Subject Code: KMBN204

PAPER ID-410925

Roll No:

MBA
(SEM II) THEORY EXAMINATION 2023-24
FINANCIAL MANAGEMENT AND CORPORATE FINANCE

TIME: 3 HRS **M.MARKS: 100**

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

SECTION A

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

Q no	Questions	Marks
(a)	Define CAPM model.	02
(b)	Explain Doubling period Rule of 69.	02
(c)	What does a positive NPV indicate about a project?	02
(d)	Define opportunity cost in the context of financial decision-making.	02
(e)	Explain the significance of financial leverage.	02
(f)	Explain point of Indifference.	02
(g)	Discuss retention ratio.	02
(h)	Classify types of dividend policy.	02
(i)	Define a de-merger.	02
(j)	What is meant by financial synergy in a merger?	02

SECTION B

2. Attempt any *three* of the following: 10*3 = 30

(a)	"Without adequate finance no business can survive and without efficient financial management no business can prosper and grow." Comment on this statement outlining the role and scope of financial management.	10
(b)	Define the composite cost of capital. Describe the steps involved in calculating the WACC for a company. Why is WACC important for a firm's investment decisions? Provide a numerical example to illustrate the calculation.	10
(c)	A Ltd. has sales of Rs. 20,00,000, variable cost of Rs. 14,00,000 and fixed costs of Rs.4,00,000 and debt of Rs.10,00,000 at 10% rate of interest. What is the operating, financial and combined leverages? If the firm wants to double the Earnings before interest and tax, how much of a rise in sales would be needed on a percentage basis?	10
(d)	The earnings per share of a company are Rs.8 and the rate of capitalization applicable to the company is 10%. The company has before it an option of adopting a payout ratio of 25% or 50%. Using Walter's formula of dividend payout, compute the market value of the company's share if the productivity of retained earnings is 15%.	10
(e)	Explain the concept of the exchange ratio in the context of mergers. Discuss how the exchange ratio is determined and its significance for the shareholders of the merging companies.	10

SECTION C

3. Attempt any *one* part of the following: 10*1 = 10

(a)	Compare and contrast the asset-based valuation model, earning-based valuation model, and cash flow-based valuation model. Discuss the advantages and disadvantages of each model.	10
(b)	From the following information, by using CAPM model calculate the expected rate of return of a portfolio: Risk Free rate of interest 12% Expected return of market portfolio 18% Standard deviation of an asset 2.8% Market standard deviation 2.3% Co-relation co-efficient of portfolio with market 0.8%	

4. Attempt any *one* part of the following: 10*1 = 10

(a)	Describe the Net Present Value (NPV) and Internal Rate of Return (IRR) methods of project evaluation. How are these methods calculated, and what are their respective advantages and disadvantages?	10
(b)	A Ltd. Company Ltd. is considering the purchase of a machine. Two machines, X	

PAPER ID-410925

Roll No:

MBA
(SEM II) THEORY EXAMINATION 2023-24
FINANCIAL MANAGEMENT AND CORPORATE FINANCE

TIME: 3 HRS **M.MARKS: 100**

and Y are available each costing Rs. 5,000. Earnings after taxation and depreciation based on fixed installment system are expected to be as follows:

Cash Flow

Year	Machine A	Machine B
	Rs.	Rs.
1	500	200
2	1.000	300
3	1,500	1,000
4	400	2,000
5	100	1,000

You are requested to advice the management to compare both the alternatives and decide to choose a machine, according to Net Present Value Method. A discount rate of 10% is to be used.

5. Attempt any *one* part of the following: 10*1 = 10

(a)	Define capital structure and explain its importance in financial decision-making. Discuss the factors that influence a company's choice of capital structure.	10
(b)	Define financial leverage, operating leverage, and combined leverage. Explain how each type of leverage affects a company's financial performance and risk profile.	

6. Attempt any *one* part of the following: 10*1 = 10

(a)	Discuss the Determinants of Dividend Policy.	10
(b)	A company belongs to a risk class for which the appropriate rate of capitalization is 10%. The total number of equity shares is 30,000. The current market price of an equity share is Rs.80. The company is thinking to declare a dividend of Rs.4 per share at the end of the current year. The company expects to have a net income of Rs.3,00,000. It has a proposal to make an investment of Rs.6,00,000 in new proposals. If MM approach is adopted, show that payment or non-payment of dividend does not affect the value of equity shares of the company.	

7. Attempt any *one* part of the following: 10*1 = 10

(a)	Define mergers and acquisitions (M&A) and explain their importance in the corporate world. Discuss the different types of mergers and acquisitions.	10
(b)	A Ltd wants to acquire B Ltd and has offered a swap ratio of 1:2 shares. Following information is provided:	

Particulars	A Ltd	B Ltd
Profit After Tax	18,00,000	3,60,000
Equity shares	6,00,000	1,80,000
Earnings per share	3	2
PE Ratio	10 times	7 times
Market price per share	30	14

Based on above information calculate:
1. Number of equity shares to be issued by A Ltd for acquisition of B Ltd.
2. EPS of A Ltd after the acquisition?
3. Value of A Ltd after acquisition.