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MBA
(SEM II) THEORY EXAMINATION 2022-23
FINANCIAL MANAGEMENT AND CORPORATE FINANCE

Time: 3 Hours *Total Marks: 100*

Note: Attempt all Sections. If require any missing data; then choose suitably.

SECTION A

1. Attempt *all* questions in brief. **2 x 10 = 20**

(a) What is meant by Asset Based Valuation Model?
(b) Define Arbitrage Pricing Theory.
(c) What is meant by Composite Cost of Capital?
(d) The average rate of dividend paid by Veer Co. Ltd. for the last five year is 21 Percent. The earnings of the company have recorded a growth rate of 3 percent per annum. The market value of the equity share is estimated to be Rs. 105. Find out the cost of equity share capital.
(e) A company has estimated that for a new product its selling price is Rs. 15 per unit, variable cost is Rs.10 per unit and fixed cost is Rs. 10,000. Calculate the operating leverage for sales volume of 5,000 units.
(f) What is Indifference Point? How is it determined?
(g) Define Interim Dividend.
(h) What is meant by Conservative Dividend Policy?
(i) What is Acquisition?
(j) Define De-Merger.

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SECTION B

2. Attempt any *three* of the following: **10x3=30**

(a) What is Capital Asset Pricing Model? Also discuss its assumptions.
(b) A project cost Rs. 96,000 and is expected to generate cash inflows of Rs. 48,000, Rs. 42,000 and Rs. 36,000 at the end of each year for next 3 years. Calculate project's IRR.
(c) What is meant by Capital Structure? Also discuss the Relevance Theory of Capital Structure.
(d) Details regarding three companies are given below:

	U Ltd.	V Ltd.	W Ltd.
Internal Rate of Return (R_a)	15%	10%	8%
Market Capitalisation Rate (R_e)	10%	10%	10%
Earnings Per Share (E)	Rs. 10	Rs. 10	Rs. 10

By using Walter's Model, you are required to:
(I)Calculate the value of an equity share of each of these three companies when dividend payout ratio is (i) 20%, (ii) 50%, (iii) 0% and (iv) 100%.
(II)Comment on the result drawn.

(e) What is Synergy in merger and acquisition? Also discuss the synergy Benefits.

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SECTION C

3. Attempt any *one* part of the following: **10x1=10**

(a) Discuss the Corporate Valuation Model in Business Management.

(b) What is Finance Function? Explain in brief the different approaches (concepts) to finance functions.

4. Attempt any *one* part of the following: **10x1=10**

(a) A project will cost Rs. 4,00,000. Its stream of earnings before depreciation, interest and taxes (EBDIT) during first year through five years is expected to be Rs. 1,00,000, Rs. 1,20,000, Rs. 1,40,000, Rs. 1,60,000 and Rs. 2,00,000. Assume a 30% tax rate and depreciation on straight-line basis. Calculate the project's accounting rate of return.

(b) XYZ Ltd. issued 2,000 10% Preference Share of Rs. 200 each. Cost of issue is Rs.3 per share. Calculate cost of preference capital if these shares are issued:
(1) at par (2) at premium and (3) at 2% discount.
Also calculate cost of preference shares after tax in the above situations, if corporate dividend tax is 10%.

5. Attempt any *one* part of the following: **10x1=10**

(a) A company needs Rs. 10, 00,000 for the installation of a new factory. The new factory is expected to yield an annual earnings before interest and taxes (EBIT) of Rs. 1,60,000. The current market price per share is Rs. 25 and is expected to drop to Rs.20 if the funds are borrowed in excess of Rs. 5, 00,000. It is considering the possibility of issuing equity shares and raising debt of Rs. 1, 00,000 or Rs. 4,00,000 or Rs. 6, 00,000. Funds can be borrowed at the interest rates indicated below:
Up to Rs. 1,00,000 at 8%
Over Rs. 1,00,000 to Rs. 5,00,000 at 12% and
Over Rs. 5,00,000 at 18%
Assume a tax rate of 50%. Determine the earning per share (EPS) and suggest the best alternative.

(b) A company has sales of Rs. 1 Lakh. The variable costs are 40% of the sales while the fixed operating costs amount to Rs. 30,000. The amount of interest on long-term debt is Rs. 10,000.
You are required to calculate the Operating, Financial and Composite leverages and illustrate its impact if sales increased by 5%.

6. Attempt any *one* part of the following: **10x1=10**

(a) The following information is available in respect of the rate of return on investment, the cost of capital and earnings per share of Ved Ltd.
Rate of Return on Investment(r) = (i). 15%; (ii). 12%; and (iii). 10%
Cost of Capital (CR) = 12%
Earnings per Share (E) = Rs.10
Determine the value of its share by using Gordon's Model assuming the following:

	D/p Ratio (1 - b)	Retention Ratio (b)
(I)	100	0
(II)	80	20
(III)	40	60

(b) What is Irrelevant Concept of Dividend? Discuss its assumptions and limitations too.

7. Attempt any *one* part of the following: **10x1=10**

(a) What are the reasons of merger? Also discuss its types.

(b) What are the issuesin mergers? Discuss the problems in Acquisition.

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