AJEENKYA
D Y PATIL UNIVERSITY

End Term Examinations (December 2018)

School: School of Management **Program: MBA Banking and Financial Services**

Course: Corporate Finance **Course Code: MGT510**

Semester: I **Max Marks: 100** **Duration (mins) : 150**

Note : 1. Figures to the right indicates full marks.
2. Attempt any 5.
3. Explain each concept in detail.
4. Each step carry marks.
5. 20 Marks for each question.

Q 1. The company earns 12% on capital. The income tax rate is 50%. The company Requires sum of Rs. 25 Lakhs to finance expansion program for which following Alternatives are available to it:

1) Issue of 20,000 equity shares at a premium of Rs. 25 per share
2) Issue of 10% Preference shares
3) 8% Debentures

It is estimated that P/E ratio in the cases of equity preference and debenture. Financing would be 21.4, 17 & 15.7 respectively. Which of the three financing alternative would you recommend & why? The company capital structure consist of the following:

	Rs. (lakhs)
Equity Share capital	20
Retained earnings	10
9% Preference Share	12
7% Debentures	8

Total	50

Q2. A company is considering two investments, each of which requires on initial investment of Rs 180000. The total cash inflow,

Year	Project A	Project B
1	30000	60000
2	50000	100000
3	60000	65000
4	65000	45000
5	40000	
6	30000	
7	16000	

Cost of Capital is 8%. Rank their profits under NPV Method. Which is most profitable?

Q3.

a) A company issues 12% Debentures for Rs. 300000. Rate of tax is 35%. Calculate the cost of debt (after tax) if the debenture are issued (i) at par (ii) at discount of 10% (iii) at premium of 10%.

b) The market price of share is Rs. 140 and a company plans to pay a dividend of Rs. 8 per share. The growth rate in dividends is estimated at the rate of 10%. Find out the cost of equity capital.

Q4. A) Explain the difference between futures and options.

b) A person deposits Rs 100,000, Rs 200,000, Rs.300,000 and Rs. 400,000 in his deposit account at the end of 1st year, 2nd year, 3rd year and 4th year respectively. Determine the account balance at the end of 4th year where interest rate is 12%.

Q5. Explain the process of IPO and also partiicpants of IPO.

Q6.

Sales (40,000 units)	Rs. 48.00
Less: Trade discount	Rs 2.40

Net sales Rs. 45.60

Cost of sales

Direct material Rs 14.40

Direct Labour Rs 12.60

Factory Overheads Rs. 6.30

Administration Expenses Rs 3.60

Selling and distribution Rs. 4.50

The following changes are anticipated during the next year:

a) Sales units will increase by 25%
b) Material price will increase by 15%
c) Direct wages will increase by 12%
d) Overheads – factory overheads will be limited to 6.5 lakh; admin & selling & distribution are estimated to increase by 8% and 14% respectively.
e) Trade discount no change in rate.
f) Profit target for the year is Rs. 6 Lakh.

Calculate selling price and present the budgeted operating results for the next year

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