

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

Subject Code: 1529602**Date: 12/07/2023****Subject Name: Corporate Finance****Time: 10:30 AM TO 1:30 PM****Total Marks: 70****Instructions:**

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** Explain the following terms: **14**
- a. Yield to maturity
 - b. Zero coupon bond
 - c. Annuity and perpetuity
 - d. Cash cycle
 - e. Operating leverage
 - f. Rule of 72
 - g. Cash flow

- Q.2 (a)** Explain in detail the factors influencing working capital requirement of a firm. **7**

- Q.2 (b)** Illustrate operating leverage and financial leverage in the context of a manufacturing company. Explain the impact of total leverage on the capital structure of the firm. **7**

OR

- (b)** The market value of Rs. 100 par value bond, carrying a coupon rate of 10% and maturing after 6 years is Rs.104. Calculate the Yield to Maturity (YTM) of this bond. **7**

- Q.3 (a)** "A company's dividend policy is often seen as a testament to its confidence in future earnings growth and sustainability of the business". Discuss the statement in light of impact of dividend policy on value of share. **7**

- (b)** Setu Ltd. wants to undertake a project requiring capital investment of Rs. 120,00,000. The company has two options. **7**

Option 1) Raise the entire amount by way of issuing equity shares at a par value of Rs. 100 each,

Option 2) Take a loan of Rs. 80,00,000 at 12% and Rs. 40,00,000 by way of issuing equity shares (Par value Rs. 100 each). The tax rate is 50%.

- Calculate the point of indifference for this financing proposal. **7**

OR

- Q.3 (a)** Explain the five Cs of finance with example. **7**

- (b)** Pandya and Company ltd borrows Rs.10,00,000 at an interest rate of 10 percent. The loan is to be repaid in 5 equal annual instalments payable at the end of each of the next 5 years. **7**

Prepare the loan amortization schedule.

- Q.4 (a)** Sachin Limited expects its cash flow to behave in a random manner. Calculated return point and upper control limit from the following information 7
- Annual yield on investment is 10%.
 - The fixed conversion cost is Rs.2500.
 - The standard deviation of change in daily cash balance is Rs.10,000.
 - Minimum cash balance Rs.2,00,000.
- (b)** Explain net income approach (NI) and net operating income (NOI) approach of capital structure in brief. 7

OR

- Write a Short note on Baumol's Model of cash management. 7
 - Analyze the impact of debt financing on overall (weighted average) cost of capital, including pros and cons of debt financing. 7
- Q.5** Rahane is a management graduate from a reputed university. He is working as a project finance officer at J P Morgan's. As his first assignment he is given a loan proposal to access on the basis of his academic knowledge. The proposal is about funding a new venture where the applicant has applied for a loan of Rs.20,00,000 to buy a machinery. The expected cash flows from the project during its first 5 years is as under:

Year	Cash flow (Rs)
0	-20,00,000
1	4,00,000
2	6,00,000
3	7,00,000
4	8,00,000
5	5,00,000

- Calculate payback period for the project. 7
- Calculate IRR for the project. If the loan is given at 12%, will the project be profitable? 7

OR

- Calculate discounted payback period at 12% cost of capital. 7
- Calculate NPV of the project at 10% cost of capital. Should the project be accepted at this rate? 7
