SYBMS sem III A.T.K.T. Exam March-2023
CORPORATE FINANCE

SYBMS Sem 3

TIME ALLOWED: 2½ HOURS **Marks 75**

N.B. (1) Q 1 is compulsory.
(2) Q 2 to Q 5 having internal Options.
(3) Figures in the brackets indicates full marks.

Q 1) (A) Multiple choice Questions: (any 8) **[8 Marks]**

(1) The two objectives of Financial Management are Profit maximization and __ maximization.
(a) Wealth **(b)** Risk **(3)** Expenses **(d)** Tax.
(2) __ is a short term source of Finance.
(a) Trade Credit **(b)** Preference shares **(c)** Equity shares **(d)** Debentures.
(3) Net Profit after Tax is Rs.62,500 and tax rate is 40%, then profit before tax will be __
(a) Rs.1,04,167 **(b)** Rs.1,44,167 **(c)** Rs.37,500 **(d)** Rs.1,37,500.
(4) __ are the creditors of the company.
(a) Debenture-holders **(b)** Equity shareholders **(c)** Preference shareholders. **(d)** None of them.
(5) Fixed dividend is paid for __.
(a) Debenture-holders **(b)** Equity shareholders **(c)** Preference shareholders. **(d)** None of them.
(6) GDR means __
(a) Global Depository Receipts **(b)** German Depository Receipts **(c)** Global Depression Receipts **(d)** None of the above.
(7) Which of the following has the highest cost of capital?
(a) Equity shares Capital **(b)** Loans **(c)** Bonds **(d)** Preference share.
(8) If K is the cost of debt and tax rate, the after tax cost of debt is represented by the formula__.
(a) K/r **(b)** K/(1-t) **(c)** K(t) **(d)** K(1-t).
(9) Net Present Value of a Machine = __
(a) PV of cash inflow less cost of investment **(b)** PV of cash inflow divide cost of investment **(c)** PV of cash inflow add cost of investment **(d)**None of the above.
(10) FDI means__
(a) Fixed Deposit Interest **(b)** Foreign Direct Investment **(c)** Foreign Deposit Inward **(d)** Financing Deficit Investment.

Q 1) (B) Rewrite the statement and state whether the following statements are TRUE/FALSE (Any 7): **[7 Marks]**

(1) Financial Management basically deals with the procurement of funds and their effective utilization in the business.
(2) Debentures and Bonds are the two major parts of the Creditorship Securities.
(3) Partly paid Preference Shares can be redeemed.
(4) EBIT is also known as operating Profits.
(5) Risk free interest rate and cost of capital means the same.
(6) Retained earnings have no market value.
(7) Financial Leverage depends upon the Fixed Financial charges.
(8) The NPV Method of evaluating projects considers time value of money.
(9) IRR Method of evaluating projects considers time value of money.
(10) Purchasing power risk is a part of systematic risk.

Q 2) (A) Calculate the Operating Leverage and Financial Leverage under **[8 Marks]**
Situation I and II and Financial Plans A and B respectively from the following information relating to the operational and capital structure of a company. What are the combinations of Operating and Financial Leverage which gives highest and least value?

Installed Capacity - 2,000 Units.
Actual Production and sales in units - 50% of Installed capacity.

Particulars	Rs.
Selling Price per unit	Rs.20
Variable Cost per unit	Rs.10

Fixed Cost:-

Particulars	Rs.
Under situation I	4,000
Under situation II	5,000

Capital structure:

Source of Funds	Financial Plan

	A (Rs.)	B(Rs.)
Equity	10,000	15,000
Debts (Rate of Interest @ 20%)	10,000	5,000
TOTAL	**20,000**	**20,000**

Q 2) (B) X Ltd. Has the following Capital Structure: **[7 marks]**

Particulars	Rs.
2,00,000 Equity shares of Rs.10 each	40,00,000
10,000 8% Preference shares of Rs.100 each	10,00,000
30,000 8% Debentures of Rs.100 each	30,00,000
TOTAL	**80,00,000**

The shares of the company sell for Rs.20. It is expected that the company will pay next year dividend of Rs.2 per share which will grow to 7% for ever. Assume Tax rate @ 35%.
Calculate the weighted Average cost of Capital.

OR

Q 2) (C) MCX Ltd., is considering three financial plans. **(15 Marks)**
The key information is as follows:-

(1) Total investment to be raised Rs.2,00,000.
(2) Plans for financing proportion:-

Plans	Equity	Debt	Preference Shares
A	100%	NIL	NIL
B	40%	60%	NIL
C	40%	NIL	60%

(3) Cost of debt 8% and cost of preference shares 8%.
(4) Equity shares of the face value of Rs.10 each will be issued at a premium of Rs.10 per share.
(5) Expected EBIT is Rs.80,000.
(6) Tax Rate is 35%.
Determine for each plan:- (1) EPS (2) Financial BEP (3) Compute indifference EBIT between the plans A & B.

