Financial Management
BE. Chem-MBA (9th sem) – Sessional-2 (Jan 2022)

1. Hindustan Automobiles is manufacturing heavy vehicles and presently offering a credit period of 45 days. In order to increase the sales from its current level of Rs. 400 crore., it is contemplating to increase the credit period to 60 days. This is expected to bring additional sales of Rs. 40 crore. There is no change in the collection and bad debts cost. The company is likely to earn a contribution margin of 20%. The short-term borrowing cost is 15%. Evaluate the new credit period and its impact on profitability. (10)

2. Discuss Walter model for dividend policy. (4)

3. A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are

	Year	**Project X**	**Project Y**
Cost	0	70,000	70,000
Cash inflows	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000

Compute the Net Present Value, Profitability Index, and Internal Rate of Return of the two projects. Which project should the firm choose? Explain (1.5*4)