

VPM's
DR VN BRIMS, Thane
Programme: PGDM (2018-20)
Second Trimester Examination December 2018

Subject	Corporate Finance		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages		Date	24.12.2018

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q. 1 (a) Case Study:

Balance Sheet of Dayal Ltd. as on March 31, 2018 is given below:

Liabilities	Rs. In Crores	Assets	Rs. in Crores
Equity Shares	20.80	Fixed Assets	105.60
Long-term Liabilities	104.00	Current Assets	57.60
Current Liabilities	78.40	P & L A/c	40.00
	203.20		203.20

The following are the additional information:

- (i) Depreciation written off Rs.8 crores.
- (ii) Preliminary Expenses written off Rs. 1.60 crore.
- (iii) Net loss Rs.25.60 crores.

You are required to ascertain the stage of sickness and comment on them. **(5 Marks)**

(b) Fill in the Blanks:

- i. Present value is the current value of a ----- amount.
- ii. Fixed Dividend is paid on ----- share capital.
- iii. In ----- interest, interest is earned on the earlier interest as well as on the original principal.
- iv. If earning before tax is Rs. ----- and tax rate is 20% then earning after tax will be Rs. 1,60,000.
- v. The price at which the debentures are currently sold or bought is called the ----- value.

(5 Marks)

(c) Expand the following abbreviations:

- i. DDM
- ii. NPM
- iii. FVIFA
- iv. ROE
- v. PVIF

(5 Marks)

(d) Name two important ratios from the point of view of each of the following:

- (i) Lender
- (ii) Vendor
- (iii) Investor
- (iv) Management

(5 Marks)

Attempt Any FOUR from the Remaining SIX Questions

Q2) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

a) X Ltd. earns Rs. 6 per share having a capitalization rate of 10 percent and has a return on investment of 20%. According to Walter's model, what should be the price of the share at 25% dividend payout?

b) (i) The following information is related to A Ltd.:

Current liabilities	Rs. 400 lakh
Inventory turnover ratio	2
Quick ratio	1.5
Cost of goods sold	Rs. 180 lakh
Opening stock	Rs. 40 lakh

Compute the total of current assets of A Ltd.

- (ii) R Ltd. furnishes the following information for the year 2017-18:

	Rs.
Opening balance of trade creditors	1,80,000
Closing balance of trade creditors	2,00,000
Net credit annual purchases	7,30,000

Compute the average payment period (assuming 365 days a year) for the year 2017-18.

- c) You are planning to retire in 40 years. Currently, the typical asset pleases you costs Rs. 3 lakhs, but you expect inflation to increase the price of the asset at a rate of 5% over the next 40 years. In order to buy the house on retirement how much must you save each year in equal annual end-of-year deposits, if you can earn 10 percent annually? Given that $FVIF(5\%, 40 \text{ years}) = 7.04$ & $FVIFA(10\%, 40 \text{ years}) = 442.5926$.

Q3) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) A bank sells bonds of face value of Rs. 1,000, which carry a coupon rate of 8% per annum payable annually, with a maturity period of 9 years. The bond sells at a yield to maturity of 9% per annum. What is the selling price of the bond? Given that $PVIFA(9\%, 9 \text{ years}) = 5.995$, $PVIF(9\%, 9 \text{ years}) = 0.460$.
- b) List the factors affecting Dividend Policy of a Firm.
- c) Ramon Co. wants to take over a company that will generate a net cash flow of Rs. 5 Lakhs at the end of one year. The future cash flows are expected to grow at a rate of 8% p.a. and the required rate of return is 15%. How much must Ramon Company pay for the takeover, if it produces cash flows forever?

