

Vidya Vikas Mandal's
Shree Damodar College of Commerce & Economics, Margao-Goa
BBA(FS), Semester- IV (REGULAR) Semester End Assessment APRIL 2023
BFS CC 13: Corporate Finance

Duration: 2 Hrs.

Maximum Marks: 60

Instructions:

- 1) Start each question on fresh page.
- 2) Figures to the right indicate maximum marks.
- 3) Use of scientific calculator not allowed.
- 4) Q1 is compulsory. Answer ANY FOUR from Q2 to Q7.

Q.1. Write short note on ANY FIVE of the following:

(05*04=20 Marks)

- a) Business Loans (Any two)
- b) Factors affecting stock dividend.
- c) Stock repurchases and Stock splits.
- d) Difference between Nominal and Real Interest Rate.
- e) Simple and Compound interest rates.
- f) Difference between Cash dividend and Repurchases.

Q.2.A Five years ago, Matthew paid Rs.14 per share for 200 shares in XYZ insurance company. The current share price has grown by 50% of the purchase price. So far, he has received 12 dividend payments, each amounting to Rs.0.05 per share. If Matthew decides to sell the shares at present, what will be the holding period rate of return? Calculate the dividend yield and capital gain yield.

(05 Marks)

Q.2.B. As a financial advisor, you have been approached by a new client who is interested in investing in Bonds but want to understand the risk associated with bonds. Explain the risk associated with bonds.

(05 Marks)

Q.3.A. The bond portfolio manager is often concerned with two aspects of interest rates-the interest rate level and the term structure of interest rates. Explain the Term structure of interest rates.

(07 Marks)

Q.3.B. The bond has a price of Rs.920 and the face value is Rs.1000. The annual coupons are at a 10% coupon rate and there are 10 years left until the bond matures. Calculate the yield to maturity rate.

(03 Marks)

Q.4. An investor plans to purchase some common stocks from Star Company. For that the investor is trying to determine the value of Star Company stock as he wants to hold the stock for four years and the estimated earnings growth rate is 10 per cent. The dividend payout ratio is 50 per cent. The ending P/E ratio is expected to be 25 and the current earnings per share is Rs.7. If the required rate of return is 16 per cent, what should be the price of the Star Company stock.

(10 Marks)

Q.5. According to a study report published on July 2022, the four-year rate of return of Sunflower company stock is 19.50 per cent. This is projected to continue for the following three years, after which the rate of return is assumed to have a growth rate of 10 per cent indefinitely. The dividend paid for the year 2021-22 is Rs. 2. The required rate of return is 20%. On July 4, 2022, the price is 16. Calculate the stock price using the two-stage growth model.

(10 Marks)

Q.6.A. Calculate the holding period rate of return on the bonds and interpret which one is the better investment option.

(05 Marks)

(i). Bond X, which was held for three years and appreciated from Rs.1000 to Rs.1500, providing Rs.5 as coupon payment, or

(ii). Bond B, which went from Rs.200 to Rs.320 and generated Rs.10 as coupon payment over four years?

Q.6.B. An investor owns the share of Everest Company, whose current cash dividend is Rs.3. The constant growth rate in dividend is 16 per cent year and the required rate of return is 20 per cent. Calculate the value of the Everest Company's share.

(05 Marks)

Q.7. Sarah is a new investor who is interested in investing in bonds as part of her investment portfolio. As a financial advisor, you have been approached to help Sarah understand the different types of bonds and their associated risks.

(10 Marks)
