Seat No.: ________                                        Enrolment No.___________

# GUJARAT TECHNOLOGICAL UNIVERSITY

**MBA(PART-TIME)- SEMESTER– II EXAMINATION – WINTER 2019**

**Subject Code: 4529905** **Date: 31-12-2019**

**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. No. | | | Marks |
|---|---|---|---|
| Q.1 | | Explain the following terms:<br>(a) Operating Cycle<br>(b) Ordinary shares<br>(c) Time value of Money<br>(d) P/E ratio<br>(e) Preference shares<br>(f) Motives for holding cash<br>(g) Optimum Cash balance | 14 |
| Q.2 | (a) | "Profit maximization objective of financial management is not operational objective criteria" critically examine this statement and justify wealth maximization objective of Finance Management. | 07 |
| | (b) | Consider the following information for XYZ Enterprise: | 07 |

| | Rs. In Lakhs |
|---|---|
| EBIT | 1120 |
| PBT | 320 |
| Fixed Cost | 700 |

Calculate the DOL, DFL and Degree of Combined Leverage. Also find the percentage change in EPS if sales changed by 5%.

**OR**

| | | | |
|---|---|---|---|
| | (b) | A company has cost of capital 10%. The current market value of the firm if Rs. 2000000 (@20 Rs. Per share). Company is planning investment of Rs 680000, against its earning of Rs. 150000. Company is contemplating dividend of Rs. 1 per share next year. Show under MM assumption, the payment of dividend does not affect value of the firm. (**You are required to find our number of shares and value of the firm, if they declare dividend or not.) | 07 |
| Q.3 | (a) | Explain NI and NOI approaches of Capital Structure? How both are contracting each other? Discuss with Assumptions and Graphs. | 07 |
| | (b) | The following annual figures relates to India Co. : | 07 |

| | Rs. |
|---|---|
| Sales (at two months' Credit) | 3600000 |
| Material consumed (supplier extend two months credit) | 900000 |
| Wages paid (monthly in arrear | 720000 |
| Manufacturing expenses are paid one month in arrear | 80000 |

| | |
|---|---|
| Total administrative expenses paid, as above | 240000 |
| Sales promotion expenses, paid quarterly in advance | 120000 |

The company sells its products on gross profit of 25% counting depreciation as part of the cost of production. It keeps one month's stock each of raw materials and finished goods, and a cash balance of Rs. 100000. Assuming a 20% safety margin, calculate the working capital requirements of the company on cash cost basis. Ignore work in progress.

**OR**

**Q.3** **(a)** What do you mean by Working Capital Management? Explain the factors affecting working capital policy requirement in a business. **07**

**(b)** From the following information supplied to you, determine the theoretical market value of equity shares of a company as per Walter's Model: **07**

| | |
|---|---|
| Earning of the company | Rs. 500000 |
| Dividend Paid | Rs. 300000 |
| Number of shares outstanding | 100000 |
| Price Earnings ratio | 8 |
| Rate of return on investment | 0.15 |

Are you satisfied with dividend policy of the firm? If not, what should be the optimal dividend payout ratio in this case?

**Q.4** Excel Limited is considering three financial plans. The key information is as follows:

| plans | Equity(%) | Debt (%) | Preference (%) |
|---|---|---|---|
| A | 100 | --- | ---- |
| B | 50 | 50 | ---- |
| C | 50 | --- | 50 |

Total funds to be raised Rs. 200000
Cost of debt 8%, cost of Preference shares 8%.
Tax rate , 35%
Equity shares of face value Rs.10 each will be issued at a premium of Rs. 10 per share.
Expected EBIT Rs. 80000.

(a) Determine for each plan EPS and Financial BEP. Advise the company which plan is advisable in what kind of financial risk. Justify. **07**

(b) Compute the EBIT range among the plans for indifference. Is there any plan which is superior to other: Explain. Also show verification table. **07**

**OR**

**Q.4** The expected cash flow of a project are as follows:

| Year | Cash Flows (Rs.) |
|---|---|
| 0 | -100000 |
| 1 | 20000 |
| 2 | 30000 |
| 3 | 40000 |

| | |
|---|---|
| 4 | 50000 |
| 5 | 30000 |

(a) (i) NPV and PI Ratio (ii) IRR (iii) Payback period. **07**

(b) (i) IRR and (ii)MIRR **07**

**Q.5** The Gujarat Company has the following capital structure on 30th June 2004:

| Sources of Funds | Amount in Rs |
|---|---|
| Ordinary shares (200000 shares) | 4000000 |
| 10% preference Shares | 1000000 |
| 14% Debentures | 3000000 |
| Total | 8000000 |

The shares of company sells for Rs. 20. It is expected that company will pay next year a dividend of Rs. 2 per share, which will grow at 7% forever. Assume that tax rate is 50%.

(a) Compute Weighted average capital structure based on existing capital structure. **07**

(b) Compute new cost of equity if company raise an additional Rs. 2000000 debt by issuing 15% debentures. This would results in increasing the expected dividend to Rs. 3 and leaves the growth rate unchanged, but the price of equity shares will fall to Rs. 15. **07**

**OR**

**Q.5** (a) Compute new weighted average cost of capital if company raise an additional Rs. 2000000 debt by issuing 15% debentures. This would results in increasing the expected dividend to Rs. 3 and leaves the growth rate unchanged, but the price of equity shares will fall to Rs. 15. **07**

(b) Compute new weighted average cost of capital in above (a) question if growth rate increase to 10%. **07**

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