Student Name:- ABC

Enrolment Number:- 12345678

Course Name :- Financial Management

Semester :- 3

Signature :- R

Program :- Master of Business Administrati

Assignment No :- 1

PART A

Q1 Profit maximization is critized because

A D] All the above

Q2 The period within which the amount doubles is obtained by dividing — by the rate of interest

A A] 72

Q3 ____ relate to acquisition of funds at the least cost

A C] Financing Decisions

Q4 A Project whose acceptance prevents the acceptance of another project is known as

A C] A Mutually exclusive project

Q5 ____ is the capital structure at which WACC is minimum and the value of the firm is Maximum.

A A] optimum Capital Structure

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Q6 Which of the following is the expression for financial leverage?
A A] EBIT/EBT

Q7 Operating leverage examines
A A] The effect of the change in the quantity on EBIT

Q8 RADR = ____ + Risk Premium
A C] Risk Free

Q9 IPO is a Part of
A C] New Issue Market

Q10 ____ deals with Buying & Selling of Equity Shares
A B] Capital Market

PART B

A1] Financial Management means controlling the flow of money in and out of the organization. Its the Process of organising, monitoring, planning and controlling an organisation's finance - related activities.

The modern Financial Management views from a larger perspective and aids in financial decision - making through a strong conceptual and analytical framework. The modern approach of financial management focuses not only on procurement of funds but also allocation of funds. The modern approach to financial management answers three major questions pertaining to investment, financing and distribution of profits. They are:-

- Where to get the funds - Financing decision
- How to allocate the funds - Investment decision
- How to Manage the Profits - Dividend decisions.

The Traditional approach restricted financial management only to the procurement of funds, meaning raising of funds / resources from external sources. The finance manager had a very limited role to perform. The limitations of traditional approach are as follows.

- It fails to consider an important aspect which is allocation of funds.
- Internal decision making is completly ignored

- It focused only on long term requirements and it fails to consider the problems involved in working capital management.
- It considered financial problems in the corporate enterprises. Joint stock companies and totally ignored sole trading & partnership firms.

Due to these limitations a new and modern approach was implemented. The modern approach is an analytical way of looking into financial problem of the firm as it covers both acquisition & allocation of funds.

A2 A] Capital Market:- Capital Markets are financial markets for the buying and selling of Securities. The capital market is a major organising mechanism that directs and cordinates the free and balanced flow of financial resources into an economy. Capital market transacts in long term credit instruments. Eg:- Preference shares, Equity shares, Bonds, Debentures. Capital Market is of two types Primary market & Secondary Market.

Functions of Capital Market :-

1] Links Borrowers & Investors:- Capital Market serve as an intermediary between people with excess funds and those in need of funds.

2] Opportunities to Investors:- The capital market have enough financial instruments to meet any investors needs regardless of the risk level. It provide investors with the opportunity to increase their capital yields.

3] Working Capital supply:- Capital Market offers the working capital required for industrial & commercial growth of the Indian economy. Modern industrial development uses cutting edge technology which cannot be launched without sufficient funding

4) Economic Growth:- The various institutions which operate in the capital market give quantities & qualitative direction to the flow of funds. and bring rational allocation of resources.

B] Money Market Instruments:- Money market transactions involve short term borrowing and lending of funds for a short time. Money market provides liquidity to lenders and satisfies the short term financial needs of borrowers. Some of Money market Instruments are as follows:-

i] Call Money Market:- Money at call is a loan that is repayable on demand and money at short notice is repayable within 14 days of serving notice. The participants are banks & all other Indian Financial Institutions permitted by RBI. Banks Borrow for a variety of reasons to maintain their CRR, to meet heavy Payments.

ii) Treasury Bills:- Treasury Bills are Short Term (upto one year) borrowing instruments of the government of India which enable investors to park their short term surplus funds while reducing their market risk. T-Bills are issued for three different maturities: 91 days, 182 days and 364 days. When the T-Bills reach maturity they are repaid at face value after being issued at discounted rate.

iii) Certificate of deposits:- A Certificate of deposit is a title document for the underlying time deposit. CD is a negotiable instrument issued either in physical form transferable by endorsement. Being a bearer instrument, a certificate of deposit is easily negotiable and appealing to both the bank.

iv) Commercial Papers:- In orders to borrow money on a short-term basis, credit eligible businesses issue unsecured promissory notes called Commercial papers. This instruments has been made available in India so that highly rated borrowers can access new short-term borrowing options.

