

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

Subject Code: 4529202**Date: 10/06/2024****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.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

Q. No.	Question Text and Description	Marks
Q.1	Explain the following concepts: (a) Cash Cycle (b) Profitability Index (c) Factoring (d) Time value of Money (e) Bonus Shares (f) Motives of Holding Cash (g) Investment Decision	14
Q.2	(a) What do you mean by permanent working capital? Explain the different factors influencing the working capital requirement of the firm. (b) The market price of Rs. 1000 par value bond carrying coupon rate of 14 percent and maturing after 5 years is Rs. 1050. What is Yield to maturity (YTM) on this bond? What is current yield of the Bond?	07 07
OR		
Q.3	(a) Leverage is Double Edge sword” Explain this statement with illustration. (b) From the following information supplied to you, determine the theoretical market value of equity shares of the company as per Walter’s Model.	07 07

Earning of the Company	500000
Dividend Paid	300000
Number of Shares outstanding	100000
Price Earnings Ratio	8
Rate of return on Investment	0.15

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

OR

Q.3	(a) Explain NI and NOI approach of capital structure theory with graphs. How it differs from the MM theory of capital structure? (b) The following information is available for the Zee corporation. Earnings per share Rs. 4.00 Rate of return on Investment 18% Rate of return required by shareholders 15% Compute the price per share as per Walter model if the payout ratio is 40%, 50% or 60% of Zee Corporation?	07 07
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- Q.4 (a)** Critically Examine the assumptions underlying the irrelevance hypothesis of MM regarding dividend distribution. **07**
- (b)** The capital structure of the PC Ltd. Consist of ordinary share capital of Rs. 1000000 (shares of Rs. 100 par value) and Rs 1000000 of 10% debentures. Sales 1200000 and Variable cost is 720000 Rs and Fixed cost is 200000 Rs.. The Income Tax rate is 35%. Compute EPS of the Firm and also calculate the DOL, DFL, DCL for the Firm. If ROI of the firm is 18%, leverage is favorable or unfavorable for the firm. Explain. **07**

OR

- Q.4 (a)** You are CFO of Gujarat InfoTech Co. Your company is planning to design the dividend policy. You have been asked to explain the factors that affect the dividend policy of the company. **07**
- (b)** Following is the capital structure of the firm: **07**

Source	Book Value Rs.	Market Value (Rs.)	Specific cost (%)
Debt	300000	270000	8
Preference Capital	200000	230000	14
Equity Capital	400000	750000	17
Retained Earnings	100000		19

Compute the weighted average cost of capital (WACC) for the above firm on book value basis and market value weight.

Q.5

CASE STUDY:

You are the financial analyst for XYZ Company Ltd. The director of capital investment has asked you to analyze two proposed capital Investment, Project P and Project Q. Each project has cost of Rs. 10 lakhs and cost of capital for the each project is 12%. The project's expected net cash flows are as follows:

Expected Net Cash Flows

Year	Project 'P' (Rs.)	Project 'Q' (Rs.)
1	650000	350000
2	300000	350000
3	300000	350000
4	100000	350000

- (a)** Advise the company on the basis of IRR calculation of above proposal. **07**
- (b)** Calculate the NPV of the each project and advise which project is more profitable. **07**

OR

- Q.5 (a)** Calculate each project pay Back period and advise which project company should select and Why? **07**
- (b)** Which project should be accepted, if the Decision criteria is Profitability Index ? **07**
