GL BAJAJ
Institute of Management & Research
Approved by A.I.C.T.E., Ministry of HRD, Govt. of India

Roll No…………

Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) – 201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017 -19)

END TERM EXAMINATION (TERM -III)

Subject Name: **Corporate Finance**	Time: **02.00 hrs**
Subject Code: **PG-20**	Max Marks: **100**

Note:
1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.
2. All questions are compulsory in Section A, B & C. Section A carries 2 Case Studies of 10 marks each, Section B carries 2 questions of 7.5 marks each and Section C carries 5 questions of 2 marks each.

SECTION - A **20×02 = 40 Marks**

Q. 1: Case Study
An electric manufacturing company wishes to determine the WACC for evaluating capital budgeting projects. As a finance manager you have been provided with following information:

Balance sheet			
Liabilities	**Amount (Rs.)**	**Assets**	**Amount (Rs.)**
Equity share	16,50,000	Fixed Assets	25,00,000
Pref. share	4,50,000	Current assets	15,00,000
Debentures	9,00,000		
Current liabilities	10,00,000		
	40,00,000		**40,00,000**

Additional information

I) 10 years 14% debentures of Rs.5 face value, redeemable at 5% premium can be sold at par.
II) 15% preference share: Sale price Rs.100 per share
III) Equity share: sale price Rs.115 per share
IV) Earning After taxes Rs.5,50,000.

The corporate tax rate is 30% and expected growth in equity dividend is 8% p.a. The dividend at the end of current financial year is Rs.11 per share.

Estimate the following
(a) Cost of different components of capital
(b) Cost of total capital and value of the firm

Q-2: Case Study

Machine A costs Rs.1,00,000 payable immediately. Machine B costs Rs.1, 20,000 payable immediately. The cash flow of machines are as below:

Year	**1**	**2**	**3**	**4**	**5**
Machine A	20,000	60,000	40,000	30,000	20,000
Machine B	0	60,000	60,000	80,000	-

At 8% opportunity cost, which machine should be selected on basis of following.

1. Pay Back Period
2. Net Present Value

<u>SECTION - B</u> **20×02 = 40 Marks**

Q. 3: The earning per share of a company are Rs.8 and rate of capitalisation applicable to the company is 10%. The company has before it an option adopting a payout ratio of 25% or 50% or 75%.
Using Walter's formula of dividend theory, compute the market value of the company's share if the productivity of retained earnings is (i)15% and (ii)10%

Q. 4: Critically examine the differences in Net Income and Net Operating Income approaches to capital structure of a firm.

<u>SECTION - C</u> **04×05 = 20 Marks**

Q. 5 (A): A firm has sales of Rs.10,00,000, variable cost of Rs.7,00,000 and fixed cost of Rs.2,00,000 and debt of Rs.5,00,000 at 10% interest. How much of a rise in sales would be needed on percentage basis, if the firm wants to double its EBIT?

Q. 5 (B): Compute the Annual Installment of a loan amount of Rs1,50,000 to be repaid in 15 years. The interest rate on loan is 10 per annum.

Q. 5 (C): Describe the CAPM model used in estimating cost of equity.

Q. 5 (D): Under the traditional approach to capital structure, what happens to cost of debt and cost of equity when leverage increases? Describe the behaviour of overall cost of capital.

Q. 5 (E): Explain the Operating Cycle. What are the different components of Operating Cycle in Working Capital Management?