

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA– SEMESTER -II - EXAMINATION- SUMMER-2023

Subject Code: 4529202
Subject Name: Corporate Finance
Time: 10:30 AM TO 1:30 PM
Instructions:

Date: 13/07/2023

Total Marks: 70

1. Attempt all questions.
2. Make Suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

- Q.1 Define:** **14**
- a) Time Value of money
 - b) Profitability Index
 - c) WACC
 - d) Operating Cycle
 - e) Credit Standard
 - f) Opportunity Cost of capital
 - g) Retention Ratio
- Q.2 (A)** In what ways is the wealth maximization objective is superior to the profit maximization objective? Explain. **07**
- Q.2 (B)** Shree limited issues new debentures of Rs 20000 at par; the net proceed being Rs 18000; it has a 13.5 percent rate of interest and 7 year maturity. The company's tax rate is 52 percent. What is the cost of debenture issue? **07**
What will be the cost in 4 years if the market value of debentures at that time is Rs 22000?
- OR**
- Q.2 (B)** What is receivable management? Discuss credit policy variables. **07**
- Q.3 (A)** Explain the MM approach on the bases of an optimum capital structure, Ignoring the corporate income taxes. Use an illustration to show how homemade leverage by an individual investor can replicate the same risk and return as provided by the levered firm. **07**
- (B)** Prepare a case budget for the Mist Of Moon company for three months of May, June & July. The company has a policy of maintaining a minimum cash balance of Rs 30,000. The company's cash balance as on 30th April is Rs 30,000. **07**

Month	Actual Sales (Rs)	Month	Estimated Sales (Rs)
January	75,500	May	1,05,000
February	75,000	June	1,20,000
March	90,000	July	1,50,000
April	90,000	August	1,50,000

Consider the following additional information :

- Cash sales are 60% of the total sales. The remaining sales are collected equally during the following two months.
- Cost of goods manufactured is 75% of sales. 80% of this cost is paid after 1 month and the balance is paid after 2 months of the post incurrence.
- Fixed operating expenses are Rs 15,000 per month. Variable operating expenses are 10% of sales each month.
- Half yearly interest on 12%, Rs 4,50,000 debentures is paid during July.
- Rs 60,000 are expected to be invested in fixed assets during June.

- An advance tax of Rs 15,000 will be paid in July.

Determine, whether or not borrowing will be necessary during the period and if yes, When and for how much.

OR

Q.3 (A) Radha limited is currently paying a dividend of Rs 2.00 per share. The dividend is expected to grow at a 15 percent annual rate for three years, then at 10 percent rate for next three years, after which it is expected to grow at a 5 percent rate forever. **07**

(a) What is the present value of share if the capitalization rate is 9 percent?

(b) If the share is held for three years, what shall be its present value?

(B) Empire limited needs Rs 10,00,000 to build a new factory which will yield EBIT of Rs 1,50,000 per year. The company has to choose between two alternative financing plans: first plan 75 percent equity and 25 percent debt and second plan 50 percent equity and 50 percent debt. Under the first plan share can be sold at Rs 50 per share, and the interest on debt will be 14 percent. Under the second plan shares can be sold for Rs 40 per share and the interest rate on debt will be 16 percent. Assume tax rate 35 percent. **07**

(a) Determine EPS of both plans.

(b) ROE of both plan

Q.4 (A) Define working capital management. Explain determinants of working capital. **07**

(B) Girja company has outstanding 50 lakh shares selling at Rs 120 per share. The company is thinking of paying dividend of Rs 10 per share at the end of current year. The capitalization rate for the risk class of this firm is 10 percent. Using Modigliani and Miller's model **07**

(a) Calculate the price of the share at the end of current year;

(i) if dividend are paid and (ii) if dividend are not paid.

(b) Determine the number of shares to be issued if the company earns Rs 9 crore, pays dividend and makes new investment of Rs 6.60 crore?

OR

Q.4 (A) Firm L and Firm U are in the same risk class and are identical in every respect except that Firm L is levered and Firm U is unlevered. Firm L has 12 percent Rs 4,00,000 debentures outstanding. Both firms earns 18 percent before interest and taxes on their total assets of Rs 8,00,000. Assume a corporate tax rate of 50 percent and pure equity capitalization rate of 15 percent. **07**

(a) Compute the total value of firm using the NI approach.

(b) Compute the total value of firm using the NOI approach.

(B) What is an ordinary share? How does it differ from a preference share and debenture? Explain its most important features. **07**

Q.5 CASE STUDY 14

Anjan Limited is a leading manufacturer of automotive components. It supplies to the original equipment manufacturers as well as the replacement market its project typically have a short life as its introduces new models periodically.

You have recently joined Anjan Limited as a financial analysis reporting to Ravi Sharma, The CFO of the company. He has provided you the following information about two projects A and B, that are being considered by the executive committee of Sona Limited :

- Project A is an extension of existing line. Its case flow will decrease over a time.

- Project B involves new product. Building its market will take some time enhance its case flow will increase over a time.

The expected net cash flows of the two projects are as follows.

Year	Project A	Project B
0	(15,000)	(15,000)
1	11,000	3,500
2	7,000	8,000
3	4,800	13,000
4	3,000	15,000

Ravi Sharma believes that all the two projects have risk characteristic similar to the average risk of the firm and hence the firms cost of capital 12%, will apply to them.

Questions:

- What is payback period? Find the Payback periods of Project A and B? Rank the project as per payback period.
- What is the net present value (NPV)? Calculate the NPVs of projects A and B.

OR

Q.5

Questions:

- What is discounted payback period? Find the discounted payback periods of project A and B.
- Calculate the Profitability Index (PI) of Project A and B and state your conclusion.