A3 The finance function of an organisation refers to how a company structures its financial operations, including the roles, responsibilities, processes and systems involved in managing financial resources. There are several key elements to consider when organizing finance functions:-

i) Roles and Responsibilities:- Its important to define the roles and responsibilities of each member of the finance team including the CFO, financial analyst, accountant and other staff.

ii) Processes and Procedures:- Developing clear processes and procedures for financial operations such as budgeting, forecasting and financial reporting can help consistency and accuracy in financial management.

iii) Systems & Technology:- The use of technology and software can help streamline financial operations and improve accuracy and efficiency.

iv) Report and Analysis:- The finance function should be responsible for providing timely and accurate financial reporting and analysis to support decision making throughout the organisation

B] MNC :- The organizational structures of MNC's are defined by four characteristics.

i) Formalization:- Formalization is a system whose content is the decision process, communication & control systems. High formalization is used in departments such as finance and sales whereas low formalization is used in departments such as research and development and marketing.

ii) Specialization:- The horizontal specialization is when assigning particular task to individual employees by setting limits which cannot be bypassed. On the other hand, the vertical specialization is assigning task to groups.

iii) Centralization & Decentralization:- The degree of centralization is basically the scope of the parent company towards subsidiories. The higher the degree of centralization there is more subsidiaries are controlled. The firms have successful organizational structures when centralization & decentralization are balanced

A4 i) ITC : The Indian Tabacco Company limited is one of the largest Indian conglomerate companies and its diversified into multiple business areas. The 5 year dividend data is as follows.

Announcement date	Ex-date	Dividend Type	Dividend Rs
18-5-23	30-5-23	Final	6.75
19/5/23	30/5/23	Special	2.75
3/2/23	15/2/23	Interim	6
18/5/22	26/5/22	Final	6.25
3/2/22	14/2/22	Interim	5.25
1/6/21	10/6/21	Final	5.75
11/2/21	22/2/21	Interim	5
26/6/20	6/7/20	Final	10.15
13/5/19	22/5/19	Final	5.75

ITC has a shareholder equity of 696.3 Billion and a total debt of 45.3 Million. Hence the debt to equity ratio is 0.01%.

ii) TCS :- Tata Consultancy Services is an Indian multinational Information technology and consulting company. Its a part of Tata group and operates in 150 locations accross 46 countries.
TCS has a total shareholder equity of 1,014 billion and total debt of 0 due to which the debt to equity is 0.

The five year dividend data are as follows.

Announcement Date	Ex-Date	Dividend Type	Dividend (Rs)
29/9/2023	19/10/23	Interim	9
30/6/2023	20/7/23	Interim	9
12/4/23	15/6/23	Final	24
9/1/23	16/1/23	special	67
30/12/22	16/1/23	Interim	8
10/10/22	17/10/22	Interim	8
30/6/22	14/7/22	Interim	8
11/4/22	25/5/22	Final	22
31/12/21	19/1/22	Interim	7
30/9/21	14/10/21	Interim	7
30/6/21	15/7/21	Interim	7
12/4/21	25/5/21	Final	15
12/4/21	25/5/21	Interim	15
31/12/20	14/1/21	Interim	6
30/9/20	14/10/20	Interim	12
30/6/20	16/7/20	Interim	5
16/4/20	3/6/20	Final	6
16/4/20	3/6/20	Interim	6
11/3/20	19/3/20	Interim	12
10/1/20	23/1/20	Interim	5
30/9/2019	17/10/19	Interim	5
10/10/19	17/10/19	special	40
28/6/19	16/7/19	Interim	5
12/4/19	4/6/19	Final	18

A5 Indian Financial system comprises of various markets, institutions, instruments, services and procedures that affect the creation of savings, investments, capital formation and ultimately the development of the country. The Indian financial system is composed of numerous distinct components and a structure that clearly indicates the rules and regulations are involved in keeping up with the investments and savings.

