# MBHC - 2.2

Sl.No. :

**Total No. of Pages : 3**

## Second Semester M.B.A. Degree Examination, October-2025
## (SLM Scheme) (CBCS)
## MANAGEMENT
## Corporate Finance

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

### SECTION - A

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

***Q1)*** Discuss the Modigliani and Miller hypothesis on dividend policy.

***Q2)*** Describe operating, financial and combined leverage in Financial Management.

***Q3)*** Explain the agency problem in corporate finance.

***Q4)*** Write a note on dividend policy.

***Q5)*** Describe the traditional approach to capital structure.

***Q6)*** What is optimum capital structure?

***Q7)*** Differentiate between operating leverage and financial leverage.

### SECTION - B

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

***Q8)*** Explain the capital budgeting techniques.

***Q9)*** Calculate the cost of capital in the following cases:

i) X Ltd. issues 12% debentures of face value ₹100 each and realizes at ₹ 95 per debenture. The debentures are redeemable after 10 years at a premium of 10%.

ii) Y Ltd. issues 14% preference shares of face value ₹ 100 each ₹ 92 per share. The shares are repayable after 12 years at par.

Assume both companies are paying income tax 40%.

***Q10)*** Calculate operating leverage, financial leverage and combined leverage from the following data:

| Particulars | Amount |
|---|---|
| Sales 50,000 units at 5 per unit | 2,50,000 |
| Variable cost per unit at ₹ 1.20 per unit fixed costs | 50,000 |
| Interest charges on debt capital | 8,000 |

***Q11)*** Mudra communications (MC) has the following capital structure which it considers to be optimal.

| | |
|---|---|
| Debt | 25% |
| Preferred Stock | 15% |
| Common Stock | 60% |
| | 100% |

MC's tax rate is 40% and investors expect earnings and dividends to grow at a constant rate of 9% in the future. MC paid a dividend of ₹ 3.60 per share last year (Do) and its stock currently sells at a price of as 60 per share Treasury bonds yield 11% an average stock has 14% expected rate of return and MC's beta is 1.51.

These terms would apply to new offerings

Preferred stock: New preferred could be sold to the public at a price of Rs. 100 per share, with a dividend of ₹11. Floatation costs of ₹ 5 per share would be incurred.

Debt : Debt could be sold at an interest rate of 12%

a) Find the component costs of Debt, preferred stock and common stock. Assume MC does not have to issue any additional shares of common stock.

b) What is the WACC?

***Q12)*** Write the assumptions of CAPM. Explain relevance of CAPM.

***Q13)*** Critically analyse the modigliani and miller capital structure.

**SECTION - C** **[1 × 15 = 15]**

***Q14)*** Your division is considering two investment projects, each of which requires an upfront expenditure of Rs. 30 million. You estimate that the cost of capital is 9% and the investments would produce the following after tax cash flows (in million rupees):

| Year | Project A | Project B |
|---|---|---|
| 1 | 10 | 30 |
| 2 | 15 | 30 |
| 3 | 20 | 30 |
| 4 | 25 | 30 |

a) Calculate each project's payback period, Net Present Value (NPV) and Profitability Index (PI)

b) Which project or projects should be accepted if they are independent?

c) Which project should be accepted, if the projects are mutually exclusive?

