MB-117A

Sl.No. : **Total No. of Pages : 2**

Third Semester M.B.A. Degree Examination, May -2025
(SLM Scheme) (Non-CBCS)
MANAGEMENT
Elective - A: FINANCE
Advanced Corporate Finance

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

Section- A

I Answer any Five sub-questions. Each sub-question carries three marks : [5 × 3 = 15]

1) a) What do you mean by financial distress?
   b) What is Capital Budgeting?
   c) What is leverage?
   d) What is the Gordon formula for determining the value of shares?
   e) What is Ideal Capital Market?
   f) Define agency cost.
   g) What is fishers rate of intersection?

Section - B

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

2) How is equity income affected under corporate and personal taxes?
3) Explain the determinants of dividend policy.
4) Why and how are financing and investment decisions separated in the investment analysis?
5) Briefly explain the essence of the trade off theory of capital structure
6) Consider the following information for Kaunark Enterprise :
   EBIT – 1,120 (Rs. in lakh)
   PBT – 320 (Rs. in lakh)
   Fixed cost – 700 (Rs. in lakh)
   Calculate percentage change in earnings per share if sales is increased by 5%
7) What is the valuation approach for the capital structure analysis?

Section - C

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

8) What is information asymmetry? Explain effects of information asymmetry.

9) Explain the agency theory.

10) The profit maximization is not an operationally feasible criterion. Do you agree? Illustrate your view.

11) Briefly explain CAPM and its assumption.

12) A company is considering an investment proposal to install new milling controls at a cost of Rs.50000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35%. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CAFT) from the investment proposal are as follows.

YEAR	1	2	3	4	5
CAFT(Rs.)	10000	10692	12769	13462	20385

Compute the following:

- payback period
- average rate of return
- internal rate of return
- net present value at 10% discount rate
- Profitability index at 10% discount rate

Section - D

13) Case (Compulsory) **[1 × 15 = 15]**

Explain the arbitrage prices of MM approach of capital structure, with the help of the following data:

Variables	Company A	Company B
Expected annual income (1)	30,000	30,000
Market value of debt (1)	-	1,20,000
Rate of interest on debt (%)	-	0.125
Cost of Equity (%)	0.15	0.16
Market value of equity	2,00,000	93,750
Market value of company (1)	2,00,000	2,13,750