Q4) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) The profit after tax for a firm is Rs. 20,000. The dividend pay-out ratio is 50%. If the growth rate of the earnings is 4% and the scrip trades at 2.5 times its EPS in the market, calculate the required rate of return by equity shareholders, if the number of outstanding shares is 5,000.
- b) Rs.1,000 par value bond with Coupon rate of 13% p.a. payable annually, matures in 3 years. The required rate of return is 9% per annum. Compute value of the bond. Given that $PVIFA(9\%, 3 \text{ years}) = 2.531$, $PVIF(9\%, 3 \text{ years}) = 0.772$.
- c) The following information is available in respect of Sober Ltd.:
- No. of shares outstanding = 1 Lakh
 EPS = Rs. 4
 Dividend payout per share = Rs.2.4
 Equity capitalisation rate = 12%
 Rate of return on investment = 15%
- Calculate:
- (i) Market value per share as per Walter's Model.
 (ii) Dividend payout ratio to keep share price at Rs.40.
 (iii) Optimum dividend payout ratio as per Walter's Model.
 (iv) Market Value per share at the optimum dividend payout ratio based on Walter's Model.

Q5) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) A bond with face value of Rs. 100 provides 12% annual return and pays Rs. 105 at the time of maturity, which is 10 years from now. If the investor's required rate of return is 13%, at what price should the company issue the bond? Given that $PVIFA(13\%, 10 \text{ years}) = 5.426$, $PVIF(13\%, 10 \text{ years}) = 0.295$.

- b) Mr. Rohan has following investments in two Banks I and II:

	Bank I	Bank II
Amount invested (Rs.)	1,20,000	6,00,000
Compounded Rate of Interest	10% p.a.	8% p.a.
Period	3 Years	3 Years

Calculate the Future value of investment at the end of 3rd year.

- c) Company 'P' issues 12% 2,000 Debentures of Rs. 100 each and company 'Q' issues 15% 3,000 Debentures of Rs. 100 each. The debentures are redeemable after 8 years. Both companies are in tax bracket of 30%. Calculate the cost of debt after tax for both companies, if the Debentures are issued at
- Par
 - 10% discount

iii. 10% premium

Q6) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) A bond of Rs. 1,000 value carries a coupon rate of 10% and a maturity period of 6 years. Interest is payable semiannually. If the required rate of return is 12%, what is the value of the bond? Given that PVIFA (6%, 12) = 8.384, PVIF (6 %, 12) = 0.947, PVIFA (12%, 6) = 4.111, PVIF (12 %, 6) = 0.507.
- b) (i) K Ltd., furnished the following information :
- | | |
|-----------------------------|-----------|
| 9% Preference share capital | 6,00,000 |
| 12% Debentures | 4,00,000 |
| Equity Shareholder's fund | 25,00,000 |
- Compute the capital gearing ratio of K Ltd.
- (ii) The following information is related to A Ltd.:
- Current liabilities and provisions Rs.150 lakh
Net sales = Rs. 700 lakh
Inventory turnover ratio = 7
Current ratio = 1.50
Receivables / Quick Assets Ratio = 0.8
What is the amount of cash and bank balance? (Assume 360 days in a year).
- c) The following information is collected from the annual report of Joy Ltd.:
- Profit before tax = Rs. 2.50 crores.
Tax rate = 40%
Retention ratio = 40%
Number of outstanding shares = 50,00,000
Equity capitalisation rate = 12%
Rate of return on investment = 15%
What should be the market price per share according to Gordon's model of dividend policy?

Q7) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- a) Following are the details of KBS Ltd.:
- 10% Debentures (Rs.100 per debenture) - Rs.10 Lakhs
8% Preference Shares (Rs.100 per share) - Rs. 5 Lakhs
Equity Shares (Rs. 10 per share) – Rs. 20 Lakhs
Dividend is expected at the end of the year Rs. 3 per share, growth rate in dividend is 10% and tax rate is 40%.
Calculate the weighted average cost of capital by considering the above information.
- b) S Limited has issued convertible debentures with coupon rate of 12%. Each debenture has an option to convert to 20 equity shares at any time until the date of maturity. Debentures will be redeemed at Rs. 100 on maturity of 5 years. An investor generally requires a rate of return of 8% p.a. on a 5 year security. As an investor, when will you exercise conversion for given market prices of the equity share of (i) Rs. 4, (ii) Rs. 5 and (iii) Rs. 6.
Cumulative PV factor for 8% for 5 years = 3.993
PV factor for 8% for year 5 = 0.681
- c) Critically examine Modigliani- Miller Model (MM Hypothesis) of dividend payments.