

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 1273 Roll No.

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MBA

(SEM. III) ODD SEMESTER THEORY

EXAMINATION 2013-14

CORPORATE FINANCE

Time : 3 Hours

Total Marks : 100

Note :—Attempt all Sections.

SECTION—A

1. Answer all **ten** questions in **50-75** words each. All questions carry equal marks. **(10×2=20)**

- (a) What is sensitivity analysis ?
- (b) Define Unsystematic Risk with suitable example.
- (c) What is Property Dividend ?
- (d) Define the term Agency Problem.
- (e) Give the merits and demerits of Profitability Index Method.
- (f) What is Cost of Retained Earnings ?
- (g) Define Market Anomalies.
- (h) Define Divestures.
- (i) Describe Capital rationing.
- (j) Define the merits and demerits of Payback period method.

SECTION-B

2. Answer any **three** of the following questions in not more than 200 words : **(3×10=30)**

(1) Mr. Jhonson is considering an investment proposal of Rs. 40,000. The expected returns during the life of the investment are as under :

| | | | |
|-------------|-------|-------|-------|
| Year | 1 | 2 | 3 |
| Cash Inflow | 16000 | 24000 | 20000 |
| Probability | 0.3 | 0.5 | 0.2 |

The cash inflows in year 2 depend on the cash in flow in year 1.

The probability distribution of year 2 inflows is as under :

| Year 1 Inflow = 16000 | | Year 2 Inflow = 24000 | | Year 3 Inflow = 20000 | |
|-----------------------|-------------|-----------------------|-------------|-----------------------|-------------|
| Cash Inflow | Probability | Cash Inflow | Probability | Cash Inflow | Probability |
| 30000 | 0.2 | 40000 | 0.1 | 5000 | 0.2 |
| 40000 | 0.6 | 60000 | 0.8 | 8000 | 0.5 |
| 50000 | 0.2 | 80000 | 0.1 | 12000 | 0.3 |

If the discount rate is 10%, calculate the expected NPV of the project with the help of decision tree analysis.

- (2) Explain briefly the main determinants of dividend policy of a firm.
- (3) What do you mean by Economic Value Added ? Describe the pros and cons of EVA.

- (4) Define the term Valuation. Describe its purpose and Discounted cash flow method of Valuation.
- (5) Apex Limited is considering purchase of a machine costing Rs. 3,00,000. It has a useful life of 5 years with no salvage value. Following details are available :

| Year | 1 | 2 | 3 | 4 | 5 |
|---|----------|----------|----------|----------|--------|
| Profit Before Depreciation & Taxes (in Rs.) | 1,00,000 | 1,10,000 | 1,20,000 | 1,30,000 | 90,000 |

The applicable tax rate is 40% and depreciation is charged at the rate of 20% by WDV method. Find out the IRR of the project.

SECTION-C

Note :- Answer the following in not more than 500 words :

(10×5=50)

3. (a) Discuss the Net Operating Income Theory of Capital Structure with the help of an example.

OR

Discuss briefly the terms Acquisition and Takeover. Define the pros and cons of takeover.

- (b) "The role of Finance Manager in today's world is not just a treasurer and controller but a strategist too." Comment.

OR

Efficient Market Hypothesis-Define its Various Forms.

- (c) Dividend per share of a firm is expected to be Rs. 10 per Share next year and is expected to grow at 5% per year perpetually. Determine the cost of Equity Capital, assuming the market price per share is Rs. 75.

OR

Explain why companies always prefer a debt equity mix in capital structure planning.

- (d) Simulation is superior to sensitivity Analysis. Comment.

OR

What is Capital Budgeting ? List Various Methods of Capital Budgeting. Give merits and demerits of NPV Method.

- (e) The following Information is available in respect of a firm :

Capitalisation rate (K_e) = 10%

Earnings per Share ϵ = Rs. 10

Assumed rate of return on investment :

- (i) 15%
- (ii) 8%
- (iii) 10%

| | D/P Ratio (1-b) | Retention Ratio (b) |
|---|-----------------|---------------------|
| 1 | 0 | 100 |
| 2 | 50 | 50 |
| 3 | 100 | 0 |

Show the effect of dividend policy on the market price of shares, using Walters model.

OR

MM Approach is a practical approach of Capital Structure Planning. Do you agree ? Comment.