

GUJARAT TECHNOLOGICAL UNIVERSITY**MBA – SEMESTER -2 – EXAMINATION – SUMMER 2019****Subject Code: 4529202****Date:13/05/2019****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.
4. Provide financial tables for PV & FV

| Q. No. | | Marks |
|-----------|--|-------|
| Q.1 | Explain/Solve following concepts of theory/practical | 14 |

- (a) Gross operating cycle and Cash conversion cycle.
- (b) IRR v/s NPV
- (c) Factoring
- (d) Optimum Cash Balance
- (e) A bank has offered you annuity of Rs. 1800 for 10 years if you invest Rs. 12000 today. What rate of Return would you earn?
- (f) Mira is borrowing Rs. 500000 to buy a house. If he pays equal installment for 8 years and 9% is interest rate on outstanding balance, what is the amount of annual installments.
- (g) Rs. 1000 Per value bond bearing coupon rate 12% will mature after 10 years. This bond is currently selling for Rs. 950.what is Current yield of this bond?

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|-----|---|----|
| Q.2 | (a) “Wealth maximization objective is superior to profit Maximization criteria of financial decision making” Justify. | 07 |
| | (b) Gujarat Limited’s earnings and dividends have been growing at a rat of 18%per annum. This growth rate is expected to continue for 4 years. After that the growth rate will fall to 12% for next 4 years. Thereafter, the growth rate is expected to be 6% forever. If the last dividend per share was Rs. 2.00 and the investor’s required rate of return on Gujarat’s equity is 15%, what is the intrinsic value per equity share? | 07 |

OR

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|-----|--|----|
| (b) | A Firm Sales, Variable Cost an Fixed Cost Amount to Rs. 75,00,000, Rs 42,00,000 and Rs. 6,00,000 respectively. It has borrowed Rs. 45,00,000 at 9% and its equity capital total Rs. 55,00,000 (Rs 100 each share). (Assume no tax). Compute the Following: | 07 |
| | (i) ROI | |
| | (ii) Does the firm have favorable financial leverage? | |
| | (iii) What are the operating, Financial and Combined Leverage? | |
| | (iv) EPS | |

- | | | |
|-----|---|----|
| Q.3 | (a) Explain the Walter’s Model of Dividend in detail and also state how it is | 07 |
|-----|---|----|

different from Gordon Dividend Model.

- (b) Amazing Auto Ltd. has outstanding 120000 shares selling at Rs. 20 per share. The company hopes to make a net income of Rs. 350000 during the year ended on 31st March, 2019. The company is considering to pay dividend of Rs. 2.00 per share at the end of current year. The capitalization rate for the risk class of this company has been estimated to be 15%. Assuming no taxes, Answer the following questions listed below on the basis of Modigliani and Miller – Dividend Model:

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(i) What will be price of share at the end of 31st March 2018.

- a. If dividend is paid and
- b. If dividend is not paid?

(ii) How many new shares must the company issue if the dividend is paid and company needs Rs. 740000 for investment Projects during the year? Compute value of the firm in same case.

OR

- Q.3 (a) Explain the NI and NOI approach of capital structure theory in detail. State the point of difference in NOI and MM Model of Capital Structure.

07

- (b) Prepare a cash budget for the 3 months that is 30 June from the following information

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| month | Sales Rs | Materials Rs. | Wages Rs. | Overhead Rs. |
|----------|----------|---------------|-----------|--------------|
| February | 14000 | 9600 | 3000 | 1700 |
| March | 15000 | 9000 | 3000 | 1900 |
| April | 16000 | 9200 | 3200 | 2000 |
| May | 17000 | 10000 | 3600 | 2200 |
| June | 18000 | 10400 | 4000 | 2300 |

- 10% of the sales are in cash
- Credit terms are:
- Debtors: 50% of the credit sales are collected next month and balance in the following month
- Creditors: for materials -2 months, for wages – ¼ months, for overhead-1/2 month
- Plant and machinery will be installed in February 2009 at a cost of 96000 Rs. The monthly installment of Rs. 2000 is payable from April onwards
- A dividend of @ 5% on preference share capital of Rs. 200000 will be paid on 1st June
- advance to be received for sale of vehicle of Rs. 9000 in June
- Dividend from investment amounting to Rs. 1000 is expected to be received in June
- Income tax (advance) to be paid in June of Rs. 2000
- Cash and Bank balance on 1st April 2002 to be 6000Rs.

- Q.4 (a) What do you mean by working capital management? State the concept of permanent working capital and variable WC. Detail the factors affecting working capital requirement of the firm point to point.

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- (b) The relevant financial information for Zenon Limited for the year ended 2019 is given below:

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| Profit and Loss account data | (Rs. In Millions) |
|-------------------------------------|-------------------|
| Sales | 80 |
| Cost of Goods sold | 56 |

| Balance sheet data | Beginning of 2019 (Rs. In Millions) | End of 2019 (Rs. In Millions) |
|---------------------------|--|--------------------------------------|
| Inventory | 9 | 12 |
| Accounts Receivables | 12 | 16 |
| Accounts Payables | 7 | 10 |

What is the length of Operating Cycle? What is the Length of Cash Cycle? Assume 365 days to a year.

OR

- Q.4 (a)** What do you mean by leverage? Explain the operating leverage, financial leverage and combined leverage in detail. **07**
- (b)** A Company has on its books the following amounts and specific cost of each type of capital. **07**

| Types of Capital (sources) | Book Value (Rs.) | Market Value (Rs.) | Specific Cost (%) after tax |
|-----------------------------------|-------------------------|---------------------------|------------------------------------|
| Debentures | 400000 | 380000 | 5 |
| Preference share capital | 100000 | 110000 | 8 |
| Equity share capital | 600000 | 1200000 | 15 |
| Retained Earnings | 200000 | | 13 |
| Total | 1300000 | 1690000 | |

Determine the weighted average cost of capital using (i) book value weights and (ii) Market value weights. How they are different?

- Q.5** A Company is Considering an investment proposal to install new milling control equipments at a cost of Rs. 50000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line method of depreciation and the same is allowed for tax purposes. The estimated cash flow before depreciation and tax (CFBT) from the investment proposal are as follows :

| Year | CFBT (Rs.) |
|-------------|-------------------|
| 1 | 10000 |
| 2 | 10692 |
| 3 | 12769 |
| 4 | 13460 |
| 5 | 20385 |

- (a)** From above information Compute (i) Payback Period and (ii) Average rate of return on above investments. **07**
- (b)** If company cost of Capital of 10%, what will be NPV and PI of the investment proposal and what you advise, whether the company should undertake above investment or not. **07**

OR

- Q.5** (a) If company has predetermined cut off rate (hurdle rate) 10% what is your decision, whether company should undertake investment to maximize the wealth of shareholders or not? **07**
- (b) If company's cost of capital is 12%, Compute Profitability index and state your decision on acceptability of the investment proposals **07**

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