

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA (PART TIME)– SEMESTER 2– EXAMINATION – SUMMER 2019

Subject Code:4529905

Date:11/05/2019

Subject Name: CORPORATE FINANCE

Time:10:30 AM To 01:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 Answer the following. (14)

- a) Define operating cycle.
- b) Discuss the matching approach of working capital financing.
- c) Why Preference Shares are called “Preference Shares”?
- d) Explain the meaning of wealth maximization.
- e) Define operating leverage.
- f) Explain the Rule of 72.
- g) Write any two features of Debenture.

Q.2 (a) How do you see the role of finance manager in the modern times? Explain. (07)

Q.2 (b) The market value of Rs. 100 par value bond, carrying a coupon rate of 12% and maturing after 6 years is Rs. 80. Calculate the YTM on this bond (07)

OR

Q.2 (b) Arjun limited currently provides 40 days credit to its customers. Its present sales are Rs. 80,00,000. Cost of capital is 12%. The ratio of variable cost to sales is 0.7. Company is considering extending its credit period to 50 days. This will increase the sales by Rs. 10,00,000. The bad debt proportion on additional sales would be 10%. The tax rate is 30%. What will be the effect of relaxing the credit period on residual income? Assume 360 days in a year. (07)

Q.3 (a) How decision tree analysis will be useful for financial decision making? Elaborate. (07)

Q.3 (b) A company is considering the proposal of taking up a new project which requires an investment of Rs.4,00,000 on machinery and other assets. The project is expected to yield the following earnings before depreciation and taxes over the next five years. (07)

Year	1	2	3	4	5
Earnings	1,60,000	1,60,000	1,80,000	1,80,000	1,50,000

The cost of raising the capital is 12% for the company. Assets have to be depreciated as per SLM method. There is no scrap value. Tax rate applicable is 40%. Calculate the NPV of the project and advise the management to take appropriate decision.

OR

Q.3 (a) Discuss the factors affecting Dividend Payout Ratio. (07)

Q.3 (b) Anupam Ltd. has the following book value capital structure. (07)

Equity Capital (Rs. 10 each)	Rs. 15,00,000
11% Preference Capital (Rs. 100 each)	Rs. 1,00,000
Retained Earnings	Rs. 20,00,000
13.5% Debentures (Rs.100 each)	Rs. 10,00,000
15% Term Loan	Rs. 12,50,000

The next expected dividend on equity share per share is Rs.3. The dividend per share is expected to grow at 6% p.a. The market price per share is Rs.40.

Preference share, redeemable after 10 years, is currently selling at Rs.75 per share.

Debentures, redeemable after 6 years, is currently selling for Rs. 80 per debenture.

The tax rate applicable is 40%.

- Q.4** You are required to calculate weighted average cost of capital based on book value. The following data relates to the two company belonging to the same risk class.

Particulars	Shiv Ltd	Shakti Ltd
Expected Net Operating Income	Rs.7,50,000	Rs.7,50,000
10% Debt	Rs. 5,00,000	----
Equity Capitalisation Rate	14%	12.5%

From the above information, answer the following questions.

- Q.4 (a)** Determine the weighted average cost of capital for each company assuming no taxes. (07)

- Q.4 (b)** In relation to the above facts, explain briefly the arbitrage process. State the effects of this process and explain When will the arbitrage process comes to an end? (07)

OR

- Q.4 (a)** Determine the total value for both the firms, assuming no taxes. (07)

- Q.4 (b)** Show the arbitrage process by which an investor who holds 10% equity in overvalued firm will be benefited by investing in undervalued firm? (07)

- Q.5** Disha Ltd. currently has an equity share capital of Rs. 1,00,000 consisting of 10,000 equity shares of Rs. 10 each. The company is going through an expansion plan requiring to raise funds to the tune of Rs. 60,000. To finance the expansion, the management has the following plans.

Plan 1: Issue of 6000 equity shares of Rs. 10 each.

Plan II: Issue of 4000 equity shares of Rs. 10 each and the balance through long-term borrowing at 12% interest p.a.

The EBIT of the company is expected to be Rs. 40,000 p.a. Tax rate is 40%.

- Q.5 (a)** Calculate the EBIT-EPS indifference point for the above mentioned plans. (07)

- Q.5 (b)** Show that the EPS remains the same at EBIT-EPS indifference point. (07)

OR

- Q.5 (a)** Calculate the financial leverage for each plan and comment. (07)

- Q.5 (b)** Which plan will you recommend and why based on EPS? (07)