DELHI SCHOOL OF BUSINESS

By Vivekananda Institute of Professional Studies – TC

PGDM FINTECH Program

THIRD TRIMESTER (Batch: 2024-26)

END-TERM EXAMINATION, APRIL 2025

Course Name	Financial Management	Course Code	
Duration	Three Hours	Max. Marks	60

1. Only scientific calculators are allowed.

2. **All questions are mandatory**. Please refer to the instructions provided for each question as they may include options.

3. Each questions carry **fifteen marks.**

Q.1. Use your analytical and conceptual knowledge while answering the questions. Answer **any three** out of the five. (Each question carries 5 marks. Maximum 200 words for theoretical questions) (CO:01)

a) **Scenario:** A company has a diverse group of equity owners, including institutional investors and individual shareholders. The management team is responsible for making decisions on behalf of these owners.
Question: Analyse the potential conflicts of interest that may arise between equity owners and management. How can these conflicts affect corporate governance and decision-making?

b) **Scenario:** A company is considering financing its expansion through a mix of equity, debt, and retained earnings.
Question: Compare the advantages and disadvantages of using equity versus debt as sources of finance for a company. How do these financing options affect the company's capital structure and financial risk?

c) **Scenario:** A newly appointed financial manager is analysing the time value of money (TVM) to determine whether to lease or buy new machinery for production. The manager needs to evaluate the present and future value of cash flows over a 5-year period.
Question: Explain how the concepts of Present Value Interest Factor (PVIF) and Future Value Interest Factor (FVIF) help in capital budgeting decisions. Provide a real-world application of these factors.

d) **Scenario:** An Indian company is in a high-growth phase, where its dividends are expected to grow at 15% annually for the next 3 years. After this period, the dividend growth rate is expected to slow to 4% indefinitely. The current dividend is ₹150 per share, and the required rate of return is 10%.
Question: How does the Two-Stage Dividend Growth Model help in determining the stock value of a company operating in India, especially with its dividend growth expectations? Illustrate your answer with the necessary calculations.

e) **Scenario:** An investor is assessing risk in stock investments and wants to understand how beta, correlation, and standard deviation affect portfolio diversification.
Question: Explain how portfolio risk can be reduced using diversification. Discuss the role of correlation and beta in constructing an efficient portfolio.

Q.2. Answer both questions. (CO:02 & 03)

a) A company issues a bond with par value of ₹1,000 with a coupon rate of 8% payable annually redeemable at par after 7 years.
   i. Estimate price if interest rate is 7%. **[3 marks]**
   ii. Estimate price if interest rate is 6% **[3 marks]**
   iii. Identify the relationship between change in interest rate and price of bond **[2 marks]** *[Maximum 50 words]*

b) Explain the following techniques of Capital Budgeting. Feel free to create any hypothetical case in your explanation. *[Maximum 100 words]*
   i. NPV **[3 marks]**
   ii. IRR **[3 marks]**
   iii. Payback Period **[1 mark]**

Q.3. Please answer any five questions out of eight, with each question carrying **3 marks.** You are required to provide a response of no more than *100 words* for each question of your choice. You can create scenarios or situations in your explanation. (CO:01, 04)

a. Tax Shield
b. Rule of 72
c. CAPM
d. Profitability Index

e. Gordon's Growth Rate Model
f. Efficient Frontier
g. Capital Recovery Factor
h. Sinking Fund Factor

Q4. As the finance manager for the company, you have been tasked with estimating the WACC and providing characteristics of each source of finance currently utilized by the company. The following information includes excerpts from the financial statements and additional relevant details.: (CO:05)

Capital Structure	(in 'crs)
Equity Capital (Par Value 100)	₹ 132
11.15% preference capital (Par value 100)	₹ 103
9.95% non-convertible debentures (Par value 1,000)	₹ 167
10.35% Term loan from ADFIC	₹ 298

CMP for per common equity	₹129	
Recent Dividend per Share	₹5.5	
DPS growth rate	7%	
Preference shares redeemable at par	9	yrs
CMP of Preference share	₹ 86	
Debentures are redeemable at par	15	yrs
Current quotations are	₹973	
Tax Rate	35%	

a) As an expert you are required to estimate cost for each source of finance and WACC. **[10 marks]**

b) You are also required to describe each of the mentioned source of capital. **[5 marks]** *[Description of each capital source needs to be within 30 words]*