



Roll No.																			
----------	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--

**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF MANAGEMENT

SET B

MID TERM EXAMINATION

Even Semester: 2018-19

Date: 25 March 2019

Course Code: FIN 102

Time: 2 Hours

Course Name: Corporate Finance

Max Marks: 40

Programme & Sem: MBA & II Semester

Weightage: 20%

Instructions:

- (i) *Read the questions and answer accordingly.*

Part A

Answer **all** the Questions. **Each** question carries **four** marks.

(3Qx4M=12)

1. What do you understand by capital budgeting process? Enumerate briefly the major steps involved in capital budgeting.
2. Briefly elaborate on the major financial decisions by a financial manager.
3. Discuss agency problem in the context of managers acting as agents of stockholders.

Part B

Answer the Question. Question carries **twelve** marks.

(1Qx12M=12)

- 4.a) A company has ₹500000 6% debentures outstanding today. The company has to redeem the debentures after 5 years and establish a sinking fund to provide funds for redemption. Sinking fund investments earn interest at 10% p.a. The investments are made at the end of each year. What annual payment must the firm make to ensure that the needed ₹500000 is available at the redemption date after 5 years? (6 marks)
- b) Suppose that Reliance Industries had promised to pay ₹.7000 at the end of the seventh year. If the market interest rate is 7.75%, how much are you prepared to pay for the 7year bond now? (6 marks)

Part C

Answer the Question. Question carries **sixteen** marks.

(1Qx16M=16)

5. The expected net cash flows of a project are as follows

Year	Cash Flow
0	-100000
1	20000
2	30000
3	40000
4	50000
5	30000

The cost of capital is 12%. Calculate the following:

a) Payback period b) Discounted payback period c) NPV d) Profitability index e) MIRR



Roll No.

**PRESIDENCY UNIVERSITY
BENGALURU**

SCHOOL OF MANAGEMENT

SET A

MID TERM EXAMINATION

Even Semester: 2018-19

Date: 25 March 2019

Course Code: FIN 102

Time: 2 Hours

Course Name: Corporate Finance

Max Marks: 40

Program & Sem: MBA & II Sem

Weightage: 20%

Instructions:

- (i) *Read the questions and answer accordingly.*

Part A

Answer **all** the Questions. **Each** question carries **three** marks.

(4Qx3M=12)

1. What is Agency Cost? How can it be minimized?
2. Wealth maximization of a shareholders should be the goal of a finance manager. Do you agree with this? Explain your answer briefly.
3. What are the advantages and disadvantages of Internal Rate of Return?
4. What are the various decisions in Corporate Finance and why are they important?

Part B

Answer **both** the Questions. **Each** question carries **six** marks.

(2Qx6M=12)

5.
 - i) An investment of Rs 60000 grows to Rs 300000 in 5 years. What is the annual return earned by this investment?
 - ii) Ms Seema plans to invest ₹5000 today. She wants to know what will be the value of this in 20 years if she earns 12 percent interest compounded (a) annually (b) quarterly and (c) monthly.
6. Your father would like to provide you some money when you are 40 years of age. Presently you are 21 years. Your father for this purpose will invest ₹30,000 in an investment every year (at the end of the year) from now till such time. How much amount do you think you would receive from your father if the investment earns 10% pa.

Part C

Answer the Question. Question carries **eight** marks.

(2Qx08M=16)

7. A company has an investment opportunity costing ₹20000 with the following expected net cash-flows.

Year	Net Cash Flow
1	7000
2	7000
3	7000
4	7000
5	7000

Using 10% as the cost of capital, determine the following

- I. Payback period
 - II. Net Present value.
 - III. Profitability index.
8. X Ltd. is considering the purchase of a machine. The cost of the machine is ₹60,000. The machine has an expected life of 5 years. The cash flows during the expected life of the machine is given below :

Year	E
1	15000
2	20000
3	25000
4	15000
5	10000

Using the above information, calculate the IRR (Internal Rate of Return) of the Investment.

assume that sales and production follow a consistent pattern. Can company use this calculation for calculating its working capital requirement?

Average Debtors	72000	108000
Average Creditors	20000	27000

Calculate Operating cycle and cash cycle of both the company and tell which company is managing working capital better. (7 marks)

8. A company's capital structure consists of the following:

• Equity share of ₹100 each	₹20 lakhs
• Retained earnings	₹10 lakhs
• 9% preference shares	₹12 lakhs
• 7% debentures	₹ 8 lakhs

Total	₹50 lakhs

The company earns 12% on its capital or EBIT is 600,000. The income tax rate is 50%. The company requires a sum of ₹25 lakhs to finance its expansion programme for which the following alternatives are available to it:

- Issue of 20,000 equity shares at a premium of ₹25 per share,
- issue of 10% preference shares
- issue of 8% debenture

Which financing method will be better?

11. You are interested to buy a car. The cost of the car is ₹2,00,000. You approach to a bank and wanted to take a loan of whole amount. Bank told you the interest rate is 10 percent and you have to repay the loan on yearly installment in 10 years. What will be the installment and what will be the loan amortization schedule? (8 marks)

Part C

Answer **all** the Questions.

(3Q=30 marks)

9. The following is the capital structure of Saras Ltd. as on 31-12-2007

Equity Shares – 20000 shares of ₹100 each	₹2000000
10% preference shares of ₹100 each	₹ 800000
12% Debentures	₹1200000

	₹4000000

The market price of the company's share is ₹110 and it is expected that a dividend of ₹10 per share would be declared after 1 year. The dividend growth rate is 6%.

- If the company is in 50% tax bracket Compute the WACC based on book value and market value.
- Assuming that in order to finance an expansion plan, the company intends to borrow a fund of ₹20 lakhs bearing 14% rate of interest, what will be company's revised WACC? This financing decision is expected to increase dividend from ₹10 to ₹12 per share. Dividend growth rate will be same. However the market price of equity share is expected to decline from ₹110 to ₹105 per share. Calculate the WACC based on market value weight also. (15 marks)

10. Company	X	Y
Stocks		
Average Raw material	40000	60000
Average WIP	30000	45000
Average Finished goods	25000	38000
Purchase / consumption of raw material	160000	270000
Cost of production / Cost of goods sold	300000	380000
Sales	360000	432000