

BIRLA INSTITUTE OF TECHNOLOGY, MESRA, RANCHI
(END SEMESTER EXAMINATION)

CLASS: MBA
BRANCH: MBA

SEMESTER : III
SESSION : MO/2024

SUBJECT: MT506 CORPORATE FINANCE

TIME: 3 Hours

FULL MARKS: 50

INSTRUCTIONS:

1. The question paper contains 5 questions each of 10 marks and total 50 marks.
2. Attempt all questions.
3. The missing data, if any, may be assumed suitably.
4. Before attempting the question paper, be sure that you have got the correct question paper.
5. Tables/Data hand book/Graph paper etc. to be supplied to the candidates in the examination hall.

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|---|-------------------|----------------------|------------------------|-------------|-------------------|----------------------|------------------------|---------------|---------------|--------------------|----------|--------------|--------------|---------------|--------|---------|----------|--|--|----------------|----------|--|--|------------------|--------|--|--|--|-------|--|--|-------|----------|--|----------|
| Q.1(a) Discuss the use of Financial Ratio to analyse the financial statement. | [5] | 3 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.1(b) Examine the role and function of a finance manager in an organization. | [5] | 3 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.2(a) Discuss in brief Bond pricing thermos. | [5] | 3 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.2(b) Describe the assumption and uses of Gordon Growth Model. | [5] | 4 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.3(a) Examine the relevance of investment criteria on Capital budgeting decision. | [5] | 4 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.3(b) Provide conceptual understanding of Sensitivity Analysis and Scenario Analysis. | [5] | 2 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.4(a) A ltd. Is studying the possible acquisition of B ltd. The following data are available: | [5] | 3 | 4 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 15%;">Firm</th> <th style="width: 25%;">After Tax Earning</th> <th style="width: 25%;">No. of equity Shares</th> <th style="width: 35%;">Market price per share</th> </tr> </thead> <tbody> <tr> <td>A ltd.</td> <td>Rs. 10,00,000</td> <td>2,00,000</td> <td>Rs. 75</td> </tr> <tr> <td>B ltd.</td> <td>Rs. 3,00,000</td> <td>50,000</td> <td>Rs. 60</td> </tr> </tbody> </table> | | | | Firm | After Tax Earning | No. of equity Shares | Market price per share | A ltd. | Rs. 10,00,000 | 2,00,000 | Rs. 75 | B ltd. | Rs. 3,00,000 | 50,000 | Rs. 60 | | | | | | | | | | | | | | | | | | | | |
| Firm | After Tax Earning | No. of equity Shares | Market price per share | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| A ltd. | Rs. 10,00,000 | 2,00,000 | Rs. 75 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| B ltd. | Rs. 3,00,000 | 50,000 | Rs. 60 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| If the merger goes through by exchange of equity shares and exchange ratio is set according to the current market prices, what is the new earning per share for A ltd? | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.4(b) Write a short note with example on Horizontal Merger and Vertical Merger. | [5] | 2 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.5(a) Describe the relationship between EVA & MVA. | [5] | 3 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Q.5(b) LH Ltd. provides you with the following summarized balance sheet as at 31st March 2017. (Rs. in lakhs) | [5] | 4 | 3 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| <table style="width: 100%; border-collapse: collapse; margin-top: 5px;"> <thead> <tr> <th style="width: 30%;">Liabilities</th> <th style="width: 10%;">Amount</th> <th style="width: 30%;">Assets</th> <th style="width: 10%;">Amount</th> </tr> </thead> <tbody> <tr> <td>Share Capital</td> <td style="text-align: right;">981.46</td> <td>Fixed Assets (Net)</td> <td style="text-align: right;">2,409.90</td> </tr> <tr> <td>Reserves and</td> <td></td> <td>Current Asset</td> <td style="text-align: right;">50.00</td> </tr> <tr> <td>Surplus</td> <td style="text-align: right;">1,313.62</td> <td></td> <td></td> </tr> <tr> <td>Long term Debt</td> <td style="text-align: right;">2,295.08</td> <td></td> <td></td> </tr> <tr> <td>Sundry Creditors</td> <td style="text-align: right;">144.44</td> <td></td> <td></td> </tr> <tr> <td></td> <td style="text-align: right;">20.38</td> <td></td> <td></td> </tr> <tr> <td>Total</td> <td style="text-align: right;">2,459.90</td> <td></td> <td style="text-align: right;">2,459.90</td> </tr> </tbody> </table> | | | | Liabilities | Amount | Assets | Amount | Share Capital | 981.46 | Fixed Assets (Net) | 2,409.90 | Reserves and | | Current Asset | 50.00 | Surplus | 1,313.62 | | | Long term Debt | 2,295.08 | | | Sundry Creditors | 144.44 | | | | 20.38 | | | Total | 2,459.90 | | 2,459.90 |
| Liabilities | Amount | Assets | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Share Capital | 981.46 | Fixed Assets (Net) | 2,409.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Reserves and | | Current Asset | 50.00 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Surplus | 1,313.62 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Long term Debt | 2,295.08 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Sundry Creditors | 144.44 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 20.38 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Total | 2,459.90 | | 2,459.90 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Additional information provided is as follows: | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (i) Profit before interest and tax is Rs. 2,202.84 lakhs | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (ii) Interest paid is 1Rs. 3.48 lakhs. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (iii) Tax rate is 40% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (iv) Risk Free Rate = 11.32% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (v) Long term Market Rate = 12% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (vi) Beta = 1.62 (highest during the period) | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| (vii) Cost of equity = 12.42% and cost of debt = 5.6%. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| You are required to calculate Economic Value Added of LH Ltd. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |