Roll No.											

PRESIDENCY UNIVERSITY

BENGALURU

End - Term Examinations – MAY 2025

Date: 24-05-2025 **Time:** 09:30 am – 12:30 pm

School: SOM-PG	**Program:** MBA	
Course Code : MBA2042	**Course Name:** Corporate Finance	
Semester: II	**Max Marks**: 100	**Weightage**: 50%

CO - Levels	CO1	CO2	CO3	CO4	CO5
Marks	22	22	30	26	-

Instructions:

(i) Read all questions carefully and answer accordingly.

(ii) Do not write anything on the question paper other than roll number.

Part A

Answer ALL the Questions. Each question carries 3marks. **10Q x 3M=30M**

1.	You have recently joined as the Financial Planning Manager (FPM) at Solar-Nova Pvt. Ltd., a fast-growing renewable energy company. The CEO has set ambitious goals for the next five years. Recall any two objectives of FPM.	**3 Marks**	**L1**	**CO1**
2.	A startup founder approaches you, a finance consultant, asking why she should even care about learning finance when she has a product to focus on. How would you explain the scope of finance to her?	**3 Marks**	**L1**	**CO1**
3.	A company manager spends lavishly on office upgrades while shareholders want dividend payouts. What type of agency problem is this?	**3 Marks**	**L2**	**CO1**
4.	What is the present value of ₹ 15,000 receivable after 5 years at 10%?	**3 Marks**	**L2**	**CO1**
5.	TCS Ltd. has fixed operating costs of ₹ 5,00,000 and variable cost per unit is ₹100. The selling price per unit is ₹ 150. If the company sells 20,000 units, calculate the Operating Leverage. What does it indicate?	**3 Marks**	**L3**	**CO2**
6.	Zentec Ltd. has sales of ₹ 30,00,000, variable cost of ₹ 18,00,000, fixed operating costs of ₹ 6,00,000, and interest expenses of ₹ 2,00,000.	**3 Marks**	**L3**	**CO2**

	Calculate the Combined Leverage and explain.			
7.	Define Operating Leverage, Financial Leverage, and Combined Leverage. How do they help in analyzing a company's risk profile?	**3 Marks**	**L2**	**CO2**
8.	Adani Enterprises Ltd. manufactures furniture and usually holds inventory worth ₹ 5 lakhs and has receivables of ₹ 3 lakhs. It also has short-term payables worth ₹ 2 lakhs. Identify the type of working capital involved and calculate the Net Working Capital.	**3 Marks**	**L3**	**CO3**
9.	DLF Ltd. takes 40 days to convert raw materials into finished goods, 20 days to sell them, and 30 days to collect receivables. It gets 25 days credit from suppliers. Calculate the operating cycle and explain its relevance.	**3 Marks**	**L3**	**CO3**
10.	A company's board is debating whether to retain ₹10 crore of profit for expansion or distribute it as dividends. Why is the dividend decision significant in this context?	**3 Marks**	**L2**	**CO2**

Part B

Answer the Questions. **Total Marks 40M**

11.	**a.**	**Career vs. Higher Studies – A Financial Decision** You are a 22-year-old recent graduate and are faced with a major life decision. You have two options: **Option A: Start Working Immediately** You have received a job offer with a starting salary of ₹ 6,00,000 per annum, which will increase by 10% every year for the next 5 years. You plan to save 30% of your salary each year and invest it in a fixed deposit earning 8% annually (compounded annually). **Option B: Pursue an MBA** You decide to pursue an MBA that will cost ₹ 10,00,000 in total, paid upfront. During the 2-year course, you will have no income. After graduation, you expect a starting salary of ₹ 12,00,000 per annum, with a 12% annual increment for the next 3 years. You will save 30% of your salary and invest it in the same fixed deposit at 8% compounded annually. **Assumptions for Both Options:** 1. All savings are invested at the end of each year. 2. The investment earns 8% interest compounded annually. 3. You are comparing both options over a 5-year time horizon. 4. You are ignoring tax and inflation for simplicity. Recommend which Option is best based on time value of money.	**10 Marks**	**L3**	**CO 1**
		Or			
12.	**a.**	Mr. John has taken a loan from Axis Bank Ltd., for 5 years at 10% interest rate per annum of ₹ 8,00,000. Determine the loan installment of Mr. John and prepare loan amortization schedule,	**10 Marks**	**L3**	**CO 1**

if the loan are due.

13. **a.** **10 Marks** **L3** **CO2**

You are required to determine the weighted average cost of capital of ABC Ltd., using (i) book value weights and (ii) market value weights. The following information is available for your perusal:

The present book value capital structure of the company is:

1. Debenture (₹ 100 per debenture) ₹ 8,00,000.
2. Preference shares (₹ 100 per share) ₹ 2,00,000.
3. Equity share capital ₹ 10,00,000 (₹ 10 each)

Anticipated external financing opportunities are:

1. ₹ 100 per debenture redeemable at par: 20 year maturity, 8% coupon rate, 4% floatation costs, sale price ₹ 110.
2. ₹ 100 preference shares redeemable at par; 15 year maturity, 10% dividend rate, 5% floatation costs, sales price ₹ 115.
3. Equity shares; ₹ 2 per share, sale price ₹ 22. The anticipated growth rate in dividend is 5% and the company has the practice of paying all its earning in the form of dividends. The corporate tax rate is 50%.

Or

14. **a.** **10 Marks** **L3** **CO2**

A company's capital structure consists of the following: `

	₹
Equity Share of ₹ 100 each	40,00,000
Retained Earnings	10,00,000
9% Preference Shares	25,00,000
7% Debentures	25,00,000
	1,00,00,000

The company earns 12% on its employed capital. The tax rate is 35%. The company requires a sum of ₹ 25 lakhs to finance its expansion program for which following plans are available to it:

1. Issue 20,000 equity shares of ₹ 100 each at a premium of ₹ 25 per share, or
2. Issue 10% preference shares, or
3. Issue 8% debentures.

Which plan is the best plan accordingly EBIT-EPS Analysis.

15. **a.** **10 Marks** **L3** **CO3**

AlphaTech Pvt. Ltd., a mid-sized technology company, is evaluating two mutually exclusive investment projects — Project A and Project B — for expanding its product line. The projects have similar risk profiles and are expected to generate cash flows over a 5-year period. The company uses a discount rate (cost of capital) of 10% to evaluate such projects.

The details of the projects are as follows:

Year	Project A	Project B
0	-5,00,000	-5,00,000
1	1,50,000	2,50,000
2	1,50,000	2,00,000

3	1,50,000	1,50,000
4	1,50,000	1,00,000
5	1,50,000	50,000

The CFO of the company, Mr. Ramesh, insists on using IRR for decision-making, while the CEO, Ms. Kavita, prefers using NPV. The two methods suggest different choices. You have been asked to evaluate the projects using both methods and recommend the best investment option.

Or

16. a. SmartBuild Ltd., a construction and infrastructure company, is evaluating an investment in a new automated concrete production unit. The initial investment required is ₹ 10,00,000. The project will generate cash inflows over the next 5 years. The company's cost of capital is 10%, and it can reinvest intermediate cash flows at this rate. Also, the firm finances the project partly through a loan with an interest rate of 12%. — **10 Marks | L3 | CO3**

The projected cash flows are as follows:

Year	Cash flow
0	-10,00,000
1	2,00,000
2	2,50,000
3	3,00,000
4	2,00,000
5	2,50,000

The CFO wants to assess the profitability using MIRR, arguing that it gives a more realistic picture than traditional IRR, especially when reinvestment assumptions matter.

17. a. You are the Financial Manager of EcoLite Solutions Ltd., a company that manufactures solar-powered lighting systems. The company has experienced steady growth in the domestic market and is now considering expanding into the African market, where demand for sustainable lighting is growing rapidly. — **10 Marks | L2 | CO 1**

The proposed expansion requires a capital investment of ₹ 50 crore for setting up a manufacturing and distribution center in Kenya. This includes land acquisition, equipment, staff recruitment, and logistics setup.

Currently:

- The company has ₹ 15 crore in free cash flow.
- It has a debt-to-equity ratio of 1.2, and the Board is cautious about raising too much debt.
- The CFO has asked you to prepare a financial assessment and strategic recommendation.

		As the Financial Manager, how would you assess the financial viability of this expansion and advise the management? Discuss your role in decision-making and your approach to: 1. Capital budgeting and project evaluation 2. Funding strategy 3. Risk analysis and mitigation 4. Stakeholder communication			
Or					
18.	**a.**	You are working as the Deputy Finance Manager at Nexora HealthTech Ltd., a publicly listed company that develops digital health solutions. During the quarterly review, you discover that a senior manager has manipulated expense reports to delay recognition of certain operational costs. This move improves the company's short-term profitability and could help meet the market's earnings expectations. You bring this to the attention of your immediate supervisor, who tells you "This is a one-time adjustment to help stabilize stock prices" and advises you to "let it go this time", as a whistleblowing action could damage the company's reputation and investor confidence. As a financial professional committed to ethical practice, how would you handle this situation? Explain your course of action and justify it using financial ethics principles.	**10 Marks**	**L2**	**CO 1**

Part C

Answer all the Questions. Each question carries 15marks **2Q x 15M=30M**

19.	**a.**	Karnataka Ltd., plans to undertake a project for placing a new project in the market. The company's cur-off rate is 12%. It was estimated that the project would cost ₹ 40,00,000 in plant and machinery in addition to working capital of ₹ 10,00,000, which will be recovered in full when the project's 5 years life is over. The scrap value of plant and machinery at the end of 5 years was estimated at ₹ 5,00,000. After providing for depreciation on straight line basis, profit after tax were estimated as follows: Year — PAT (₹) 1 — 3,00,000 2 — 8,00,000 3 — 13,00,000 4 — 5,00,000 5 — 4,00,000 Evaluate the project under; (i) Payback Period method, (ii) Average Rate of Return Method, (iii) Net Present Value Method, (iv) Internal Rate of Return Method, and	**15 Marks**	**L3**	**CO3**

20.		The cost sheet of PQR Ltd. provides the following data :	**15 Marks**	**L4**	**CO4**

Particulars	Cost per unit
Raw Materials	₹ 50
Direct Labor	₹ 20
Overheads (Including depreciation of ₹ 10)	₹ 40
Total Cost	₹ 110
Profits	₹ 20
Selling Price	₹ 130

Average raw material in stock is for one month. Average material in work-in-progress is for half month. Credit allowed by suppliers: one month; credit allowed to debtors: one month. Average time lag in payment of wages: 10 days; average time lag in payment of overheads 30 days. 25% of the sales are on cash basis. Cash balance expected to be ₹ 1,00,000. Finished goods remain in the warehouse for one month.

You are required to prepare a statement of the working capital needed to finance a level of the activity of 54,000 units of output. Production is carried on evenly throughout the year and wages and overheads accrue similarly.

State your assumptions, if any, clearly.