Enrolment No. _____

AHMEDABAD UNIVERSITY

AMRUT MODY SCHOOL OF MANAGEMENT

UNDERGRADUATE PROGRAMMES

2024 Winter SEMESTER

END SEMESTER EXAMINATION

FAC 133 Financial Management

Date: 28-04-2024
Time: 8 am – 10 am

Total Marks: 30
No. of printed pages: 02

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1. A printing firm has the following information about three projects:

Particulars	Project 1	Project 2	Project 3
Cash Revenue	19,500	14,500	12,500
Cash Expense	10,500	7,500	6,500
Gross Profit	9,000	7,000	6,000
Depreciation	5,000	5,000	5,000
Net Profit	4,000	2,000	1,000

The initial investment of the project is estimated as Rs. 15000

a) What would be printing firms accounting rate of return for all the three years?

b)If it is found that the initial investment will be Rs. 12000 and cash expenses will be more by Rs.1200 each year, then what will be the projects new accounting rate of return , also calculate the projects NPV is the cost of capital is 9% **[5 marks]**

2. A biopharmaceutical business is thinking about going public in order to acquire money for additional expansion after hitting important benchmarks in its drug development pipeline. Examine the benefits and drawbacks of pursuing a private placement with institutional investor's vs completing an initial public offering on a stock exchange. Which kind of financing would give the firm the money it needs while taking regulatory compliance and shareholder dilution into account? **[5 marks]**

3. A company is considering the possibility of raising Rs.150 million by issuing debt, preference capital and equity and retaining earnings. The book values and the market values of the issues are as follows:

	Market Value (in Millions)	Book Value (in Millions)
Debt	36	70
Preference shares	24	30
Ordinary Shares	60	30

Reserves	-	20
Total	**120**	**150**

The following costs are expected to be associated with the above-mentioned issues of capital. (Assume a 30% tax rate.)

(a)The firm can sell a 15 year, Rs. 1,000 face value debenture with a 15% rate of interest. An underwriting fee of 2% with the issue on premium of 10% on debentures.

(b) The 12%, Rs.100 face value preference issue with expenses on issue of 3%. Assuming the share will be redeemed on 10th year at a premium of 20%.

(c) The firm's ordinary share is currently selling for ₹180. Company paid a dividend of ₹12 per share in the last year, which is expected to grow at a rate of 7% each year.

What would be the weighted average cost of capital of the firm by using?
(i) Book value weights (ii) Market value weights. **[10 Marks]**

4. The following cost of sales statement available for DD Manufactures:

Particulars	**Rate**
Raw Material Consumption per day	52
Raw Material Inventory	800
Cost of production per day	30
Work in progress inventory	530
COGS per day	27
Finished goods inventory	450
Credit sales per day	20
Debtors	700
Credit purchases per day	15
Creditors	480

You are required to prepare statement showing operating cycle and cash conversation cycle of the firm.

[5 marks]

5. A firm is considering the following two mutually exclusive investments:

	Cash flows (₹)			
Project	**C0**	**C1**	**C2**	**C3**
M	-25,000	15,000	15,000	25,640
N	-28,000	12,672	12,672	12,672

The cost of capital is 12%.
Which project should be undertaken as per NPV and IRR calculations? And Why? **[5 marks]**