**ST JOSEPH’S UNIVERSITY, BENGALURU - 27**

**M.Com – 2nd SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May / June 2024)**

**MCO 8220: Advanced Corporate Finance**

**(For current batch students and reg no starting 2022)**

**Time: 2 Hours Max Marks: 50**

**This paper contains 2 printed pages and 3 parts**

**Section A**

**I. Answer *any two* of the following (5 × 2 = 10 marks)**

1. Premier Limited gives you the following information:

|  |  |
| --- | --- |
| Earnings after tax [EAT] | Rs. 2,00,00,000 |
| Retention ratio | 40% |
| Number of equity shares | 50,00,000 |
| Cost of equity | 12% |
| Rate of return on investment | 15% |

What would be the market value of share as per the Gordon’s Model?

1. Briefly explain the reasons for Mergers and Acquisitions
2. There are two companies X and Y which are identical except that X does not use any debt in its capital structure while Y has Rs. 1,00,000 5% debentures in its capital. Both firms have EBIT of Rs. 25,000 and equity capitalization rate is 10%. Assuming corporate tax at 50%. Calculate value of the firm, using M&M approach.

**Section B**

**II. Answer *any two* of the following (15 × 2 = 30 marks)**

1. A manufacturing company has estimated the following variables:

* Sales of 1,00,00 units per year at Rs. 5 per unit
* Variable cost per unit is Rs. 3
* Fixed cost of Rs. 5000
* Project has no salvage value and its estimated life is 3 years
* The cost of the project is Rs. 25,000 and it is financed through retain earnings. Investment in the Net working capital is 10,000. The Net working capital investment occurs at the beginning of the project and it is assumed that all Net working capital is converted into cash at the end of project.
* The company follows straight line method depreciation.
* The Firms required rate of return is 10%. The tax rate is 34%.

Evaluate the Firm’s sensitivity in the following situations using sensitivity analysis method.

a) At the base information

b) The sale price per unit reduces by 10%.

c) The sale price increases by 10% per unit.

1. Discuss various types and combinations of Mergers and Acquisitions
2. Following are the details regarding three companies

|  |  |  |
| --- | --- | --- |
| X Ltd | Y Ltd | Z Ltd |
| r = 15% | r = 10% | r = 08% |
| Ke = 10% | Ke = 10% | Ke = 10% |
| E = Rs. 10 | E = Rs. 10 | E = Rs. 10 |

Calculate the value of equity share of each of the company, when dividend payout ratio is: (a) 0%, (b) 50% and (c) 50%. You are required to offer your comments on the results and classify these companies according to Walter’s Model.

**Section C**

**III. Answer the following (10 × 1 = 10 marks)**

7.PC Jewels is considering to venture into gold mining business at an estimated cost of Rs. 80 crores. As per the prediction the gold reserve of the mine would exhaust in 2 years. There is 60% possibility that the company would get export orders in addition to domestic sales and in this case, company would generate a net revenue of Rs. 60 crores. There is 40% possibility that the revenue of Rs. 40 crores can still be generated without export sales.

In the second year the company may earn following revenue depending on the outcome of demand.

If cash inflows in year 1 are;

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Demand  Outcome | Scenario 1 | | Scenario 2 | |
| Rs. 60 Cr | | Rs. 40 Cr | |
| 2nd Yr.  Cash inflows (Rs.) | Prob | 2nd Yr.  Cash inflows (Rs.) | Prob |
| 1. Low | 40 Cr | 0.4 | 24 Cr | 0.2 |
| 1. Moderate | 50 Cr | 0.5 | 32 Cr | 0.3 |
| 1. High | 60 Cr | 0.1 | 44 Cr | 0.5 |

Using 10% discount rate, advise about the acceptability of the proposal based on decision tree analysis.