The components of Indian financial system are as follows:-

i) Financial Institutions:- Financial institutions are the intermediaries who facilitate smooth functioning of the financial system. They mobilize savings of the surplus units and allocate them in productive activities promising a better rate of return. Financial institutions are classified into two categories

A) Banking Institutions
B) Non-Banking Financial Institutions.

ii) Financial Markets:- Financial markets refer to the institutional arrangements for dealing in financial assets and credit instruments of different types such as currency, cheques, bonds etc. Financial markets is categorized into two:-

A] Capital Market
B] Money Market

iii) Financial Instruments:- Financial instruments refer to those documents which represents financial claims on assets. ~~As discussed~~ financial asset refers to a claim to a claim to the repayment of a certain sum of money at the end of a specified period together with interest

examples:- Bills of exchange, Promissory Note, Treasury Bill
Financial Instruments can be classied into two:-
A) Primary or Direct Securities
B) Secondary or Indirect Securities.

iv) Financial Services:- Efficiency of emerging financial system largely depends upon the quality and variety of financial services provided by financial intermediaries. The term financial services can be defined as activities, benefits and satisfaction connected with the sale of money that offers to users and customers, financial related value. Within the financial services industry the main sectors are banks, financial institutions and non-banking financial companies.

A6 Capital Rationing is the deliberate restrictions of capital investment by a company that can help to limit the number of projects and new investments. The purpose of capital rationing is to ensure that the company's limited capital resources are allocated to maximize shareholders value. Capital rationing can be used as a tool that an organization uses to prioritize projects based on their expected returns. Capital rationing can also be used to control growth or avoid making too many risky investments.
There are two types of Capital Rationing:-
i) Hard Capital Rationing:- It occurs based on external factors. For eg: the company may be finding difficult to raise additional capital either through debt or equity. These situations will limit the company's ability to invest in future projects and may even mean that it must reduce spending on current ones.

ii) Soft Capital Rationing:- Its also known as internal rationing and is based on internal policies of the company. For example a fiscally conservative company may require a particularly high projected return on its capital before it will get involved in a project

Steps Involved in Capital Rationing:-

i) Step 1:- The alternative projects are screened using payback period and accounting rate of return method. Management sets maximum desired payback period or minimum desired accounting rate of return for all competing alternative projects. The payback period or accounting rate of return of various alternatives is then computed and compared to the management's desired payback period and accounting rate of return.

ii] Step 2:- The projects that pass the initial test in step 1 are further analyzed using Net Present value and Internal rate of return methods

iii) Step 3:- The projects that survive step 2 are ranked using a predetermined criteria and compared with the available funds and finally the projects are selected for funding. The projects that remain unfunded may be reconsidered on the availability of funds.

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A7 Solⁿ

Source	Cost (%)	Capital
EQUITY	10%	16,00,000
PREFERENCE	12%	10,00,000
DEBT	14%	12,00,000

Solⁿ

Source	Cost (%)	Capital (Rs)	Weight (W)	WACC
Equity	10%	16,00,000	0.42	0.044
Preference	12%	10,00,000	0.26	0.032
Debt	14%	12,00,000	0.32	0.042
		38,00,000		0.118

Hence the Weighted Average cost of capital is 0.118

A8 Sol^n

Particulars	Situation A		Situation B	
	option 1	option 2	option 1	option 2
Sales @15/unit - 800 units	12,000	12,000	12,000	12,000
Less: Variable Cost @10/unit	8000	8,000	8000	8000
Contribution	4,000	4,000	4,000	4,000
Less: Fixed Cost	1,000	1,000	2,000	2,000
EBIT	3,000	3,000	2,000	2,000
Less: Interest	600	300	600	300
EBT	2,400	2,700	1,400	1,700

i) Operating Leverage $= \dfrac{\text{Contribution}}{\text{EBIT}}$

Situation A $= \dfrac{4,000}{3,000} = \boxed{1.33}$

Situation B $= \dfrac{4,000}{2,000} = \boxed{2}$

ii) Financial Leverage $= \dfrac{\text{EBIT}}{\text{EBT}}$

Situation A (Option 1) $= \dfrac{3000}{2400} = \boxed{1.25}$

Situation A (Option 2) $= \dfrac{3000}{2700} = \boxed{1.11}$

Situation B (option1) = $\frac{2000}{1400}$ = $\boxed{1.43}$

Situation B (option2) = $\frac{2000}{1700}$ = $\boxed{1.18}$

iii) Combined Leverage = $\frac{\text{Contribution}}{\text{EBT}}$

Situation A (option1) = $\frac{4,000}{2400}$ = $\boxed{1.67}$

Situation A (option2) = $\frac{4,000}{2,700}$ = $\boxed{1.48}$

Situation B (option1) = $\frac{4,000}{1,400}$ = $\boxed{2.86}$

Situation B (option2) = $\frac{4,000}{1,700}$ = $\boxed{2.35}$

– END OF ASSIGNMENT ——