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Sr. No. of Question Paper : 2762

Roll No.....

Paper No. : XIX-XX Gr. A(i)

Name of the Course : BBE – 2013 (OC)

Name of the Paper : Corporate Finance

Semester : V

Duration : 3 Hours

Maximum Marks : 60

Instructions for Candidates

1. Write your Roll No. on the top immediately on receipt of this question paper.
2. Attempt any Five questions in all.
3. All questions carry equal marks.
4. Only simple calculator is allowed.

1. (a) Net Present value has an important property which is extremely useful in taking decisions on Capital Rationing. What is this property of NPV and explain its usefulness with an illustration ?
(b) Beta of a stock only captures market risk. Discuss.
(c) Write a note on incremental IRR. (5,4,3)
2. An investment proposal which requires an initial outlay of Rs. 10,00,000. The project has a cash inflow only during the first two years. Each of the cash inflow is sensitive and hence has a probability attached to it. The cash flows of the second year are dependent on the cash flows of the first year. The following information is available :

P.T.O.

Expected Cash Flow in year 1(Rs)	Probability
4,00,000	0.3
5,00,000	0.4
6,00,000	0.3

If the cash inflow in year 1 is Rs.4,00,00 the following shall be the cash inflow for the year 2

Expected Cash Flow in year 2 (Rs)	Probability
5,00,000	0.3
6,00,000	0.4
7,00,000	0.3

Again if the cash inflow in year 1 is Rs. 5,00,00 the following shall be the cash inflow for the year 2

Expected Cash Flow in year 2 (Rs)	Probability
6,00,000	0.4
7,00,000	0.4
8,00,000	0.2

Again if the cash inflow in year 1 is Rs.6,00,00 the following shall be the cash inflow for the year 2

Expected Cash Flow in year 2 (Rs)	Probability
7,00,000	0.8
8,00,000	0.1
9,00,000	0.1

Using Discount Rate as 10 % determine whether the project should be accepted or not. (12)

3. (a) A zero coupon corporate bond of F.V Rs. 100 matures after one year. The bond currently trades at Rs. 88. The yield on a similar Government Bond is 11 %. If the corporate bond defaults then there is a swap agreement to protect the buyer with only 50% payment. Determine the probability that the bond shall default and what conclusions you can draw from it.
- (b) Write a short note on 'Market Segmentation theory' of term structure of interest rates. (6,6)
4. (a) A stock is currently priced at Rs. 75 in the market. The stock recently paid a dividend of Rs. 4 per share and dividends from the Company have grown at the rate of 15% p.a. and the same trend is expected to continue in future also. Calculate the expected return on the stock.
- (b) The concept of diversification can take care of unique or unsystematic risk. Comment.
- (c) Write short note on Yield curve. (5,4,3)
5. (a) What is the relevance of indifference point in EBIT-EPS Analysis ?
- (b) Calculate the indifference point for a Company which is planning an investment of Rs. 40 lakhs and is considering two plans : **Plan A** : Equity Capital : Rs. 20 lakhs plus 12% debentures Rs. 20 Lakhs **Plan B** : Equity Capital : Rs. 10 lakhs plus 12% Debentures Rs. 10 lakhs plus 14% preference shares Rs. 20 lakhs. Tax rate can be taken as 50% and face value of each share as Rs. 10. (4,8)
6. (a) What is Security Market Line, Capital Market line and its role in CAPM ?
- (b) Briefly explain Operating leverage, financial leverage and combined leverage. (6,6)

7. Write Short notes on any three of the following :

- (i) Non Discounting techniques of Capital Budgeting
- (ii) Risk Adjusted Discount Rate
- (iii) Importance of nominal and real cash inflows
- (iv) Project with unequal lives

(4×3=12)