GNANAM
SCHOOL OF BUSINESS
Wisdom in Business
AUTONOMOUS

Reg. No.: | | | | | | | | | | | | |

Question Paper Code :214202

MBA DEGREE EXAMINATION APRIL/ MAY 2026
Second Semester
BA4202- Financial Management
(Regulation: 2021)

Time : 3 Hours   Answer ALL Questions   Max. Marks 100

PART-A (10 x 2 = 20 Marks)

1. Differentiate between Systematic and Unsystematic risk.
2. How is the value of a bond determined?
3. State the nature of Capital Budgeting decisions.
4. Define is Internal Rate of Return (IRR)?
5. Describe is Operating Leverage?
6. Distinguish between Relevance and Irrelevance theories of dividend.
7. Differentiate is 'Permanent' vs. 'Temporary' Working Capital?
8. Distinguish between Gross and Net Working Capital.
9. Explain is Venture Capital (VC) Financing?
10. Explain about the New Issues Market

Part – B (5 x 13 = 65 marks)

11. a) Describe the primary objectives of Financial Management.

OR

b) A bond has a face value of Rs1,000, a coupon rate of 8% (paid annually), and a maturity period of 3 years. If the required rate of return is 10%, what is the value of the bond?

12. a) "Modern Textiles Ltd." is considering replacing its manual looms with high-speed robotic looms. The project requires a massive upfront investment but promises labour savings. The CFO insists that the ₹5 lakh spent on a feasibility study last month and the ₹2 lakh interest on a past loan should be included in the project cost.

1.Discuss the Nature of capital budgeting decisions in the context of this replacement.

2.Critically evaluate the CFO's suggestion regarding relevant cash flows (Sunk costs and Financing costs).

OR

b) Prime Build con has the following capital structure:

Equity Shares: ₹20,00,000 (Market price ₹150, current dividend ₹12, growth rate 6%).

12% Debentures: ₹10,00,000 (Issued at par).

Tax Rate: 30%.

1.Calculate the specific cost of equity(Ke) and debt (Kd)

2.Calculate the Weighted Average Cost of Capital (WACC) for the firm.

13. a) Discuss the Gordon's "Bird-in-the-Hand" Theory.

OR

b) A company has Sales of ₹20,00,000, Variable Cost of 40%, and Fixed Operating Costs of ₹4,00,000. The company has a debt of ₹10,00,000 at 10% interest. Calculate the degree of Operating, Financial, and Combined Leverage.

14. a) Swift-Gear Ltd." is an automobile component manufacturer planning to increase its production capacity by 40% next year. Currently, they have a raw material holding period of 30 days, a production cycle of 15 days, and they allow 60 days of credit to customers. Their suppliers give them 45 days of credit. The CFO is worried about a potential "liquidity crunch" despite rising profits.

1.Explain the concepts of Gross vs. Net Working Capital in the context of Swift-Gear.

2.Analyze how increase in production will affect the Operating Cycle and suggest two determinants that will increase their working capital needs.

OR

b) A company uses 40,000 units of a component per year. The purchase price is ₹20 per unit. Ordering cost is ₹200 per order. Carrying cost is 20% of inventory value.

1.Calculate EOQ.

2.If a 5% discount is offered for a single order of 40,000 units, should the firm accept it?

15. a) "Tech Grow Pvt. Ltd." is a profitable mid-sized IT company in Bangalore. They want to raise ₹500 crores for an ambitious global expansion. The CEO is debating between issuing fresh

Equity Shares to the public (IPO) or issuing Convertible Debentures. Additionally, some board members suggest exploring Venture Capital for the first time.

1.Advise the CEO on the suitability of an IPO vs. Debentures in the context of the Indian Primary Market.

2.Evaluate if Venture Capital is a viable choice for this established firm.

OR

b) A Venture Capital firm invests ₹10 crore in a start up for a 20% stake. The start up expects to exit in 5 years at a projected valuation of ₹200 crore.

1.Calculate the Pre-money valuation.

2.Calculate Venture Capital's expected ROI.

PART C (1 X 15 = 15)

16. a) Zenith Innovations Ltd. is a mid-sized tech firm with a current Earnings Before Interest and Taxes (EBIT) of ₹20,00,000. The company is planning a ₹50,00,000 expansion and is evaluating two financing plans:

Plan A (Equity Heavy): Raise ₹50L by issuing 5,00,000 equity shares at ₹10 each.

Plan B (Debt Heavy): Raise ₹50L by issuing 12% Debentures.

Current Capital Structure consists of 10,00,000 equity shares (₹10 par) and no debt. The corporate tax rate is 30%. The firm's internal rate of return (r) is 15%, and its cost of equity (Ke) is 12%.

As a Finance manager, Analyse the firm's financial health and value maximization strategies.

OR

b) 'Madura Milan' is a popular online matrimonial portal. It seeks to provide personalized match making service. The company has 80 offices in India, and is now planning to open offices in Singapore, Dubai and Canada to cater to its customers across the world. Company has decided to opt for the sources of equity capital to raise the required amount of capital.

1)Analyze the type of risk which increases with the higher use of debt.

2) Discuss any four factors because of which you think the company has decided to opt for equity capital.