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St. Claret College

Autonomous, Bengaluru

ROLL NO:

DATE:

PG END SEMESTER EXAMINATION-OCT/NOV 2025

MBA SECOND SEMESTER

MBA 2524: FINANCIAL MANAGEMENT

TIME: 3 Hours **MAX. MARKS: 70**

This paper contains THREE printed pages and FOUR parts

Instructions:

1. Verify and ensure that the question paper is completely printed.

2. Any discrepancies or questions about the exam paper must be reported to the COE within 1 hour after the examination.

3. Students must check the course title and course code before answering the questions.

PART-A

Answer SEVEN questions out of NINE. Each answer carries TWO marks. **[2x7 = 14]**

1. What is meant by the Agency Problem?
2. State any two financial goals of a firm.
3. Find the future value of ₹ 5,000 invested for 3 years at 12% p.a. compounded annually.
4. State any two factors influencing Capital Structure.
5. The EBIT of a firm is ₹ 1,00,000; Interest ₹ 25,000; Equity ₹ 5,00,000. Find the Financial Leverage.
6. Define Capital Budgeting.
7. Project A requires an investment of ₹ 50,000 with annual cash inflows of ₹ 12,500 for 5 years. Find Payback Period.
8. Current Assets ₹ 5,00,000; Current Liabilities ₹ 3,00,000. Find Working Capital.
9. What do you mean by Bonus Shares?

PART-B

Answer any FOUR questions out of SIX. Each answer carries FIVE marks. **[4x5=20]**

10. Explain the emerging role of a finance manager in India in the era of Artificial Intelligence (AI) and digital transformation.

11. Mr. Ramesh plans to save money for his child's higher education. He decides to deposit ₹50,000 at the end of every year into a bank account that offers 8% annual interest, compounded yearly. He continues this investment for 15 years. Calculate the future value of his savings at the end of 15 years.
12. Describe the concept of EBIT–EPS analysis and highlight its role in financing decisions.
13. A manufacturing company, Tech Corp Ltd., is considering a new machine purchase with an initial cost of ₹80,000. The machine has an expected useful life of four years. The estimated annual net cash inflows from the project are as follows:

Year	1	2	3	4
Net Cash Inflow	30,000	35,000	25,000	20,000
PV factor @ 10%	0.909	0.826	0.751	0.683
PV factor @ 12%	0.893	0.797	0.712	0.636

Calculate the Net Present Value of the project and state the capital budgeting decision. If Tech Corp's cost of capital is 10%.

14. Elucidate the importance of Cash Management in Working Capital Management.

15. A stable Indian company, Tech Grow Ltd., recently paid a dividend of ₹15 per share. Analysts expect the dividend to grow at a constant rate of 5% p.a. indefinitely. An investor's required rate of return for this stock is 12%. What is the intrinsic value of the stock?

PART-C

Answer any TWO questions out of FOUR. Each answer carries TEN marks. **[10X2=20]**

16. Three financing plans are available for Texas Manufacturing, which needs ₹ 10,00,000 for the construction of a new plant. Texas wants to maximize EPS. Currently, the equity share is selling for ₹ 30 per share. The EBIT resulting from the plant operation is ₹ 1,50,000 p.a. The marginal tax rate is 30%. Money can be borrowed at the rates indicated below:

    Upto ₹ 1,00,000 @ 10%
    Over ₹ 1,00,000 to ₹ 5,00,000 @ 14%
    Over ₹5,00,000 @ 18%.

    The three financing plans are

    Plan A-Use 1,00,000 debt; expected EBIT ₹ 2,50,000
    Plan B-Use 3,00,000 debt; expected EBIT ₹ 3,50,000
    Plan C-Use 6,00,000 debt; expected EBIT ₹ 5,00,000.

    Determine EPS for these three plans and indicate the plan that results in highest EPS.

17. A startup company is uncertain about how to finance its growth- whether through debt or equity. Discuss the concept of capital structure and outline the factors that will guide the management in making this financing decision.

18. The following information is given for AB Ltd.

Earnings per share	₹12
Dividend per share	₹3
Cost of capital	18%
Internal rate of return on investment	22%
Retention ratio	40%

Calculate the market price per share using: i) Gordon's formula ii) Walters' formula.

19. Maharashtra Co. Ltd. wishes to arrange overdraft facilities with its bankers from the period August to October 2025, when it will be manufacturing mostly for stock. Prepare a cash budget for the above period from the following data given below:

Month	Sales (₹)	Purchases (₹)	Wages (₹)	Other Expenses (₹)
June	1,80,000	1,24,800	12,000	7,000
July	1,92,000	1,44,000	14,000	9,000
August	1,08,000	2,43,000	11,000	6,500
September	1,74,000	2,46,000	12,000	11,500
October	1,26,000	2,68,000	15,000	11,500

Additional Information:

a) Cash on hand 1-08-2025 ₹ 25,000.
b) 50% of credit sales are realized in the month following the sale, and the remaining 50% in the second month following.
c) Creditors are paid in the month following the month of purchase.
d) Lag in payment of other expenses for one month.

PART-D

Answer the following. **[16X1=16]**

20. As a financial analyst at Hitesh Co. Ltd., you have been assigned by the Director of Capital Budgeting to evaluate two proposed investment opportunities, Project X and Project Y. Both projects require an initial outlay of ₹20,00,000 with the cost of capital estimated at 12%. The projected profits before depreciation and taxes for each year are as follows:

Year	Project X (PBDT)	Project Y (PBDT)
1	8,00,000	15,00,000
2	8,00,000	10,00,000
3	8,00,000	6,00,000
4	8,00,000	2,00,000

a) Calculate Pay Back Period, Net Present Value, and Profitability Index.
b) Which project/projects should be accepted if they are independent?

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