



**NAVVRACHANA  
UNIVERSITY**  
a UGC recognized University

**School:** School of Business & Law  
**Program/s:** MBA  
**Year:** 2<sup>nd</sup> **Semester:** 4<sup>th</sup>  
**Examination:** End Semester Examination  
**Examination year:** May 2023

**Course Code:** FIN403 **Course Name:** Corporate Finance  
**Date:** 18-May-2023  
**Time:** 10:00 TO 12:00

**Total Marks:** 40  
**Total Pages:** 2

**Instructions:**

- Write each answer on a new page.
- Use of a calculator is permitted.
- Notations have their usual meanings.
- \* COs=Course Outcome mapping. # BTL=Bloom's Taxonomy Level mapping

Q. No.	Details	Marks
Q.1	Explain in detail: Agency Problem and Agency Cost. OR Explain Working capital cycle in brief. Also mention formula for various components of operating cycle.	4
Q.2	Why MIRR is preferred over IRR method? What is the difference between independent and mutually exclusive projects?	3
Q.3	Explain the concept of time value of money with its uses.	2
Q.4	Define future value of an annuity with its types.	3
Q.5	a) Mention assumptions of Walter's model of dividend theory. b) Mention the effect of dividend policy as per Walter's model on value of share. OR a) Vikas Engineering has 10,00,000 equity shares outstanding. The current market price per share is Rs. 100. The net income for current year is Rs. 3,00,00,000 and investment budget is Rs 4,00,00,000. Cost of equity is 10%. The company is considering dividend of Rs. 5 per share for the current year. Assuming M-M approach of dividend policy, what will be market price of the share at the end of the year, (i) if the dividend is paid and (ii) if the dividend is not paid b) List down limitations of Modigliani & Miller's approach of dividend policy.	6

Q.6	Assuming the cost of equity is 11%, rate of return on investment is 12%, and earning per share is Rs 15, Calculate price per share by 'Gordon model', if a) dividend payout ratio is 10% b) dividend payout ratio is 30%	3												
Q.7	The cost of a project is Rs 70,000 and it generates cash inflows of Rs 20,000, Rs 15,000, Rs 25,000, and Rs 10,000 over four years. Using the profitability index method, appraise the profitability of the proposed investment, assuming a 10% rate of discount.	4												
Q.8	A project with a 3-year life and a cost of Rs. 1,00,000 generates revenue of Rs. 25,000 in year 1, Rs. 45,000 in year 2, and Rs. 65,000 in year 3. If the discount rate is 8%, what is the NPV of the project?	4												
Q.9	A company's share is currently quoted in the market at Rs.20. The company pays a dividend of Rs.2 per share and the investors expect a growth rate of 5% per year. Calculate (a) Cost of equity capital of the company, (b) The market price per share, if the anticipated growth rate of dividend is 7%	4												
Q.10	ABC Ltd. issues 12.5% debentures of face value of Rs 100 each, redeemable at the end of 7 years. The debentures are issued at a discount of 5% and the flotation cost is estimated to be 1%. Find out the cost of capital of debentures given that the firm has 30% tax rate.	3												
Q.11	Coughlin Motors is considering a project with the following expected cash flows. <table border="1" data-bbox="312 1199 971 1457"> <thead> <tr> <th>Year</th> <th>Project Cash Flow (Rs)</th> </tr> </thead> <tbody> <tr> <td>0</td> <td>-700 million</td> </tr> <tr> <td>1</td> <td>200 million</td> </tr> <tr> <td>2</td> <td>370 million</td> </tr> <tr> <td>3</td> <td>225 million</td> </tr> <tr> <td>4</td> <td>100 million</td> </tr> </tbody> </table> The project's WACC is 10 percent. What is the project's discounted payback period?	Year	Project Cash Flow (Rs)	0	-700 million	1	200 million	2	370 million	3	225 million	4	100 million	4
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\*\*\*\*\*End of Question Paper\*\*\*\*\*