

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER – II - EXAMINATION – SUMMER 2022

Subject Code: 1529602**Date: 29/07/2022****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.

- Q.1. Explain the following terms. 14**
- a Operating cycle
 - b Bond
 - c Perpetuity
 - d Mutually exclusive projects
 - e Preference shares
 - f Cost of equity
 - g Earnings per share
- Q.2 (a) In the rapidly changing environment, how do you see the role of financial manager in India? Please explain. 07**
- Q.2 (b) Mr. Joshi plans to send his son for higher studies abroad after 6 years. He expects that the cost of these studies to be Rs. 50,00,000. How much should he save annually to have this amount at the end of 6 years, if the interest rate is 10%. 07**
- OR**
- Q.2 (b) Rs. 1000 par value bearing a coupon rate of 13% will mature after 5 years. The required rate of return is 12%. What is the value of the bond? 07**
- Q.3 (a) Mr. Panchal wants to avail the term loan for setting up his manufacturing plant. As a banker, you are requested to explain him the features of term loan. 07**
- Q.3 (b) Camel corporation has a target capital structure of 70% equity and 30% debt. Its cost of equity is 15%. Its pre-tax cost of debt is 12%. If the relevant tax rate is 30% what is the Weighted average cost of capital (WACC)? 07**
- OR**
- Q.3 (a) Discuss the concept of Capital Rationing with appropriate example. 07**
- Q.3 (b) Eventia Ltd. has an earnings per share of Rs. 5. It earns a rate of 15% on its investment and has a policy of retaining 50% of the earnings. If the appropriate discount rate is 10%, determine the price of company's share using Gordon's Growth Model. What will be the share price if the company has a payout of 80% or 40%? 07**
- Q.4 (a) Explain the types of leverage with appropriate examples. 07**
- Q.4 (b) Girnar Ltd. has a net operating income of Rs. 30,00,000. The company employs Rs. 100,00,000 of debt capital carrying 10% interest charge. The equity capitalisation rate applicable is 15%. What is the market value of the company under the net income method? Also calculate the weighted average cost of capital. Assume there is no tax. 07**

OR

Q.4 (a) When the cash balances fluctuate randomly, which cash management model can be applied? Explain. **07**

Q.4 (b) Estimate the working capital required from the following information. **07**

Production	60,000 units
Selling Price	Rs. 20 per unit
Raw Material	50% of selling price
Direct Wages	10% of selling price
Manufacturing Overheads	10% of selling price
Materials in hand	2 months
Work in Progress (50% completion stage)	Half a month
Finished Goods in store	1 month
Credit for material	2 months
Credit allowed to customers	3 months
Cash balance	Rs. 20,000

40% of the goods are sold on cash basis.

Q.5 Dheeraj has just completed his masters in management and is willing to start his own business along with his friend Neeraj. Both have done some market research and found that there is a gap in healthy food segment. They want to launch varieties of snacks in this segment. For this, they have prepared a business plan and arrived at the following projections.

The cost of setting up the plant initially will be Rs. 15,00,000. The useful life is estimated to be 5 years and the scrap value is projected to be nil. The profit before depreciation, interest and tax is estimated as Rs. 8,00,000 p.a. Tax rate is 30%. The cost of capital is 10%.

From this information, answer the following questions.

- (a)** Calculate the discounted payback period for the project. **07**
- (b)** Calculate the net present value and suggest whether this project should be taken up or not. **07**

OR

- (a)** Calculate the Profitability Index and suggest whether the entrepreneurs should invest their money in this project or not. **07**
- (b)** Calculate the modified internal rate of return for the said project. **07**
