Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER– II EXAMINATION – WINTER 2019

Subject Code: 4529202 **Date: 30-12-2019**

Subject Name: Corporate Finance(CF)

Time: 2.30 PM to 5.30 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)**

1. What do you mean by an Annuity? Give example.
2. Mention any two rights of equity shareholders.
3. Discuss the concept of capital rationing.
4. Explain Decision nodes and chance nodes for Decision Tree Analysis.
5. Discuss Financial Leverage with formula.
6. What is matching approach in working capital financing?
7. Explain the rule 72.

Q.2 (a) Discuss the Debentures as a long term source of financing. **(07)**

Q.2 (b) A person deposits Rs. 10,000, Rs. 20,000, Rs. 30,000 and Rs. 40,000 in his deposit account in the beginning of first year, second year, third and fourth year respectively. Determine the account balance at the end of 4th year, if the interest rate is 12%. How your answer would change if, the same amount is deposited at the end of first year, second year, third year and fourth year respectively. **(07)**

OR

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. 90. Calculate the Yield to Maturity (YTM) of this bond through trial and error method. **(07)**

Q.3 (a) "A profitable company should pay the dividend". Do you agree with the statement? Justify your answer. **(07)**

Q.3 (b) For Suraksha Limited, the profit after tax for the current year is Rs, 5,00,000. It has a capital structure of Rs.50,00,000 consisting of 50,000 equity shares of Rs. 100 each. The internal rate of return for the company is 15% while the cost of capital is 12%. If Walter's valuation formula applies, what will be the price per share when the dividend payout ratio is 50% and 75%? What should be the optimum payout ratio for this firm? **(07)**

OR

Q.3 (a) Discuss the basic financial decisions in any organisation. **(07)**

Q.3 (b) Setu Ltd. wants to undertake a project requiring capital investment of Rs. 120,00,000. The company has two options. It can fund the entire amount by way of issuing equity shares at a par value of Rs. 100 each. Or it can take a loan of Rs. 80,00,000 at 10% and Rs. 40,00,000 by way of issuing equity shares (Par value Rs. 100 each). The tax rate is 40%. Calculate the point of indifference for this financing proposal. Also calculate EPS at this level of EBIT. **(07)**

Q.4 (a) Define Operating Cycle and discuss the factors affecting the working capital requirement. **(07)**

Q.4 (b) The cost of production for Sanskriti Ltd. is estimated as follows: **(07)**

	Cost Per Unit (Rs.)
Raw Material	170

Direct Labour	130
Overheads	130
Total	430

The final product will be sold at Rs. 500 per unit. For the first year, the sales are estimated at 10400 units. The company is a going concern with its marketing network and it thinks that the maximum credit allowed to the customers will be 6 weeks. Raw Material stock requirement: 2 weeks, Processing Time (50% Completion stage): 2 weeks, Finished Goods stock: 4 weeks, Credit allowed by suppliers: 4 weeks

The company proposes to sell 60% units on credit. Cash and Bank balance of Rs.20000 is required to be maintained. Assume 52 weeks in a year.
Estimate the working capital required for Sanskriti Ltd.

OR

Q.4 (a) What is the role of credit policy variables in influencing the profitability of the firm? **(07)**

Q.4 (b) The following information is available for Ram and Raj Ltd. **(07)**

Particulars	**Ram Ltd**	**Raj Ltd**
Net Operating Income	Rs. 2,50,000	Rs. 2,50,000
Debentures @10%	-----	Rs.5,00,000
Cost of Equity	15%	15%

Calculate the average cost of capital for both the firms applying Net Income Approach.

Q.5 Aarav has recently completed MBA degree from a reputed B-School. He already has a family business background. Though he had good opportunities for campus placement, he declined them and wants to start his own business. He has done an extensive market research and found that there is a lot of demand these days for shoe laundry services. There are very few players in this segment. He wants to start shoe laundry and foot care services in Vadodara city. He did lot of research and came to a conclusion that there is a company which is selling such kit at Rs. 20,00,000 with a useful life of five years. The scrap value for this machine will be 10%, which will be recovered at the end of the useful life. As per the market trend, Aarav forecasted that following Profit before depreciation and taxation can be generated till the useful life of the kit. The tax rate applicable would be 30%.

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
PBDT	5,00,000	6,00,000	6,50,000	7,00,000	8,00,000

Considering this information, answer the following questions.

Q.5 (a) What is the payback period? Calculate the same for this project. **(07)**

Q.5 (b) If the cost of capital is 10%, calculate the Net Present Value (NPV) of this project and suggest whether the project should be accepted or not? **(07)**

OR

Q.5 (a) If the cost of capital is 10%, calculate the Profitability Index (PI) of the project and comment whether the project should be accepted or not? **(07)**

Q.5 (b) If the cash flows can be reinvested at 10%, Calculate the Modified Internal Rate of Return (MIRR) for the project. **(07)**