H **Roll No. ....**

MBA–204

M. B. A. (SECOND SEMESTER)

MID SEMESTER

EXAMINATION, 2021-22

CORPORATE FINANCE

Time : 1½ Hours

Maximum Marks : 50

Note : (i) This question paper contains two Sections.

(ii) Both Sections are compulsory.

Section—A

1. True-False. 10×1=10 Marks

(a) In the context of the Capital Asset Pricing Model (CAPM) the relevant measure of risk is Beta.

(b) The amount of bonds actually sells for may be higher or lower than the value printed on its face value.

(c) When interest rates go up, the market price of the bond goes up.

(d) Financial Management is mainly concerned with all aspects of acquiring and utilizing financial resources for firm's activities.

(e) Market value of the shares is decided by the investment market.

(f) Companies take savings as premium, invest in bonds and make payments to beneficiaries are classified as life insurance companies.

(g) Capital profit can never be distributed as dividends to the shareholders.

(h) Dividend capitalization model was developed by Myron J. Gordon.

(i) Shares and bonds are float in money market.

(j) The dividend growth rate is referred to as the dividend yield.

Section—B

Note : (i) Answer all the questions by choosing any *one* of the sub-questions.

(ii) Each question contains three parts (a), (b) and (c). Attempt any *one* part of choice (a) and (b) from each question and part (c) is compulsory of each question.

2\. (a) Discuss the major financial decisions. Elaborate the role of corporate finance manager in financial decision making.

10 Marks (CO1)

OR

(b) The "wealth maximization" objective provides an appropriate criterion for financial decision making. Explain.

10 Marks (CO1)

(c) **Case let/Numerical (Compulsory) :**

10 Marks (CO1)

Mr. A. Bose is running a successful business. Mr. Bose is the owner of R. K. Cement Ltd. Mr. Bose decided to expand his business by acquiring a Steel Factory. This required an investment of ₹ 60 crores. To seek advice h this matter, he called his financial advisor Mr. T. Ghosh who advised him about the judicious mix of equity (40%) and Debt (60%). Employ more of cheaper debt may enhance the BPS. Mr. Ghosh also suggested him to take loan from a financial institution as the cost of raising funds from financial institutions is low. Though this will increase the financial risk but will also raise the return to equity shareholders. He also apprised him that issue of debt will

not dilute the control of equity shareholders. At the same time, the interest on loan is a tax deductible expense for computation of tax liability. After due deliberations with Mr. Ghosh, Mr. Bose decided to raise funds from a financial institution.

Questions :

(i) Identify the concept of Financial Management as advised by Mr. Ghosh in the above situation.

(ii) In the above case Mr. Ghosh suggested to raise more fund from debt. What will higher debt-equity ratio results in ?

(iii) "Mr. T. Ghosh who advised him about the judicious mix of equity (40%) and Debt (60%)." What are the advantages and disadvantages of having higher debt funding in the capital structure ?

(iv) Employ more of cheaper debt may enhance the BPS. Such practice is called ?

3. (a) Explain risk-return trade off in financial decision making. 10 Marks (CO2)

OR

(b) Elaborate Capital Asset Pricing Model (CAPM). Discuss the assumptions and limitations of CAPM. 10 Marks (CO2)

(c) **Case let/Numerical (Compulsory) :**

10 Marks (CO2)

A company is expected to pay a dividend of ₹ 4 per equity share now. Its dividend are expected to grow at 15% for the next five years and then at the rate of 10% indefinitely. Find out the present value of its equity share, if the capitalization rate is 12%.

Following are the present value factors at 12% per annum :

Year	**PV Factor at 12%**
1	0.893
2	0.797
3	0.712
4	0.636
5	0.567
6	0.507