Q. P. Code: 30761

Time : 2 ½ Hours **Max. Marks 75**

N.B. 1) Q.1. is compulsory
2) Q.2. to Q.5. having internal options.
3) Figures to right indicate full marks.
4) State your assumptions clearly.

Q1A) Multiple choice [Any 8 out of 10]: **[8]**

a) _______ Capital is the capital of a business which is used in its day to day operations.
1) Fixed 2) Working 3) Negative 4) None of these

b) At Indifference level of EBIT, different financial plans have _______
1) Same EPS 2) Same EBIT 3) Same NPAT 4) Same EBT

c) Repayment of Preference Share or Debenture is termed as _________
1) Issue 2) Redemption 3) Net Proceeds 4) None of these

d) _________ leverage is created with the help of debt component in the capital structure of a company
1) Operating 2) financial 3) Combined 4) None of these

e) ______ Method of Capital Budgeting taken into consideration the time value of money
1) Net present value 2) Internal Rate of Return 3) Both 4) None of these

f) FDI stands for _______
1) Foreign Domestic Investment 2) Foreign Direct Investment
3) Foreign Development Investment 4) None of these

g) ______ is the loan for financing working capital requirement
1) Cash Credit 2) Advances 3) Letter of Credit 4) None of these

h) ______ helps us to determine the present value of a payment that is to be received at a future date
1) Discounting 2) compounding 3) Simplification 4) None of these

i) ______ is known as Creditorship Securities
1) Equity Shares 2) Preference Shares 3) Debentures 4) None of these

j) We include depreciation in cash flows because ________
1) It is an unavoidable cost 2) it involves an outflow
3) it reduces tax liability 4) it is a cash flow

Q1B) Say True or False :[Any 7out of 10] **[7]**

1) Corporate Finance is used for expansion and diversification.
2) WACC is the overall cost of capital.
3) NPV does not take into account the time value of money.
4) The main rational behind FDI is participate in the management of the foreign firm.

5) Financial Breakeven level occurs when EBIT is Zero.
6) Operating Leverage directly impacts the EBIT.
7) Cost of Debt is same as the rate of interest.
8) Trading on Equity results in decreasing EPS for the shareholders.
9) EBIT – Interest = EBT
10) Debenture holders are the owners of the company.

Q2 A) **[15]**

Ramon and Damon Ltd., planning an expansion programme which will require Rs. 30 lakhs and can in the funded through one of the three following options:

a) Issue further equity shares of Rs. 100 each at par.
b) Raise loans at 15% interest
c) Issue preference shares at 12% .

Present paid up capital is Rs. 60 lakhs [comprising only of equity shares of 100 each] and average annual EBIT is Rs. 12 lakhs. Assume Income Tax rate at 50%. After the expansion EBIT is expected to be Rs. 15 lakhs per annum.

Calculate EPS under the three financing options to indicating the alternative giving the highest return to the equity share holders.

OR

Q2P) **[8]**

Calculate the operating leverage, financial leverage and the combined leverage for the Following firms:

.Particulars	N	S	D
Production (in unit)	17,500	6,700	31,800
Fixed Cost (Rs.)	4,00,000	3,50,000	2,50,000
Interest on Loan (Rs.)	1,25,000	75,000	NIL
Selling price per unit (Rs.)	85	130	37
Variable cost per unit (Rs.)	38.00	42.50	12.00

Q2Q) Following are the details regarding the capital structure of MILD company: **[7]**

Types of capital	Book Value	Market Value	Specific Cost
Debentures	40,000	38,000	5%
Preference Capital	10,000	11,000	8%
Equity Capital	60,000	1,20,000	13%
Retained earnings	20,000		9%
	1,30,000	1,69,000	

You are requested to determine the weighted average cost of capital, using:
a) Book value as weights
b) Market value as weights

Q. P. Code: 30761

Q3A) **[15]**

Calculate IRR for project Vipul Ltd.
Initial Investment = Rs. 7,20,000
Further Cash Inflow are
Year 1 - Rs. 2,90,000 Year 2 – Rs. 1,30,000
Year 3 – Rs. 2,80,000 Year 4 – Rs. 90,000
Year 5 – Rs. 2,80,000
Find IRR (by 15% and 16%) when
PV factors are as follows:

Year	PV @15%	PV @ 16%
1	0.869	0.862
2	0.756	0.743
3	0.657	0.640
4	0.571	0.552
5	0.497	0.476

OR

Q 3 P) **[8]**

The rate of return of stocks of A under different states of economy are presented below along with the probability of the occurrence of each state of the economy
.

	Boom	**Normal**	**Recession**
Probability of Occurrence	0.3	0.4	0.3
Rate of Return on stock A (%)	20.0	30.0	50.0

Calculate the expected rate of return and standard deviation of return for stock A

Q3Q) **[7]**

Manohar wants to send his brother to US for further studies after 6 years. He would require RS. 25,00,000 at that time (after 6 years). How much should he invest today if the offered interest rate is 14%.

Q4A) **[15]**

M/s. Sun and Moon Co. Ltd is considering to select one project out of two alternative projects both with life of 5 (five) years and following particulars are given :

Particulars	Years	Project X (Rs.)	Project Y Rs.
Capital Investment		2,00,000	1,00,000
Cash flows	1	60,000	50,000
	2	40,000	45,000
	3	40,000	30,000
	4	35,000	30,000
	5	40,000	20,000

The expected rate of return is 14% p.a. The present value of Rs. 1at 14% p.a. from Year 1 to 5 is as under :

Year	1	2	3	4	5
Present value factor	0.88	0.77	0.68	0.59	0.52

You are required to calculate the comparative profitability of the two projects by using net present value method and advise the management suitably.

OR

Q4P) **[15]**

Key information pertaining to the proposed new financing plans of Hypothetical Ltd. is given below :

Source of Funds	Financing Plans	
	1	2
Equity	15,000 shares of Rs. 100 each	30,000 shares of Rs. 100 each
12% preference share	25,000 shares of Rs. 100 each	
Debentures	Rs.5,00,000 at a coupon rate of 10%	Rs. 15,00,000 at a rate of 11%

If the firm is fairly certain that its EBIT will be Rs. 12,50,000 and tax rate is 50%. Which plan would you recommend and why?

Q5 P) Explain the Principles of Corporate Finance. **[7]**

Q) What do you mean by debentures ? Explain the advantages and disadvantages of debentures. **[8]**

OR

Q5) Write short notes on **(Any 3)** **[15]**

a) Cash Credit
b) Public deposits
c) NBFC's
d) Advantages of FDI
e) GDR v/s ADR.