(c) Dividend per share of a firm is expected to be Rs. 10 per Share next year and is expected to grow at 5% per year perpetually. Determine the cost of Equity Capital, assuming the market price per share is Rs. 75.

OR

Explain why companies always prefer a debt equity mix in capital structure planning.

(d) Simulation is superior to sensitivity Analysis. Comment.

OR

What is Capital Budgeting ? List Various Methods of Capital Budgeting. Give merits and demerits of NPV Method.

(e) The following Information is available in respect of a firm :

Capitalisation rate (K_e) = 10%

Earnings per Share € = Rs. 10

Assumed rate of return on investment :

(i) 15%

(ii) 8%

(iii) 10%

	D/P Ratio (1-b)	Retention Ratio (b)
1	0	100
2	50	50
3	100	0

Show the effect of dividend policy on the market price of shares, using Walters model.

OR

MM Approach is a practical approach of Capital Structure Planning. Do you agree ? Comment.

(Following Paper ID and Roll No. to be filled in your Answer Book)

PAPER ID : 1278 Roll No. | | | | | | | | | | |

MBA

(SEM. III) ODD SEMESTER THEORY EXAMINATION 2013-14

CORPORATE FINANCE

Time : 3 Hours *Total Marks : 100*

Note :–Attempt **all** Sections.

SECTION–A

1. Answer all **ten** questions in **50-75** words each. All questions carry equal marks. **(10×2=20)**

(a) What is sensitivity analysis ?

(b) Define Unsystematic Risk with suitable example.

(c) What is Property Dividend ?

(d) Define the term Agency Problem.

(e) Give the merits and demerits of Profitability Index Method.

(f) What is Cost of Retained Earnings ?

(g) Define Market Anomalies.

(h) Define Divestures.

(i) Describe Capital rationing.

(j) Define the merits and demerits of Payback period method.

SECTION–B

2. Answer any **three** of the following questions in not more than 200 words : **(3×10=30)**

(1) Mr. Jhonson is considering an investment proposal of Rs. 40,000. The expected returns during the life of the investment are as under :

Year	1	2	3
Cash Inflow	16000	24000	20000
Probability	0.3	0.5	0.2

The cash inflows in year 2 depend on the cash in flow in year 1. The probability distribution of year 2 inflows is as under :

Year 1 Inflow = 16000		Year 2 Inflow = 24000		Year 3 Inflow = 20000	
Cash Inflow	**Probability**	**Cash Inflow**	**Probability**	**Cash Inflow**	**Probability**
30000	0.2	40000	0.1	5000	0.2
40000	0.6	60000	0.8	8000	0.5
50000	0.2	80000	0.1	12000	0.3

If the discount rate is 10%, calculate the expected NPV of the project with the help of decision tree analysis.

(2) Explain briefly the main determinants of dividend policy of a firm.

(3) What do you mean by Economic Value Added ? Describe the pros and cons of EVA.

(4) Define the term Valuation. Describe its purpose and Discounted cash flow method of Valuation.

(5) Apex Limited is considering purchase of a machine costing Rs. 3,00,000. It has a useful life of 5 years with no salvage value. Followng details are available :

Year	1	2	3	4	5
Profit Before Depreciation & Taxes (in Rs.)	1,00,000	1,10,000	1,20,000	1,30,000	90,000

The applicable tax rate is 40% and depreciation is charged at the rate of 20% by WDV method. Find out the IRR of the project.

SECTION–C

Note :– Answer the following in not more than **500** words : **(10×5=50)**

3. (a) Discuss the Net Operating Income Theory of Capital Structure with the help of an example.

OR

Discuss briefly the terms Acquisition and Takeover. Define the pros and cons of takeover.

(b) "The role of Finance Manager in today's world is not just a treasurer and controller but a stategist too." Comment.

OR

Efficient Market Hypothesis–Define its Various Forms.