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Total Number of Pages: 02

Course: MBA
Sub_Code: MBPC1004

2nd Semester Regular Examination: 2024-25

SUBJECT: CORPORATE FINANCE

BRANCH(S): BA, FM, FM&HRM, GM, HCHM, HRM, IB,LSCM, MBA, MBA(A&M), MM

Time: 3 Hours

Max Marks: 100

Q.Code: S274

Answer Question No.1 (Part-I) which is compulsory, any eight from Part-II and any two from Part-III.

The figures in the right hand margin indicate marks.

Part-I

Q1 Answer the following questions: (2 x 10)

- When and why should you resort to compounding and discounting?
- What are the components for determining interest rate? Why should these be considered?
- What are the key finance functions?
- What are the discounted cash flow methods of project appraisal?
- Is there any project which does not need any investment appraisal method for its evaluation? Name the same and explain why.
- What is retained earnings? How do you compute its cost?
- What is capital structure? What is the need of the same?
- What do you mean by combined leverage? How do you calculate the same?
- What is fixed working capital and how is it different from variable working capital?
- Explain the irrelevant theory of dividend.

Part-II

Q2 Only Focused-Short Answer Type Questions- (Answer Any Eight out of Twelve) (6 x 8)

- The Finance Manager is guided by a goal while taking financial decisions. What are these two goals? Explain briefly.
- Explain the four important financial decisions a FM is responsible for.
- Discuss important techniques for managing inventory.
- What is the basic purpose of holding inventory? Describe the risk-return trade on associated with inventory management.
- Discuss four factors affecting computation of working capital requirement for a firm.
- Discuss the motives for holding cash by a firm.
- Discuss the challenges for holding inadequate or excessive working capital in a firm.
- The installed capacity of a factory is 600 units. Actual capacity used is 400 units. Selling price is Rs. 10 and Variable cost is Rs. 6 per unit. Calculate the operating leverages, if the fixed costs are; Rs. 400, Rs. 1000 or Rs. 1200.

- i) Explain the working capital operating cycle.
- j) What is optimal cash balance? What are the options for investing surplus cash?
- k) Find the total present value of a deposit of Rs. 10, 000 each paid in years 2, 4, 6, 8, and 10 to the bank assuming a 10% discount rate.
- l) There are two investment projects viz. X and Y. Each needs an initial investment of Rs. 100, 000. The discount rate is 10%. The cash flows in the four years are Rs. 60,000, Rs. 35,000, Rs. 30, 000 and Rs. 15, 000 respectively in Project X. In Project Y, the cash inflow is expected to be equal at the rate of Rs. 35,000 per annum.
Calculate NPV and Profitability index and suggest which project should be accepted.

Part-III

Only Long Answer Type Questions (Answer Any Two out of Four)

(16 x 2)

- Q3** Discuss the short term sources of funds for a business firm clearly bringing out the relative merits of each of the sources. (16)
- Q4** Among the long term sources of funds such as Equity share, Preference Share, and Bonds and Debentures, which one should you accept to meet your long-term need as a Finance Manager? Justify your answer. (16)
- Q5** From the following information, compute market price of the company share as per Walter's Model, if it can earn a return of (i) 20%; (ii) 15% on its investments. (16)
Earnings per share = Rs. 10
Dividends payout ratios are = (a) 25%, (b) 50%
The company's capitalization (K_e) = 15%
- Q6** PP Ltd. has the following capital structure (16)
- | | |
|--|---------------------|
| I. Equity share capital (Rs. 10 par value) | Rs. 200 lakhs |
| II. 14% Pref. share capital (Rs. 100 each) | Rs. 100 lakhs |
| III. Retained Earnings | Rs. 100 lakhs |
| IV. 12% Debentures (Rs.100 each) | Rs. 300 lakhs |
| V. 11% Term loan from ICICI Bank | Rs. 50 lakhs |
| | Total Rs. 750 lakhs |
- a. The market value of Equity share is Rs. 32. The company expects to declare dividend of Rs. 2 per share. There shall be growth rate in the dividend @10% for next 5 years.
- b. Preference shares are redeemable at a premium of Rs. 5 per share after 8 years and are currently traded at Rs. 84 in the market
- c. Debenture redemption will take place after 7 years at a premium of Rs. 5 and current market price is Rs. 90. Corporate tax is 40%.
- Calculate the WACC from the above data.