

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA-SEMESTER-II-EXAMINATION- SUMMER-2024**

**Subject Code: 1529602**  
**Subject Name: Corporate Finance**  
**Time: 10:30 AM TO 01:30 PM**

**Date: 07/06/2024**

**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 Annuity  
b Preference Shares  
c Capital Rationing  
d Opportunity Cost of Capital  
e Financial Leverage  
f Gross Working Capital  
g Credit Period

**Q.2 (a) Discuss the broad areas of financial decision making for finance managers in India. 07**

**Q.2 (b) A Rs. 100 par value bond, bearing a coupon rate of 11% will mature after five years. What is the value of the bond, if the discount rate is 15%? 07**

**OR**

**Q.2 (b) Suppose you deposit Rs. 10,000 with an investment company which pays 16% interest with quarterly compounding. How much will this deposit grow in to five years? 07**

**Q.3 (a) Suppose an entrepreneur needs funding for setting up his venture. He is considering the internal as well as external funding options. He has estimated that internal funding will not be sufficient to finance the cost of the entire project. In this case, which options of external funding are available to him? Briefly discuss those options. 07**

**Q.3 (b) The share of Apex limited paid dividend of Rs. 2.00 last year. The dividend is expected to grow at a constant rate of 6%. The required rate of return on this stock is considered to be 12%. How much should this stock sell for now? Assuming that the expected growth rate and required rate of return remain the same, at what price should the stock sell 2 years hence? 07**

**OR**

**Q.3 (a) Explain the characteristics of any capital investment proposal. 07**

**Q.3 (b) Aquacure Ltd. has the following capital structure : 07**

	Rs.
Equity share capital (of Rs. 100 each)	10,00,000
10% Preference share capital (of Rs. 100 each)	5,00,000
10% debentures (of Rs. 100 each)	5,00,000

If EBIT is (i) Rs. 10,00,000 (ii) Rs. 8,00,000 and (iii) Rs. 12,00,000  
Calculate financial leverage and EPS for all the three situation of EBIT.  
Assume 30% tax rate.

- Q.4 (a)** Is it mandatory for the company to declare dividend to its shareholders? **07**  
Discuss the reasons for paying dividend.
- Q.4 (b)** The following is the capital structure of ABC Ltd. **07**

Equity Capital (20000 shares)	Rs. 15,00,000
10% Preference Capital	Rs. 5,00,000
14% Debentures	Rs. 5,00,000

The company's share is currently selling for Rs. 15. Next year's dividend is expected to be Rs. 2.5 per share. This will grow at 5% forever. The company is in the tax bracket of 30%. You are required to calculate Weighted Average Cost of Capital based on existing capital structure

**OR**

- Q.4 (a)** Discuss the factors influencing the working capital requirements. **07**
- Q.4 (b)** The cost of the plant is Rs. 20,00,000. The useful life is 5 years and the scrap value is nil. The profit before depreciation, interest and tax is estimated as Rs. 15,00,000 p.a. Tax rate is 30%. The cost of capital is 10%. Calculate the payback period and the NPV of the Project. **07**
- Q.5** The following is the profit and loss account and balance sheet data for Zenith limited. Amount is Rs. in Crores.

Profit and Loss account Data		Balance sheet Data		
Particulars	Amt	Particulars	Beginning of 2021	End of 2021
Sales	800	Inventory	80	84
Cost of Goods Sold	560	Accounts Receivable	90	98
		Accounts Payable	60	66

Assume 365 days in a year.

From this information, answer the following questions.

- (a)** Define Operating Cycle and Calculate the operating cycle for Zenith limited. **07**
- (b)** Define Cash Cycle and Calculate it for Zenith limited. **07**

**OR**

- Q.5** The Matrix corporation currently provides 40 days of credit to its customers. Its present sales is Rs. 15,00,000. The cost of capital is 12%. The ratio of variable cost to sales is 0.7. The firm is planning to extend the credit period to 50 days. Such an extension is likely to push up the sales by Rs. 1,50,000. The bad debt proportion on the additional sales would be 5%. The tax rate is 30%. From this information, answer the following questions.
- (a)** What will be the effect of lengthening and shortening the credit period on sales, investment in debtors and bad debt loss? Explain the impact. Calculation is not required. **07**
- (b)** In the above case, should the company implement the change in its credit policy? Justify your answer with calculation. **07**

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