MBHC-2.2

Sl.No. :

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Second Semester M.B.A. Degree Examination, May - 2024
(CBCS) (SLM Scheme)
MANAGEMENT
Corporate Finance

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

SECTION - A

Answer any five questions. Each question carries five marks : [5 × 5 = 25]

Q1) Briefly Explain the mechanics of calculating the present value of cash flows.

Q2) Illustrate the concept of the Internal rate of return.

Q3) A firm does not pay any dividend for the first 4 years and thereafter it will pay a dividend of ₹ 5. at the growth rate of 10% and the required rate of return is 12%. Find value of share at the end of year 4.

Q4) What are ordinary shares? What are their features?

Q5) Suppose on investor is considering the purchase of a 6 year ₹ 2,000 per value bond, bearing a nominal rate of interest of 6% The investor's required rate of return is 8%. What should be the willing to pay now to purchase the bond if it metures at per?

Q6) What is the difference between NPV and PI methods?

Q7) Define cost of capital. Explain its significance in financial decision making.

SECTION - B

Answer any four questions. Each question carries ten marks : [4 × 10 = 40]

Q8) The following in the information of two proposals. If A is selected then X will be rejected, evaluate and rank the proposals by NPV and IRR techniques. The minimum required rate of return is 10%. The life of the projectes is 3 years and cash flows are as follows.

Year	Cash flow A (₹)	Cash flow X(₹)
0	–10,00,000	–20,00,000
1	5,00,000	10,00,000
2	6,00,000	15,00,000
3	4,00,000	10,00,000

Q9) What is capital budgeting? Discuss its main features?

Q10) Find payback time of the two machines. Suggest which is better

a) Machine A costs ₹ 50,000 and generates a cash flow of ₹ 18,000 for 4 years.

b) Machine B costs ₹ 75,000 and generates ₹ 20,000 for 6 years.

c) A project requires on investment of 5 lakh and yields an annual cash flow of 6 lakhs for 10 years what is the payback period of the project?

Q11) What is the meaning of cost of capital? What is its significance in financial decision - making.

Q12) A company declared a dividend of ₹ 2 per share last year. The shareholders have a required rate of return of 15%. What would be the market price of the share if the growth rate of the dividend is expected to be

a) 9% b) 11%

c) 14% d) 10%

Q13) Discuss the assumptions and limitations of Walter's approach to dividend decisions.

SECTION - C

Q14) **Case (Compulsory) :** **[1 × 15 = 15]**

AB Ltd. needs ₹ 10 lakh (one million) for expansion. The expansion is expected to yield an annual EBIT for ₹ 1,60,000. In choosing a financial plan, AB Ltd. has on objective of maximizing earnings per share. It is considering the possibility of issuing equity shares and raising debt of ₹ 1,00,000 or ₹ 4,00,000 or ₹ 6,00,000. The current market price per share is ₹ 25 and is expected to drop to ₹ 20 if the funds are borrowed in excess of ₹ 5,00,000. Funds can be borrowed at the rates indicated below :

a) Up to ₹ 1,00,000 at 8%

b) Over ₹ 1,00,000 up to ₹ 5,00,000 at 12%

c) Over ₹ 5,00,000 at 18%

Assume a tax rate of 50% D.

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