

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA-SEMESTER-II-EXAMINATION-SUMMER-2025

Subject Code: 4529202

Date: 02/06/2025

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.1 Answer the following:

[14]

1. YTM
2. Capital Rationing
3. Decision Tree Analysis
4. Gross working capital & Net working capital
5. Combined leverage
6. Profit Maximization
7. Operating Cycle

Q.2(a) Discuss the basic financial decisions in any organization.
[7]

(b) Mr. Ram has borrowed Rs.500000 from Can Bank home finance to finance the purchase of a house for 15 years. The rate of interest on a loan is 12% p.a. Compute the amount annual installment to repay the loan is 15 years. [7]

OR

(b) Ohio Engineering company common stock is expected to pay a Rs. 1 dividend & sell for Rs.27.50 at the end of one period. What is the value of this stock to an investor who requires a 14% rate of return? [7]

Q.3(a) Give definition of Dividend. Explain the Walter Model of Dividend decision.
[7]

(b) Discuss the debentures as a long term source of financing. [7]

OR

Q.3(a) From the below information calculate the value of shares by using Gordon dividend Model. [7]

Situation 1: Retention Ratio is 80%
 Situation 2: Retention Ratio is 50%
 Situation 2: Retention Ratio is NIL
 EPS= Rs.20, Cost of Capital = 20% & Rate of Earning = 15%.

(b) Explain the concept of capital rationing with appropriate example. [7]

Q.4(a) Installed capacity, 8000 units, Actual production & sales 50% of the capacity, selling price Rs 50 per unit & variable cost Rs 25 per unit, fixed cost Rs.20000. Capital structure is as follows:

Financial Plan	A	B
Equity Rs.	100000	150000
10% debenture Rs.	50000	150000

Calculate (a) Operating Leverage, (b) Financial Leverage & (c) Combined Leverage. [7]

(b) Explain NI and NOI approach of capital structure in brief. [7]

OR

Q.4(a) Write a short note on Baumol's Model. [7]

(b) From the following capital structure of a company, calculate the overall cost of capital using (i) Book Value Weights, & (ii) Market Value Weights. [7]

Source	Book Value [Rs.]	Market Value [Rs.]
Equity share capital (Rs. 10 per share)	45000	90000
Retained Earnings	15000	NIL
Preference Share Capital	10000	10000
Debentures	30000	30000

The after tax cost of different sources of finance is as follow:

Equity share capital = 14%
 Retained Earnings = 13%
 Preference share capital = 10%
 Debentures = 5%

Q.5 DHL Ltd. is considering two different investment proposals which require an equal initial investment of Rs. 1000000 & are expected to generate net annual cash inflows as under: [14]

Year	1	2	3	4	5
Project: X	300000	400000	500000	300000	200000
Project: Y	100000	300000	400000	600000	400000

In comparing the profitability of the projects at a discounting rate of 16% is to be used indicate which investment proposal would be profitable using the following methods of Ranking investment proposals:

- Pay-back period Method
- Net Present Value Method
- Profitability Index Method

OR

Q.5 The below information belongs to Khushi Ltd.:

[14]

Particulars	Rs. Per unit
Raw materials	50
Direct Labour	25
Overhead	<u>15</u>
Total cost	90
Profit	<u>10</u>
Selling Price	100

The following further particulars are available:

- Raw Materials in stock = one month;
- Materials in process = half a month;
- Finished goods in stock = one month;
- Credit allowed to debtors = two months;
- Credit allowed by suppliers = one month;
- Average time-lag in payment of wages = half a month;
- Overhead expenses = one month;
- One-fourth of the output is sold against cash;
- Cash in hand and at bank is desired to be maintained at Rs.80000

You are required to prepare a statement showing the working capital needed to finance a level of activity of 50000 units of production.
