DIRECTORATE OF DISTANCE EDUCATION
NALSAR UNIVERSITY OF LAW, HYDERABAD

Post-Graduate Diploma in Financial Services and Legislations

Academic Year: 2020-2021

First Semester - End Semester –Take Home Examination (January, 2021)

Paper III - 1.1.3. Financial Management

TOTAL MARKS: 50

INSTRUCTIONS TO CANDIDATES

a) **Read the instructions for Take Home Examination carefully and adhere to the same.**
b) ***Please mention your name, ID No., subject name and total number of pages on the Answer Sheet.***
c) ***Clearly indicate the question numbers while answering them.***
d) ***Since this is a take home exam, we expect your answers to be analytical rather than straight answers.***
e) ***You may use graphs and charts. But they shall be clearly cited.***
f) ***You must cite the source of your information. (Annual report, web source etc.)***
g) ***Answer all the questions given below the case.***
h) ***Copying from any source including from other students is strictly prohibited. Plagiarism is considered as a serious academic misconduct and the University will take action as it deems fit.***

Question 1 - Case Study

Raghu ram has just been promoted to the designation of senior manager in the Finance Department of Shaurya Cements Limited; an NSE listed public company based out of Hyderabad and is expected to report to the corporate office from 1st January 2020 onwards. The company has 4 manufacturing units in Telangana and Andhra Pradesh and Raghu was heading the plant finance division till recently. With the promotion, he is elevated to the corporate office and will join the corporate finance team in the company. He joined the company in early 2010 as an 'Accounts Executive' and has steadily risen in position in the last 10 years through sheer dedication and commitment to the company. A commerce graduate by qualification, his hand-on experience and a good awareness of business allowed him to implement many plant level best practices to improve efficiency and cost savings in the manufacturing unit under his control. In fact, the policies introduced by him in his unit were adopted by the management in other units as well. This promotion is seen as an endorsement of his capabilities, skill and dedication by the company management and also a testament of his success.

In the words of Raghu ram himself, *"As exciting as the promotion is, the new role definitely is more challenging as it requires me to move from 'Financial Control' to 'Finance Planning & Analysis*. It is true to an extent as he is joining the CFO team with this promotion and is expected to work on MIS and preparation of financial statements.

One of his first observations in his new role is the absence a dedicated team for 'Corporate Financial Planning'. He noticed that majority of the activities at corporate office are happening around 'Financial Reporting' and 'Banking Relations'. In his mind, he has two questions, *"Firstly, the need for a 'Banking Relations' team. His thought process being, how difficult would it be to raise funds from banks? A good project can be funded fairly easily anyways and Secondly, Why is there no Financial Planning Department given that there is huge scope of work in it"*

In his previous role, the scope of reporting was primarily limited to Plant level MIS on fund management and efficiencies. It was limited to Plant Expenditure Statement in Excel Statement and a fortnightly review presentation sent to the corporate office. However, in his new role, the dimensions of reporting have increased and the emphasis on working papers and documentation of support workings for the financial statements is extensive.

Despite the challenges and cultural change from a relatively simpler plant level management to corporate management, Raghu ram adjusted to the new role fairly well. Three months into his new role, he was now confident to express his views and opinions in review meetings as well. In one such review meeting, there were 3 major points for discussion

- **Issue-1:** Fund raising from existing consortium of banks for new manufacturing plant was on the agenda. One of the senior members of the team pointed that that the Debt-Equity Ratio (Gearing Ratio) of the company is at 3:1 and the new funding raising round through banks can increase the financial leverage risk to the company. In the words of Raghu Ram, "*I believe the financial risk can be mitigated, if we explore alternative sources of funds other than 'Loans from Banks'*. The CFO noted that the observation was interesting and being a public limited company, the access to sources of funds is relatively higher and directed Raghu Ram to submit a report on the feasibility of various funding options.

- **Issue-2:** The other issue on agenda was the concerns over 'increasingly elongated working capital cycle in the last 2 years'. The CFO of the company was concerned about the increased amount of funds being struck in the 'working capital'. He directed Raghu ram to conduct a review of the working capital operations of the company and submit a report on the variance from 'Normal Working Capital' required running the operations of the company.

- **Issue-3**: The Third issue on the agenda is a recommendation on the 'Declaration of Dividends'. In the last few AGMs, a section of the shareholders were getting increasingly vocal about dividend distribution. The general argument was that the company is profitable and hence requires the profits to be distributed with the shareholders. However, given the expansion of operations, the company has refrained regular payout of dividends. So, the CFO opines that, a portion of the profits need to be distributed to the shareholders this time in order to maintain the image of the company in public domain thereby retaining the Market Price of the shares. However, Raghu Ram suggested that, there should be no dividend declared this financial year as funds are required for the proposed new manufacturing facility.

Based on the Case-let given above address the following questions

1. From your viewpoint, what is the difference in the scope of Financial Planning & Analysis as against Financial Reporting? **(10 Marks)**

2. Do you agree with Raghu Ram's view point on 'Financial Planning Division'? What would be the scope of work for a 'Financial Planning Division' in a cement company that requires a full-fledged division? **(10 Marks)**

3. In the context of Mitigating the 'Financial Risk' as proposed by Raghu Ram, What are the various sources of finance that can be accessed? Discuss the implications in terms of cost of funds, tenure and repayment aspects of each source? **(10 Marks)**

4. With Regard to the 'Working Capital' discussion, what is 'Normal Working Capital'? What are the various approaches to determining working capital requirements of a company? You are required to give an approach to preparing the Variance Report (Sequence of steps to be followed) **(10 Marks)**

5. Discuss the merit of arguments of the CFO and Raghu Ram in the context of Dividend Decision. Discuss some of the dividend policies that may be considered and which policy in your opinion is more appropriate for a growing manufacturing company like Shaurya Cements? **(10 Marks)**