

MBA 3rd Semester Examinations, Dec. 2020 (CBCS) (DDE)

[Session: July 2019 – June 2021]

Subject: Corporate Finance

Paper: MBA-3605

Time-3 Hours

Full Marks: 80

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable

Group-A

Answer any six questions

5×6=30

1. “The modern objective of finance is profit maximisation.” – Comment.
2. What do you mean by unlevered capital structure? State any three advantages that are enjoyed by a firm having levered capital structure.
3. Explain the significance of the concept of Time Value of Money in finance.
4. Discuss the costs associated with management of receivables.
5. ‘Retained earnings do not involve any cost’ – Comment.
6. Differentiate between Capital Structure and Financial Structure.
7. Discuss the disadvantages of ‘Negative Working Capital’.
8. From the following information relating to Dharma Co. Ltd., determine the market price of a share using Gordon’s Dividend Model:

Total investment in assets	Rs. 10,00,000
No. of shares	50,000
Total earnings	Rs. 2,00,000
Cost of capital	16%
Pay-out ratio	40%

Group-B

Answer any five questions

10×5=50

9. What is meant by Optimal Capital Structure? Discuss the features of such capital structure.
10. (a) What do you mean by Explicit Cost of Capital?
(b) Calculate the cost of capital in the following cases:
 - (i) Ex Ltd. issued 12% Debentures of face value Rs. 200 each and realised Rs. 190 per debenture. The debentures are redeemable after 10 years at a premium of 10%.
 - (ii) Wye Ltd. issued Preference Shares of face value Rs. 100 each carrying 14% dividend and it realised Rs. 92 per share. The shares are repayable after 12 years at par.
(Both the companies are paying income-tax at 30%)

Please Turn Over

(2)

11. Kartick Ltd. has a capital structure exclusively comprising of ordinary shares amounting to Rs. 10,00,000. It now wishes to raise additional Rs. 10,00,000 for expansion. The company has four alternative financial plans:
- It can raise the entire amount in the form of equity capital.
 - It can raise 40% as equity capital and 60% as 8% Debentures.
 - It can raise the entire amount as 6% Debentures.
 - It can raise 50% as equity capital and 50% as 5% preference capital

Further assume the estimated EBIT to be Rs. 1,20,000 and the tax rate @ 35%, outstanding ordinary shares 10,000 and the market price per share is Rs. 100 under all the four alternatives. Which financing plan should Kartick Ltd. select?

12. Discuss the different factors that determine the working capital requirement of a firm.
13. Eastern Motors plans to install an automatic painting machine in its workshop. A choice is to be made between two competing machines which require an equal investment of Rs. 5,00,000 and are expected to generate net cash flows as under:

	Machine A	Machine B
End of Year 1	Rs. 2,50,000	Rs. 1,00,000
End of Year 2	Rs. 1,50,000	Rs. 1,20,000
End of Year 3	Rs. 1,00,000	Rs. 1,80,000
End of Year 4	Nil	Rs. 2,50,000
End of Year 5	Rs. 1,20,000	Rs. 80,000
End of Year 6	Rs. 60,000	Rs. 40,000

The cost of capital of the company is 10%. You are required to evaluate the two machines under:
(a) NPV criterion; and (b) Profitability Index criterion.

14. Explain, in detail, 'Conservative Approach' and 'Aggressive Approach' in the context of working capital management strategies.
15. 'The Modigliani & Miller Model of dividend policy is referred to the irrelevance model'. Show that under the assumptions of Modigliani & Miller Model, the payment of dividend does not affect the value of the firm.