

Enrollment No./Seat No.:

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

Subject Code: MB02092021

Date: 30-05-2025

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.**

	Marks
Q.1 Explain the following terms with meaning and suitable examples	14
(a) Annuity due	
(b) Yield to maturity	
(c) Capital rationing	
(d) Issuance cost	
(e) Financial BEP	
(f) Systematic Risk	
(g) Gross and net working capital	
Q.2 (a) A business is planning a large-scale expansion. Discuss the different financial instruments it can use to raise fund for the long term financial requirement.	07
(b) Ramuji Limited borrows Rs.2,000,000 at an interest rate of 12 percent. The loan is to be repaid in 5 equal annual installments payable at the end of each of the next 5 years. Create the loan amortization schedule.	07
OR	
(b) The current dividend on an equity share of Omega Limited is Rs. 20 and earnings per share is Rs. 30. Assume that the dividend per share will grow at the rate of 18 percent per year for the next 5 years. Thereafter, the growth rate is expected to fall and stabilize at 12 percent. Investors require a return of 15 percent from Omega's equity shares. Calculate the Intrinsic value of Omega's share.	07
Q.3 (a) Define the term 'dividend' and explain the various factors that influence a firm's dividend policy.	07

- (b) A Company has on its books the following amounts and specific cost of each type of capital. 07

Types of Capital (sources)	Book Value (Rs.)	Market Value (Rs.)	Cost
Debentures	800000	760000	11
Preference share capital	200000	220000	10
Equity share capital	1200000	2400000	16
Retained Earnings	200000		
Total	2400000	3380000	

Tax rate is 35%.

Determine the weighted average cost of capital using (i) book value weights and (ii) market value weights. How they are different?

OR

- (a) Leverage is a double-edged sword. Justify this statement with suitable arguments and examples, explaining the roles of DOL, DFL, and DCL in influencing a firm's risk and return. 07

- (b) Firm Leelavati and Firm Umavati are in the same risk class and are identical in every respect, except that Firm Leelavati is levered and Firm Umavati is unlevered. Firm Leelavati has 12 percent Rs 8,00,000 debentures outstanding. Both firms earn 18 percent before interest and taxes on their total assets of Rs 16,00,000. Assume a corporate tax rate of 50 percent and a pure equity capitalization rate of 15 percent. If the Modigliani-Miller (MM) Proposition holds, calculate the value of Firm Leelavati and Firm Umavati. 07

- Q.4 (a)** What is receivable management? Analyze the key credit policy variables that influence decision-making regarding credit policy of the company. 07

- (b) BriteTech Ltd. is planning to produce and sell 2,50,000 units of its product in the coming financial year. The management is currently reviewing its financial planning and is concerned about estimating the appropriate level of working capital needed to support this activity.

07

Help BriteTech Ltd. solve its working capital requirement problem.

Particular	Cost Per Unit (Rs.)
Raw Material	18
Direct Labour	7
Overheads	12
Total Cost	37
Profit	8
Selling Price	45

Additional Information:

1. Minimum desired cash balance is Rs. 30,000.
2. Raw Materials are held in stock for the period of 1.5 Months.
3. Work in Progress will approximate to half a month production, assume 50% completion stage.
4. Finished goods remain in the warehouse for a period of 1 Month.
5. Suppliers of the materials extended the credit of 1.5 months.
6. The cash sales are 20% of the total sales. Debtors are provided with 3-month credit.
7. Time lag for the payment of wages for 1 Month and half a month for the overhead.
8. Provide for 10% contingency.

OR

- (a) What are the different approaches available for financing working capital, and what sources can businesses use to meet their working capital requirements? Explain them in detail.

07

- (b) Mr. Jagdish is worried about the cash inflow of his company Dodi Ltd. to get an idea about the cash inflow and out flow he wishes to prepare cash budget for the period of February 2025 to May 2025. The Budgeted/Estimated Revenue and Expenses for the said period extracted from the records of the Company are as follows:

Months	Total Sales (Rs.)	Purchases (Materials) (Rs.)	Wages (Rs.)	Expenses (Overheads) (Rs.)
November, 2024	80,000	45,000	20,000	4,000
December, 2024	80,000	50,000	22,000	5,000
January, 2025	75,000	52,000	18,000	6,000
February, 2025	90,000	60,000	20,000	6,000
March, 2025	85,000	40,000	18,000	8,000
April, 2025	80,000	35,000	15,000	9,000
May, 2025	95,000	46,000	24,000	9,500

Additional information:

- 20% of purchases and the 30% of sales are for cash.
- Realisation is made from debtors 30% in the month of sale, 50% in the month of following that and the balance in the month after that.
- The credit purchases are paid of regularly after one month.
- Wages are paid half monthly.
- Rent of Rs.500 per month included in expenses is paid monthly and remaining expenses are paid in the next month.
- Cash balance as on 31st January 2025 was Rs. 1,00,000

Prepare a cash budget showing cash inflows (receipts) and cash outflows (payments) for February to May 2025 showing the final closing cash balance at the end of each month.

Q.5

Mahzbin Ltd want to take decision on the selection of the new project they are considering two options of same project. Project Z plus and Project Q plus. Each project requires initial outlay of Rs.11,00,000 and has useful life of 5 years. The inflows of both projects are provided as follow.

Year	Z Plus	Q Plus
1	3,00,000	5,00,000
2	3,00,000	4,00,000,
3	4,00,000	3,00,000
4	5,00,000	2,00,000
5	2,00,000	2,00,000

- (a) Calculate the Net Present Value (NPV) of both projects assuming a cost of capital of 12%. Recommend which option the company should accept. 07
- (b) Calculate the Payback Period for both projects and assist the company in deciding which option to choose. 07

OR

- (a)** Calculate the Profitability Index (PI) for both projects, assuming a cost of capital of 12% and justify which option the company should select. **07**
- (b)** Calculate the Internal Rate of Return (IRR) for both projects and recommend which option the company should choose if the hurdle rate is 17%. **07**