Q 3) (A) Good shape company has currently, an ordinary share capital **[8 marks]** of Rs.25 lakhs, consists of 25,000 shares of Rs.100 each. The management is planning to raise another Rs.20 lakhs to finance major programme of expansion through one of four possible financing plans.

<u>The plans are</u>:-

(1) Entirely through ordinary shares.
(2) Rs.10 lakhs through ordinary shares and Rs.10 lakhs through long-term borrowings at 8% interest per annum.
(3) Rs.5 lakhs through ordinary shares and Rs.15 lakhs through long-term borrowing at 9% interest per annum.
(4) Rs.10 lakhs through ordinary shares and Rs.10 lakhs through preference shares with 5% dividend.

The company expected earnings before interest and taxes (EBIT) will be Rs.8 lakhs.
Assuming corporate tax rate 45%, determine the earning per shares (EPS) in each alternatives and comment on the implication of financial leverage.

Q 3) (B) Calculate Internal Rate of Return (IRR) of an investment **[7 Marks]** of Rs.1,36,000 which yields the following Cash Flows before Deprecation tax @ 35% . Depreciation is charged @ 10% on WDV Method.

Years	Cash Inflows(Rs.)
5	20,000
4	30,000
3	60,000
2	40,000
1	30,000

Use 12% and 10% discounting factor.

OR

Q 3) (C) Sanagam Industries Ltd is considering investment of Rs.160 lakhs **[15 Marks]**

in fully automatic Machine. The company provides depreciation on Machinery @ 20% p.a. on straight line method. The scrap value of the Machine at the end of the 5 year is NIL. The company pays income Tax @ 30% on the annual profits. The expected profits before depreciation and Income-Tax for the next 5 years of operation are depicted below.

You are given PV (Present Value) of Re. 1 @ 10% rate for next 5 years.

Year	PV of Rs.1	Estimated profit before depreciation and income tax (Rs.)
1	0.909	55,00,000
2	0.826	50,00,000
3	0.751	45,00,000
4	0.683	44,00,000
5	0.621	42,00,000

You are required to calculate:- (1) Net Present value.(2)Pay Back Period. (3) Discounted payback period (3) Net Present Value (4) Profitability Index.

Q 4) (A) M/S. Infosys Technologies Ltd., has the following capital structure:- **(8 Marks)**

Particulars	Rs.
Equity Share Capital (20 Lacs shares)	2,00,00,000
12% Preference Shares capital	50,00,000
18% Debenture	50,00,000
TOTAL	**3,00,00,000**

It is expected that the company will earn post-tax profits of Rs.60 lakhs. (Tax rate assumed to be 40%)

The company wishes to raise further funds of Rs.200 lakhs and has the following options:-

(a) Issue new debentures and preference shares in equal proportion.

(b) Issue of Preference shares to the extent of 25% and a balance by way of debentures.

(c) Issue new debentures carrying 20 Interest rate.

As a finance manager, which of the above proposal would you recommend?

Q 4) (B) From the following information available for 4 firms, Calculate the Earnings Before Interest (EBIT/NPBIT), Earnings Per Share (EPS). **(7 Marks)**

The operating Leverage and the Financial Leverage.

Particulars	P Ltd.	Q Ltd.	R Ltd.	S Ltd.
Sales (In Units)	20,000	25,000	30,000	40,000
Selling Price Per Unit (In Rs.)	15	20	25	30
Variable Cost Per Unit (In Rs.)	10	15	20	25
Fixed Cost (In Rs.)	30,000	40,000	50,000	60,000
Interest (In Rs.)	15,000	25,000	35,000	40,000
Tax (In %)	40	40	40	40
Number of Equity Shares	5,000	9,000	10,000	12,000

OR

Q 4) (C) Exe Ltd., is considering three financing plans. **(15 Marks)**

The key information is as follows:-

(1) Total investment to be raised Rs.2,00,000.

(2) Plans for financing proportion:-

Plans	Equity	Debt	Preference Shares
A	100%	NIL	NIL
B	50%	50%	NIL
C	50%	NIL	50%

(3) Cost of debt 8% and cost of preference shares 8%.

(4) Equity shares of the face value of Rs.10 each will be issued at a premium of Rs.10 per share.

(5) Expected EBIT is Rs.80,000.

(6) Tax Rate is 45%.

Determine for each plan:- (1)Earning Per Share (EPS) (2) Financial BEP (3) Compute indifference EBIT between the plans A & B.

Q 5) (A) Define FDI. State the emerging trends in FDI in India. **(8 Marks)**

(B) Explain the RBI Guidelines for Public Deposits. **(7 Marks)**

OR

Q 5) Write Short Notes (Any 3 out of 5) **(15 Marks)**

(1) Convertible Debentures

(2) Over Capitalisation
(3) Types Of Preference shares
(4) Protection of Depositors
(5) SEBI Regulations.