

Enrollment No./Seat No.:

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA - SEMESTER - II EXAMINATION - WINTER 2025**

**Subject Code: MB02092021**

**Date: 16-01-2026**

**Subject Name: Corporate Finance**

**Time: 02:30 PM TO 05:30 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.**
- 5. Time value of money factor's value table is allowed to use.**

	<b>Marks</b>
<b>Q.1</b> Define following terms with suitable example.	<b>14</b>
<b>(a)</b> Profit Maximization	
<b>(b)</b> Annuity	
<b>(c)</b> Internal Rate of Return	
<b>(d)</b> Financial Leverage	
<b>(e)</b> Operating cycle	
<b>(f)</b> Weighted Average Cost of Capital	
<b>(g)</b> Point of indifference	
<b>Q.2 (a)</b> Define the scope of financial management. What role should the financial manager play in a modern enterprise?	<b>07</b>
<b>(b)</b> Homeotic Ltd needs 1,000,000 to build a new factory which will yield EBIT of 150,000 per year. The company has to choose between two alternative financing plans: 75 per cent equity and 25 per cent debt or 50 per cent equity and 50 per cent debt. Under the first plan, shares can be sold at 50 per share, and the interest rate on debt will be 14 per cent. Under the second plan, shares can be sold for 40 per share and the interest rate on debt will be 16 per cent. Determine the EPS for each plan assuming a 35 per cent tax rate.	<b>07</b>

**OR**

- (b) Prepare a cash budget for the Jenil Manufacturing Company for three months of May, June and July. The company's cash balance as on 30 April is 30,000. 07

Actual Sales		Estimated Sales	
January	75500	May	105,000
February	75000	June	120,000
March	90000	July	150,000
April	90000	August	150,000

Consider the following additional information:

(a) Cash sales are 60 per cent of the total sales. The remaining sales are collected equally during the following two months.

(b) Cost of goods manufactured is 75 per cent of sales. 80 per cent of this cost is paid after one month and the balance is paid after two months of the cost incurrence.

(c) Fixed operating expenses are 15,000 per month. Variable operating expenses are 10 per cent of sales each month.

(d) Half yearly interest on 12%, 450,000 debentures is paid during July.

(e) 60,000 are expected to be invested in fixed assets during June.

(f) An advance tax of 15,000 will be paid in July.

- Q.3** (a) What is the concept of working capital cycle? what is meant by cash conversion cycle? why are these concepts important in working capital management? Give an example to illustrate. 07
- (b) You have borrowed a car loan of 50,000 from your employer. The loan requires 10 per cent interest and five equal end-of-year payments. Prepare a loan amortization schedule. 07

**OR**

- (a) What is the role of credit terms and credit standards in the credit policy of a firm? 07
- (b) An ordinary share selling at a current market price of 120, and paying a current dividend of 9 per share, which is expected to grow at a rate of 8 per cent. Assuming that a firm pays tax at a 50 per cent rate, compute the after-tax cost of capital. 07
- Q.4** (a) Explain the assumptions and implications of the NI approach and NOI approach. Illustrate your answer with hypothetical examples. 07
- (b) Mahi Co. has a net operating income of 200,000 on an investment of 1,000,000 in assets. It can raise debt at a 16 per cent rate of interest. Assume that taxes do not exist. Using the NOI approach and an overall capitalization rate of 12 per cent, compute the total value of the firm, value of shares and the cost of equity if the firm has (i) no debt, (ii) 300,000 debt, (iii) 600,000 debt. 07

**OR**

- (a) 'Profit maximization is not an operationally feasible criterion'. Do you agree? Illustrate your views. 07

- (b) Krishna Glass Works has an investment of 30 crore divided into 30 lakh ordinary shares. The profitability rate of the firm is 20 per cent and the capitalization rate is 12.5 per cent. What is the optimum dividend payout for the firm if the Walter's model is used? What shall be the price of the share at optimum payout? Would your answer change if the profitability rate is assumed to be 15 per cent? 07

**Q.5** Tilak Limited is a leading manufacturer of automotive components. Its projects typically have a short life as it introduces new models periodically. You have recently joined Tilak Limited as a financial analyst reporting to Prayag Sharma, the CFO of the company. He has provided you the following information about both projects, A and B that are being considered by the Executive Committee of Tilak Limited:

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

Year	Project A	Project B
0	(15000)	(15000)
1	11,000	3,500
2	7,000	8,000
3	4,800	13,000

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

- (a) Calculate NPV for both project and Give ranking to both projects. 07
- (b) Compute Discounted Payback period for both the project. Assign ranking to both projects. 07

**OR**

- (a) Calculate Profitability Index for both project and Give ranking to both projects. 07
- (b) Compute IRR for both project and give ranking. 07

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