

**Uva Wellassa University**

Faculty of Management

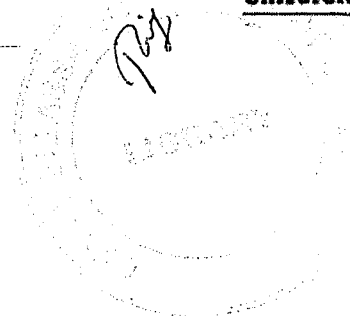
Degree of Bachelor of Business Management

2<sup>nd</sup> YEAR 1<sup>st</sup> SEMESTER EXAMINATION – February / March 2011

EMG 261 - 2 Investment Management



**Uva Wellassa  
University**



## Part - C - Essay Questions

Answer three questions including question number one (1) and two (2)

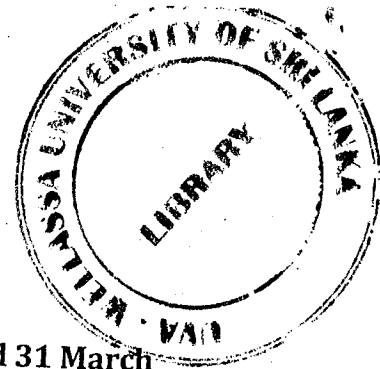
Total marks for Part C – 50

1. The following financial statements of Nilkamal Ltd were prepared in accordance with GAAPs. Nilkamal Ltd is a diversified enterprise with its main interests in the manufacture and retail of plastic products.

The financial statements of Nilkamal Ltd need to be analysed. An investor is considering purchasing shares in the company. Relevant ratios need to be selected and calculated and a report needs to be written for the investor. The report should evaluate the company's performance and position

**Nilkamal Ltd**  
**Statement of Financial Position as at 31 March**

|  | 2008   |                | 2009   |                |
|--|--------|----------------|--------|----------------|
|  | Rs.000 | Rs.000         | Rs.000 | Rs.000         |
| <b><i>Current Assets</i></b>                 |        |                |        |                |
| Bank   | 33.5   |                | 41.0   |                |
| Accounts receivable                          | 240.8  |                | 210.2  |                |
| Inventory                                    | 300.0  |                | 370.8  |                |
|  |        | 574.3          |        | 622.0          |
| <b><i>Non-current assets</i></b>             |        |                |        |                |
| Fixtures & fittings (net)                    | 64.6   |                | 63.2   |                |
| Land & buildings (net)                       | 381.2  |                | 376.2  |                |
|  |        | 445.8          |        | 439.4          |
| <b><i>Total assets</i></b>                   |        | <b>1,020.1</b> |        | <b>1,061.4</b> |
| <b><i>Current Liabilities</i></b>            |        |                |        |                |
| Accounts payable                             | 261.6  |                | 288.8  |                |
| Income tax                                   | 60.2   |                | 76.0   |                |
|  |        | 321.8          |        | 364.8          |
| <b><i>Non-current liabilities</i></b>        |        |                |        |                |
| Loan   |        | 200.0          |        | 60.0           |
| <b><i>Shareholders Funds</i></b>             |        |                |        |                |
| Paid-up ordinary capital                     | 300.0  |                | 334.1  |                |
| Retained profit                              | 198.3  |                | 302.5  |                |
|  |        | 498.3          |        | 636.6          |
| <b><i>Total liabilities &amp; equity</i></b> |        | <b>1,020.1</b> |        | <b>1,061.4</b> |



**Nilkamal Ltd**  
**Statement of Financial Performance for the year ended 31 March**

|                         | 2008   |         | 2009   |         |
|-------------------------|--------|---------|--------|---------|
|                         | Rs.000 | Rs.000  | Rs.000 | Rs.000  |
| Sales                   |        | 2,240.8 |        | 2,681.2 |
| Less Cost of goods sold |        | 1,745.4 |        | 2,072.0 |
| Gross profit            |        | 495.4   |        | 609.2   |
| Wages & salaries        | 185.8  |         | 275.6  |         |
| Rates                   | 12.2   |         | 12.4   |         |
| Heat & light            | 8.4    |         | 13.6   |         |
| Insurance               | 4.6    |         | 7.0    |         |
| Interest expense        | 24.0   |         | 6.2    |         |
| Postage & telephone     | 9.0    |         | 16.4   |         |
| <i>Depreciation -</i>   |        |         |        |         |
| Buildings               | 5.0    |         | 5.0    |         |
| Fixtures & fittings     | 27.0   | 276.0   | 32.8   | 369.0   |
| Net profit before tax   |        | 219.4   |        | 240.2   |
| Less Income tax         |        | 60.2    |        | 76.0    |
| Net profit after tax    |        | 159.2   |        | 164.2   |

