2312E1101

Candidate's Seat No :________

IMSc Fintech Sem-7 Examination

FITMSC-04

Corporate Finance

December-2024

Time : 2-30 Hours] **[Max. Marks : 70**

Instructions:
- Figures to the right indicate Full Marks.
- Do not write anything on the question paper.
- Simple calculator is allowed. Do not use a scientific calculator.

Q.1 A.	**Define Corporate finance along with Emerging Role of the Financial Manager.**	(14)
	OR	
Q.1 A.	**Define Corporate Finance with its objectives and components with suitable practical example.**	(14)
Q.2 A.	**A Company has declared and paid current dividend of Rs.3, which will grow at 10% up to first three years, then its growth rate will go down to 8%. The expected rate of return on equity shares is 15%. Calculate the current market price of Equity shares under two stage growth model (H-model).**	(14)
	OR	
Q.2 A. (i)	**The rate of return and probability in different situation for investment security is available as under.**	(07)

Situation	Probability	Rate of Return
Pessimistic Situation	0.15	12%
Most Likely Situation	0.60	16%
Optimistic Situation	0.25	26%

You are required to calculate standard deviation and co-efficient of variation for expected return.

Q.2 A. (ii)	**The Beta of the share of the company is 1.5, the interest of the risk-free government securities is 8% and the average marks return on share market investment portfolio is 18%. Calculate the expected rate of return as per CAPM Model.**	(07)

(P.T.O)

Q.3 A. One factory was doing its manufacturing activities by manual labour. It wants now to install a machine and employ it in the manufacture of goods. There are two machines, the details regarding which are given below. With the help of profitability statements advise the management which machine should be purchased (Use Pay Back Period) (14)

Particulars	Machine 'X'	Machine 'Y'
Cost of Machine	Rs.15,000	Rs.24,000
Estimated life in Years	5	6
Estimated cost of materials (indirect) per year	Rs. 500	Rs. 700
Estimated savings in scrap	Rs. 1,000	Rs. 1,500
Estimated Savings in direct wages :		
Employees not required	18	24
Wages per employee (p.a)	Rs. 500	Rs. 500
Additional Cost of maintenance	Rs. 700	Rs. 1,450
Additional Cost of Supervision (p.a)	Rs. 1,250	Rs. 1,750

Taxation is to be taken at 50% of Net Profits. Ignore depreciation for the tax purpose.

OR

Q.3 A. ShreeRaj company ltd. is considering to invest in a project requiring a capital of Rs 2,00,000. Forecast for annual income after depreciation but before tax is as follows: (14)

YEAR	RS	YEAR	RS
1	40,000	6	50,000
2	30,000	7	30,000
3	40,000	8	45,000
4	35,000	9	40,000
5	10,000	10	30,000

Depreciation is to be taken on original cost and taxation at 50% of net profit. You are required to evaluate the project according to each of the following methods:

1) Pay back method
2) NPV at 10% discount factor
3) Profitability index at 10% discount factor
4) Accounting rate of return method
5) IRR at 10% discount factor and at 15% discount factor.

Q.4 A.	The Balance Sheet of the meet company as on 31-3-2024 is as under :	(14)

Liability	Rs.	Assets	Rs.
Equity capital (Rs. 10 each)	1,00,000	Fixed assets	2,00,000
Reserves	50,000	Currents assets	1,00,000
10% preference capital (Rs. 100 each)	50,000		
10% debentures (Rs. 100 each)	50,000		
Current liability	50,000		
	3,00,000		3,00,000

Additional information –
The cost of equity capital is 16% and the cost of reserves is 15%,Tax rate – 50%.
The average market price –
Equity : Rs. 18.
Preference : Rs. 80.
Debentures : Rs. 70.
Calculate the following –
Weighted average cost of capital under the book value and market value.

OR

Q.4 A.	During the year 2023-2024 Mahashaveri Pvt. Ltd. Sales is Rs. 10,00,000, Fixed expense are Rs. 2,00,000, while variable expenses are 50% of sales. Income tax rate 50%. The balance sheet of the company as on 31-3-2017 is as follows:	(14)

Liability	Rs.	Assets	Rs.
Equity share capital (Rs. 10 per share)	1,20,000	Net Fixed assets	3,00,000
10% debentures	1,50,000	Current assets	1,00,000
Reserves and Surplus	50,000		
Current liability	80,000		
	4,00,000		4,00,000

From the above information, calculate operating leverage, financial leverage and combined leverage.
Determine the likely level of EBIT if EPS is Rs. 2,3 and zero.

(P.T.O)

E1101-A

Q.5 **Give answers of following Multiple Choice Questions with necessary explanation (Any 7 from 10)** (14)

1. **What is relation between profitability and risk?**
   - A. Absence of relation
   - B. Positive
   - C. Inverse
   - D. All of these
2. **Liquidity and risk have?**
   - A. Direct relation
   - B. Increase relation
   - C. No relation
   - D. Decrease relation
3. **Risk of two securities with expected return can be compared with?**
   - A. Variance of two securities
   - B. Coefficient of the securities
   - C. Standard deviation
   - D. None of these
4. **PAR Value can also name as**
   - A. Face Value
   - B. Market value
   - C. Redemption Value
   - D. None of these
5. **Zero Coupon bonds carry?**
   - A. No interest
   - B. No maturity value
   - C. Both (A) and (B
   - D. None of these
6. **Who gave the CAPM Model?**
   - A. Willian Sharpe
   - B. Willian James
   - C. M.J. Gordon
   - D. Walter
7. **If the risk free return is 8% beta value is 1.8% and market rate of return is 14%, the expected rate of return would be:**
   - A. 18.8%
   - B. 20.2%
   - C. 17.5%
   - D. 19.9%
8. **Operating leverage helps in the analysis of**
   - A. Business risk
   - B. Financing risk
   - C. Production risk
   - D. Credit risk
9. **The level at which total operating expenses are equal to the amount of total interest is called ______.**
   - A. Break-even financial leverage
   - B. Break-even combined leverage
   - C. Financial leverage
   - D. Both (A) and (B)
10. **A "ZERO" Net Present Value indicates _______?**
    - A. Is unacceptable
    - B. Has profitability index >1
    - C. Has profitability index <1
    - D. Has return equal to minimum rate of return