MB-117A

Sl.No. : **Total No. of Pages : 3**

Third Semester M.B.A. Degree Examination, May/June - 2023
(Non CBCS) (SLM Scheme)
MANAGEMENT
(Elective - A) Advanced Corporate Finance

Time : 3 Hours **Max. Marks : 80**

Instruction : ***Answer all the sections.***

SECTION - A

Q1) **Answer any five sub-questions. Each sub-question carries three marks :** **[5 × 3 = 15]**

a) State the different capital budgeting techniques.

b) What is capital Rationing?

c) Distinguish between real and nominal interest rates.

d) Write a short note on Information asymmetry.

e) Mention the assumptions of Capital Asset Pricing Model (CAPM).

f) What are the assumptions of an ideal capital market?

g) What are the causes of information asymmetry in the securities market?

SECTION - B

Answer any four questions. Each question carries five marks : **[4 × 5 = 20]**

Q2) What is insider trading? How it can be used to mitigate information asymmetry?

Q3) Describe the concepts of various methods of investment decision criteria.

Q4) Why should we be concerned about risk in capital budgeting?

Q5) What is Fisher's rate of Intersection? Describe its relevance in NPV and IRR result conflict?

Q6) Briefly explain Traditional trade-off theory of capital structure.

Q7) Consider the following cash flows of project of ABC Ltd. Assume the discount rate is 10% and Initial cash outlay is ₹ 5,00,000.

Year	Project's cash flows (₹)
1	3,50,000
2	2,50,000
3	5,00,000

Calculate MIRR and suggest the company whether the project should be accepted or rejected.

SECTION - C

Answer any three questions. Each question carries ten marks : [3 × 10 = 30]

Q8) Why is the separation of ownership and control a virtual necessity for the successful financing of large corporations? Explain.

Q9) What is information asymmetry? How does it influence the shareholders wealth? Illustrate.

Q10) Explain Modigliani and Miller's theory of capital structure irrelevance.

Q11) ABB Ltd. is considering risk characteristics of a project. It has identified that the following faster and respective values are having a bearing on project's NPV.

* Initial cash outlay ₹ 60,000
* Cost of capital 10%
* Quantity manufactured and sold 2800 units p.a.
* Depreciation ₹ 4000 p.a.
* Tax rate 50%
* Project life 5 years
* Salvage value - Nil

Assume the following underlying variables can take as shown below :

Variables	Pessimistic	Optimistic
Quantity manufactured and sold	1600	3600
Price per unit	40	100

Calculate the sensitivity of NPV to variations in quantity manufactured & sold, and price change.

Q12) Calculate value of debt and equity given V = ₹ 200, rf = 5%, X = ₹ 120, σ = 22% and T = 5 years based on BSOPM. (Block Sholes Option Pricing Model).

SECTION - D

Q13) **Case (Compulsory) :** **[1 × 15 = 15]**

Consider the following cash flows of two mutually exclusive projects of XYZ Ltd. Assume discount rate is 10%, Initial cash outlay of project 'A' is ₹ 50,00,000 and project 'B' ₹ 25,00,000. Expect cash in flows of the projects are as below :

Year	Project 'A' (₹)	Project 'B' (₹)
1	30,00,000	25,00,000
2	20,00,000	15,00,000
3	50,00,000	10,00,000

a) Based on NPV which project should be undertaken.

b) Based on IRR which project should be undertaken.

c) Based on above analysis, is incremental IRR necessary. If yes please conduct the analysis.

d) Verify your answer by plotting NPV profile.

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