

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

Subject Code: 4529202
Subject Name: Corporate Finance
Time: 02:30 PM TO 05:30 PM

Date: 10/01/2025
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 following terms with examples **14**
- (a) Annuity Due
 - (b) Multi-period compounding
 - (c) Profitability Index
 - (d) Weightage Average cost of capital
 - (e) Shareholder's wealth maximization
 - (f) Capital rationing.
 - (g) Financial leverage

- Q.2 (a)** Give arguments to support the view that 'Dividends are relevant' **07**

- (b)** From the information and the assumption that the cash balance in hand on 1 January 2021 is Rs 72,500, prepare a cash budget. **07**

Assume that 50 per cent sales are cash sales. Assets are to be acquired in the months of February and April. Therefore, provisions should be made for the payment of Rs 8,000 and Rs 25,000 for the same. An application has been made to the bank for the grant of a loan amount of Rs 30000 and it is hoped that the loan will be received in the month of May.

Month	Sales (Rs)	Materials Purchases (Rs)	Salaried & Wages (Rs)	Production Over-heads (Rs)	Office and Selling Over-heads (Rs)
January	72,000	25,000	10,000	6,000	5,500
February	97,000	31,000	12,100	6,300	6,700
March	86,000	25,500	10,600	6,000	7,500
April	88,000	30,600	25,000	6,500	8,900
May	102,500	37,000	22,000	8,000	11,000
June	108,700	38,800	23,000	8,200	11,500

It is anticipated that a dividend of Rs 35,000 will be paid in June. Debtors are allowed one month's credit. Creditors for material purchased and overheads grant one month's credit. Sales commission at 3 percent on sales is paid to the salesman each month.

OR

- (b)** Consider the following information for Saurabh Enterprise. **07**

	Rs in lakhs
EBIT	1120
PBT	320
Fixed cost	700

Calculate % change in EPS if sales increased by 5%.

- Q.3 (a)** What is financial risk? How does it differ from business risk? How does the use **07**

of financial leverage result in increased financial risk?

- (b) A Pro forma cost sheet of a company provides the following data:

07

Cost (per unit):	Rs
Raw Materials	52.0
Direct Labour	19.5
Overheads	39.0
Total Cost (per unit)	110.5
Profit	19.5
Selling Price	130.0

The following is the additional information available:

Average raw materials in stock: one month; average material in process: half a month. Credit allowed by suppliers: one month; credit allowed to debtors; two months. Time lag in payment of wages: one and a half weeks. Overheads: one month. One-fourth of sales are on cash basis. Cash balance is expected to be Rs 1,20,000.

You are required to prepare a statement showing the working capital needed to finance a level of activity of 70,000 units if output. You may assume that production is carried on evenly, throughout the year and wages and overheads accrue similarly.

OR

- Q.3 (a)** Describe the traditional view on the optimal capital structure. **07**

- (b)** You are planning to buy a house for Rs 500000 and immediately make a payment of Rs 100000. You finance the balance amount at 12 % for 20 years with equal annual installments. How much are the annual instalments? **07**

- Q.4 (a)** Looking into decreasing sales in last 12-months Vaibhav enterprise is thinking of liberalizing their credit policy. Will this be right decision? What do you mean by liberal credit policy? **07**

- (b)** A company's share is currently selling at Rs 60. The company in the past paid a constant dividend of Rs. 1.50 per share, but now it is expected to grow at 10% compound rate over a very long period. Should the share be purchased if the required rate of return is 12%? **07**

OR

- Q.4 (a)** What are the basic financial decisions? What should be the objective of financial manager while making such decisions? **07**

- (b)** The following is the capital structure of Sanket Ltd as on 31 December 2023. **07**

(₹ million)	
Equity capital (paid up)	563.50
Reserves and surplus	485.66
10% Preference shares	84.18
15% Term loans	377.71
Total	1.511.05

The share of the company is currently selling for Rs 36. The expected dividend next year is Rs. 3.60 per share anticipated to be growing at 8 per cent indefinitely. The redeemable preference shares were issued on 1 January 2017 with twelve-year maturity period. A similar issue today will be at Rs 93. The market price of 10% preference share is Rs 81.81. The company had raised the term loan from a financial institution in 2019. A similar loan will cost 10% today.

Assume an average tax rate of 35 per cent. Calculate the weighted average cost of capital for the company using book value weights.

Q.5

Shashank Limited is a leading manufacturer of automotive components. It supplies to the original equipment manufacturers as well as the replacement market. Its projects typically have a short life as it introduces new models periodically.

You have recently joined Shashank Limited as a financial analyst reporting to Ravi Sharma, the CFO of the company. He has provided you the following information about three projects, A, B, and C that are being considered by the Executive Committee of Shashank Limited:

- Project A is an extension of an existing line. Its cash flow will decrease over time.
- Project B involves a new product. Building its market will take some time and hence its cash flow will increase over time.
- Project C is concerned with sponsoring a pavilion at a Trade Fair. It will entail a cost initially which will be followed by a huge benefit for one year. However, in the year following that some cost will be incurred to raze the pavilion.

The expected net cash flows of the three projects are as follows.

Year	Project A (Rs)	Project B (Rs)	Project C (Rs)
0	(15,000)	(15,000)	(15,000)
1	11,000	3,500	42,000
2	7,000	8,000	(4,000)
3	4,800	13,000	-

Ravi Sharma believes that all the three projects have risk characteristics similar to the average risk of the firm and hence the firm's cost of capital, viz. 12 percent, will apply to them.

You have been asked to prepare a report for the executive committee, covering the following:

- (a) (a) What is payback period and discounted payback period? Find the payback period and the discounted payback period of Projects A and B. **07**
- (b) (b) What is net present value (NPV)? What are the properties of NPV? Calculate the NPV of projects A, B, and C. **07**

OR

- Q.5** (a) What is internal rate of return (IRR)? What are the problems with IRR? Calculate the IRR for Projects A, B. **07**
- (b) Calculate MIRR for project A, B assuming that the intermediate cash flows can be reinvested at 12% rate of return. **07**

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