Seat No.: ________   Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–II EXAMINATION – WINTER 2020

Subject Code:4529202 **Date:05/02/2021**

Subject Name:Corporate Finance

Time:10:30 AM TO 12.30 PM **Total Marks: 47**

Instructions:

1. **Attempt any THREE questions from Q1 to Q6.**
2. **Q7 is compulsory.**
3. **Make suitable assumptions wherever necessary.**
4. **Figures to the right indicate full marks.**

Q.1.(a)	**Answer the following questions**	**06**
	1. Define gross and net working capital.	
	2. Explain the conservative approach for working capital financing.	
	3. List down two features of equity share capital.	
Q.1.(b)	**Answer the following questions**	**06**
	1. Explain the concept of annuity with example.	
	2. How decision tree analysis can be applied in financial management?	
	3. Explain the transaction motive for holding the cash.	
Q.2 (a)	Discuss the major financial decisions in financial management.	**06**
Q.2 (b)	What is the present value of an income stream which provides Rs.3000 at the end of one year, Rs. 4000 at the end of year two and Rs.6000 during each of years 3 through 10, if the discount rate is 14%?	**06**
Q.3 (a)	Explain the concept of capital rationing with appropriate example.	**06**
Q.3 (b)	The following information is available for Apex Ltd. EPS : Rs. 10 Rate of return on Investments: 15% Rate of return required by shareholders: 12% What will be the price per share as per the Walter model if the payout ratio is 40%, 50% and 60%?	**06**
Q.4 (a)	Discuss the features of capital budgeting decisions.	**06**
Q.4 (b)	Amar Ltd., requires Rs. 25,00,000 in cash for meeting his transaction needs over the next six months, its planning horizon for liquidity decisions. The company currently has the amount in the form of marketable securities. The cash payment will be made evenly over the six months planning period. Company earns 8% annual yield on marketable securities. The conversion of marketable securities in to cash entails a fixed cost of Rs, 1000 per transaction. Please suggest the optimal conversion size as per the Baumol Model. Also calculate the conversion and holding cost for the company.	**06**
Q.5 (a)	Discuss the Net Income and Net Operating Income approach for capital structure.	**06**
Q.5 (b)	Atlas corporation provides 50 days of credit to its customers. The current sales are Rs. 90 lacs. The cost of capital is 13%. The ratio of variable cost to sales is 0.70. The company wants to extend the credit period to 60 days instead of 50 days. This will increase the sales by Rs.10 lacs. The bad debt proportion	

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on additional sales will be 10%. The tax rate is 30%. Kindly suggest the company whether it should stretch the credit period or not? Assume 360 days in a year.

Q.6 (a) Explain the operating, financial and combined leverage. **06**

Q.6 (b) Determine the weighted average cost of capital for Anand and Mangal Ltd. **06**

Particulars	Anand Ltd.	Mangal Ltd.
Expected Net Operating Income	Rs. 12,00,000	Rs. 10,00,000
10% Debt	Rs. 10,00,000	Rs. 8,00,000
Equity Capitalisation Rate	20%	15%

Q.7 Anar ltd. is one of the leading manufacturing firms in the edible oil market. The company is quite innovative and has a strong R & D department. From time to time, it launches new varieties of oil.

The management of the company is facing a dilemma at present. The company has two options. Option A is an extension of an existing product line, while Option B involves a new product launch. The management wants to optimistically evaluate both the options. Option A requires investment of Rs. 5,00,000 while Option B requires an investment of Rs. 8,00,000.

The expected net cash flow from Option A and B over a period of four years are mentioned below:

(Amount in Rs.)

Year	Option A	Option B
1	200000	300000
2	250000	400000
3	400000	450000
4	420000	500000

Q.7 (a) Calculate the payback period for both the options. Which option should the company select? **5.5**

Q.7 (b) If the cost of capital is 12%, which option should the company invest in as per NPV method. **5.5**

OR

Q.7 (a) If the cost of capital is 12%, which option should the company invest in as per Profitability Index (PI) method. **5.5**

Q.7 (b) What will be the discounted payback period if the cost of capital is 12% **5.5**

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