

Total No. of Questions : 5]

SEAT No. :

P3823

[4870] -4005

[Total No. of Pages : 4

M.B.A

**404 (FIN): CORPORATE FINANCE (Special)
(2013 Pattern) (Semester-IV)**

Time : 2½ Hours]

[Max. Marks : 50

Instructions to the candidates:

- 1) *All questions are compulsory.*
- 2) *Each question has an internal option.*
- 3) *Each question carries 10 marks.*
- 4) *Figures to the right indicate marks for that question /sub question.*
- 5) *Use of calculators is permitted (as applicable).*

Q1) a) What are the assumptions underlying shareholders wealth maximisation objective and corporate wealth maximisation objective.

OR

b) Investment and Financing decisions are important aspects of corporate finance, Comment.

Q2) a) Following is the balance sheet of hypothetical company limited as on March 31 current year. [Amt in Lakh]

Liabilities	Amt	Assets	Amount
Sharecapital:		Fixed Assests	150
Preference Shares		(Less) Depreciation	<u>30</u> 120
@ 11% of Rs. 100			
each, fully paid			
up [40,000 units of			
Preference shares]	40		
Equity shares of Rs.100			
each, fully paid up			

P.T.O.

[120000. Units of equity
shares]

120

Current Assets:

Profit and loss A/C	23	Stocks.	100	
10% Debentures	20	Debtors.	50	
Trade creditors	71	Cash at bank	<u>10</u>	160
Provision for I - Tax	08	Preliminary		
		expenses		<u>02</u>
Total	<u>282</u>	Total		<u>282</u>

Additional Information.

- i) A firm of professional valuers has provided the following market estimates of its various assets:

Fixed assets Rs. 130 lakh, Stock Rs. 102 lakh, Debtors Rs 45 lakh.

All other assets are to be taken at their balance sheet value.

- ii) The company is yet to declare and pay dividend on preference shares.
- iii) The valuers also estimate the current sale proceeds of the firms assets, in the event of its liquidation: Fixed assets Rs. 105 Lakh, Stock Rs 90 lakh, debtors Rs 40 lakh. Besides the firm is to incur Rs 15 lakh liquidation costs.

You are required to compute the Net Asset Value per share as per Book Value, Market Value and liquidation value bases.

OR

- b) In current year a firm has reported a profit of Rs. 65 lakh after paying taxes at 35%. On close examination, the analyst ascertains that the current year's income includes (i) extra ordinary income of Rs 10 lakh and (ii) extra ordinary loss of 3 lakh. Apart from the existing operations which are normal in nature and are likely to continue in the future, the company expects to launch a new product in the coming year. Revenue and cost estimates in the respect of the new product are as follows:

Particulars	(Rs in lakhs)
Particulars	Amt
Sales	60
Material cost	15
Labour cost (additional)	10
Allocated fixed cost	05
Additional fixed costs	08

From the given information, compute

- i) Value of the business, given that the capitalization rate applicable to such business in the market is 15%.
- ii) Market price per equity share (based on future earnings) assuming.
 - 1) The company has 1,00,000 , 11% preference shares of Rs. 100 each fully paid up.
 - 2) The company has 4,00,000 , equity shares of Rs. 100 each, fully paid up.
 - 3) P/E ratio is 8 times.

- Q3)** a) i) What is corporate governance, how is it different from corporate management?
- ii) State various models of corporate governance.

OR

- b) Define VBM. What are the benefits of implementation of VBM? What are its limitations?

- Q4)** a) The earning per share of the company is Rs. 10 and the rate of capitalization applicable is 12%. The company has before it an option of adopting (i) 50% (ii) 75% (iii) 100% dividend payout ratio. Calculate market price of the company's quoted shares as per Walters Model if it can earn a return of 20%.

OR

- b) XYZ is an established company having its shares quoted in the major stock exchange. Its share current market price after dividend distributed at the rate of 20% p.a having a paid up share capital of Rs. 40 lakhs is Rs. 10/- each. Annual growth rate in dividend is expected to be 4%. The expected rate of return on its equity capital is 15%.

Compute value of XY Ltd's share based on dividend growth model.

- Q5) a)** Define corporate restructuring? What are the features and the broad areas of restructuring.

OR

- b) Write short notes on:
- i) Reasons for corporate restructuring.
 - ii) Disinvestment technique of restructuring.

ζ ζ ζ