilities	$135
Gross fixed assets	225		
Less depreciation	78	Common stock	114
Net fixed assets	$147	Retained earnings	201
		Total stockholders' equity	$315
Total assets	$450	Total liabilities and equity	$450

Income Statement for Year Ended December 31, 2008 (Millions of Dollars)

Net sales	$795.0
Cost of goods sold	660.0
Gross profit	$135.0
Selling expenses	73.5
EBITDA	$ 61.5
Depreciation expense	12.0
Earnings before interest and taxes (EBIT)	$ 49.5
Interest expense	4.5
Earnings before taxes (EBT)	$ 45.0
Taxes (40%)	18.0
Net income	$ 27.0