Vidya Vikas Mandal's

Shree Damodar College of Commerce & Economics, Margao-Goa

T Y. BBA (FS), Semester V, End Semester Examination, October 2016

CORPORATE FINANCE

Timing: 2 Hours **Max.Marks:60**

Instructions: *All questions are compulsory*
Start each question on a fresh page
Figures to right indicate maximum marks

Q1. Write short notes on Any Three of the following :- **(3x4 = 12)**

a. Demerits of Equity financing.
b. Duration of Bonds
c. Reverse Stock Split
d. Types of Takeover

Q2.a. ABC Limited stock is currently selling at Rs 335/- per share. The stock is expected to pay Rs. 3.5 as dividend per share at the end of the next year. It is reliably estimated that the stock will be available for Rs.421 at the end of one year. **(06)**

i. If the forecasts about the dividend and price are accurate is it advisable to buy at the present price? His required rate of return is 20%.

ii. If the investor requires 20% return when the dividend remains constant what should be the price at the end of the first year?

b. Discuss the Characteristics of Preference shares. **(06)**

OR

Q2.x. The sangam company has common shares outstanding in the market with price earnings ratio of 15. The annual expected growth in earnings, dividend and price is 7%. The Earning per share is 2.5, dividend payout ratio is 60% and investor wants to hold stock for 4 years. The rate of return is 15%. What would be the present value? **(06)**

y. The Rate of Return of Swara fertilizers for the past 5 years is 18.58%. This is assumed to continue for the next 5 years and after that the return is assumed to have a growth rate of 10% indefinitely. The dividend paid for the year is 18%, required rate of return is 20%. The Price as on 14th November 2013 is Rs.14/-. Estimate stock price according to the two stage model. **(06)**

Q3.a. Answer the following questions with regards to Bond Valuation:- **(12)**

i. What is the value of a 5 year, Rs.100/- par value bond with a 12% annual coupon if its required rate of return is 14%?

ii. What is the value of the bond described in part (i) if it pays interest semi-annually, other things being equal?

iii. What is the Yield to maturity of a 4 year, Rs. 1000 par value bond with a coupon rate of 7%. Interest is paid annually and bond sells for Rs.905?

iv. What is the Yield to call of a 22 year, Rs. 1000 par value bond with a 4.3% semiannual coupon and if the bond is called after 8 years at a call price of Rs. 1043? The current market price is Rs. 1037.47/-.

v. The face value of the bond is Rs.1000/-, current market price is Rs. 800/- and coupon rate is 8%. What is the current yield?

OR

Q3.x. Calculate the Duration of Bond A and Bond B with 6 % and 7% coupon rate respectively having a maturity of 6 years. The face value is Rs 1000. Both bonds are currently yielding 10%. **(06)**

y. A company's next year dividend per share is expected to be Rs.3.50. The dividend in subsequent years is expected to grow at a rate of 10% per year. If the required rate of return is 15% per year. What should be its price? The prevailing market price is Rs.75/-. **(02)**

z. Briefly explain the different types of risks in Bond. **(04)**

Q4.a. What is Cash Dividend? Discuss the factors affecting dividend policy. **(06)**

b. Explain Stock Dividend with the help of an example. **(06)**

OR

x. Explain the Provision of payment of Dividend in India as per Companies Act 2013. **(12)**

Q5.a. Explain the different types of Mergers with the help of examples. **(12)**

OR

x. What is a Merger? Discuss the Efficiency theory for Mergers & Acquisitions. **(12)**

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