GALGOTIAS UNIVERSITY

ADMISSION NUMBER

School of Business

Master of Business Administration MBA Dual Specialization
Summer Term Examination – July - August 2024

Duration : 180 Minutes
Max Marks : 100

Sem II - D1PK202T /MBDS5013 - Corporate Finance

General Instructions
Answer to the specific question asked
Draw neat, labelled diagrams wherever necessary
Approved data hand books are allowed subject to verification by the Invigilator

1) How do determinants like earnings stability, growth opportunities, and investor preferences influence a firm's dividend policy and long-term financial strategy? K5(5)

2) Alpha ltd. has surplus of ₹20 lakh available for the next 5 years. At the end of the period, the firm will need the amount for investing in its business expansion. If the firm decided to invest the surplus in a scheme that offers a 13% per annum, how much would the amount grow to at end of 5 years. K3(6)

3) A newly established small business owner is seeking advice on setting up financial management systems and processes. As a financial consultant, provide practical recommendations tailored to the business owner's needs and objectives to establish a solid foundation for financial management. K4(8)

4) Compute the Economic Order Quantity from the following details: Annual Inventory
Requirements = 4,00,000 units
Cost of placing each order = Rs. 20 Carrying cost for one year = Rs. 4 per unit. K4(8)

5) As a finance manager, you're evaluating two mutually exclusive investment projects with different cash flow patterns. One project offers higher returns but involves higher risk, while the other offers moderate returns with lower risk. How would you apply capital budgeting techniques to decide which project to undertake, considering the company's risk appetite and strategic objectives? K3(9)

6) Company PQR is considering investing in a new project with uncertain cash flows. Applying risk analysis techniques, how would you evaluate the project's potential outcomes and associated risks. K3(9)

7) Imagine a manufacturing company is considering two alternative financing plans to fund its expansion project. How would you advise the company to conduct an EBIT-EPS analysis to determine the optimal mix of debt and equity financing for maximizing earnings per share (EPS)? K5(10)

8) The following information is available in respect of the growth firm, normal firm and declining firm, r= 0.15 for growth firm, 0.10 for normal firm and 0.08 for the declining firm. K4(12)

Ke= 0.10

E=Rs 10

You are required to calculate the dividend policy and the value of the firm using Gordon's model when

D/P Ratio	Retention ratio
40%	60%
60%	40%
90%	10%

9) a] A company's expected operating income[EBIT] is Rs 3,00,000. It has Rs 12,00,000, 9% debentures. The equity capitalization rate of company is 12%. Calculate the value of the firm and overall capitalization rate according to the Net income approach (Ignore income tax). K5(15)

b] If the debenture debt is increased to Rs 15,00,000, what shall be the value of the firm and overall capitalization rate according to the Net income approach?

c] If the debenture debt is decreased to Rs 10,00,000, what shall be the value of the firm and overall capitalization rate according to Net income approach ?

10) ABC Corporation, a manufacturing company, is contemplating investing in new technology to improve its production efficiency. The initial investment required for this technology is Rs. 500,000. The company expects that this investment will result in annual cost savings of Rs. 100,000 over the next five years. The company's cost of capital is 10%. K6(18)

Sub-questions:

Q.(i) Estimate the Net Present Value (NPV) of the investment in the new technology. Interpret the NPV result and provide recommendations to ABC Corporation based on this analysis. (6 Marks)

Q.(ii) Discuss the significance of the cost of capital in evaluating investment opportunities. How does the cost of capital influence the decision-making process for ABC Corporation? (6 Marks)

Q.(iii) Conduct a sensitivity analysis to assess the impact of variations in the cost savings and cost of capital on the NPV of the investment. Analyze the implications of these variations for ABC Corporation's investment decision. (6 Marks)