**Nilkamal Ltd**  
**Statement of Cash Flows for the year ended 31 March**

|   | 2008    |         | 2009      |         |
|---|---------|---------|-----------|---------|
|   | Rs.000  | Rs.000  | Rs.000    | Rs.000  |
| <b><i>Cash flow from operations</i></b>               |         |         |           |         |
| Receipts from customers                               | 2,281   |         | 2,711.8   |         |
| Payments to suppliers & employees                     | (2,050) |         | (2,460.4) |         |
| Interest paid   | (24)    |         | (6.2)     |         |
| Tax paid  | (46.4)  |         | (60.2)    |         |
| Net cash flow from operating activities               |         | 160.6   |           | 185     |
| <b><i>Investing activities</i></b>                    |         |         |           |         |
| Purchase of non-current assets                        | (121.2) |         | (31.4)    |         |
| Net cash used in investing activities                 |         | (121.2) |           | (31.4)  |
| <b><i>Financing activities</i></b>                    |         |         |           |         |
| Dividends paid  | (32.0)  |         | (40.2)    |         |
| Issue of ordinary shares                              | 20.0    |         | 34.1      |         |
| Repayment of loan capital                             | —       |         | (140.0)   |         |
| Net cash outflow from financing activities            |         | (12)    |           | (146.1) |
| <b><i>Increase in cash &amp; cash equivalents</i></b> |         | 27.4    |           | 7.5     |

### Additional information

General prospects for the major industries in which Nilkamal is involved look good with a forecast excess of oil set to reduce the cost of production and world demand for plastic remaining strong.

### Benchmarks

There are no exact benchmarks for Nilkamal Ltd because it is a diversified company. The following are average indicators that relate to the plastic retailing and manufacturing industries for the year 2009.

- Gross profit margin = 25%
- Net profit margin = 7%
- Inventory turnover = 6 times
- Debt/equity ratio = 0.6 : 1
- Return on Assets = 12%
- Return on Equity = 20%

You are required to advise the investor on purchasing shares in the company. Relevant ratios need to be selected and calculated and a report needs to be written for the investor. (20 Marks)

2. Kandos Plc is a Company manufacturing chocolates based in Kandy. It has recently merged with a biscuit manufacturer, Indian Britannia Plc. For some weeks, the managers in the two companies have been discussing investment appraisal techniques.

Kandos traditionally uses payback and the return on average capital employed, while Britannia has used NPV for a number of years.

The discussion on appraisal techniques has now reached a crisis as a decision is required on a proposal to invest Rs 1.8 million on a new chocolate-coating machine in order to move into the chocolate coated biscuit market. The financial details are as follows.

|               |                                     |
|---------------|-------------------------------------|
| Outlay        | Rs. 1.8 million at $t_0$            |
| Life          | 10 years                            |
| Net cash flow | Year 1 - 6, + Rs. 500,000 per year  |
|               | Year 7 - 10, + Rs. 300,000 per year |
| Scrap value   | Rs. 0.5 million                     |

The company agreed to use straight line depreciation and has a target rate of return 18 percent and payback criterion of five years.

You are required to

- i. Calculate the project's NPV?
  - ii. Calculate the project's **payback** period?
  - iii. In order to try and resolve the conflict between the two managements you suggest that the company uses **discounted payback** as a compromise. Estimate the project's discounted payback and write a report to the chairman outlining its advantages and disadvantages?  
(20 marks)
3. What is return on investment? What you can earn if you invest on Shares? Briefly explain all the opportunities / benefits?  
(10 marks)
4. Write an essay on the functions of Central Depository System (CDS)? (10 marks)
5. Paul and Pala Industries bond has a 10 percent coupon rate and a Rs. 1000 face value. Interest is paid semi-annually, and the bond has 20 years to maturity. If investors require a 12 percent yield, what is the bond's value?  
(10 marks)

