Ritu Textiles Ltd. (RT)

$$R_{RT,e} = 1.92\% + 1.40\ rm_3$$

The following table shows the returns on the stock of the three companies and the estimated market return for the period three months prior and post declaration of the dividend.

Period (months)	Actual Return (%)			Market Return (%)
	SI	VM	RT	
Dec, 15, 2021	12.14	12.56	13.05	11.45
Jan 15, 2022	12.52	12.79	13.42	11.85
Feb 15, 2022	12.05	13.04	13.58	12.00
Mar 15, 2022	11.89	12.43	13.25	12.25
Apl 15, 2022	12.63	13.62	14.42	12.60
May 15, 2022	12.16	13.16	14.20	11.95
June 15, 2022	12.84	13.32	14.45	11.20

You are required to verify the validity of semi strong form of market efficiency in the Indian market using event study.

Or

8. (a) Distinguish between economic profit and according profit. 5

(b) Calculate Economic Value Added from the following information for 2022. 9

	2022	2021
Profit before Interest	25,000	22,000
Interest	1800	1200
Profit after Interest	23,200	20,800
Taxes @25%	5,800	5,200
Profit after tax	17,400	15,600
Non-Cash Expenses	5000	5200
Year-end capital	2,00,000	1,10,000
Weighted average cost of capital	15%	16%

***** 2022/ODD/10/29/MM-3101/021

PG Odd Semester (CBCS) Exam. December, 2022

Business Administration

(3rd Semester)

Course No: FM-3101

(Corporate Financial Decision)

Full Marks: 70

Pass Marks : 28

Time: 3 hours

The figures in the right margin indicate full marks for the question.

1. (a) Discuss the role of financial technology in intermediating the demand for and supply of corporate finance. 7

(b) Explain the differences and interdependence between systematic and unsystematic risk. 4+3

Or

2. (a) Discuss the clearing and settlement process of trade in a stock exchange. 6

(b) Explain how book building is a process of price discovery. 5

(c) What are depositories? 3

3. (a) Power Wash Ltd. is considering the purchase of a new machine as a part of its expansion scheme. Two alternatives are available in this regard— a Low Mechanized System (LMS) requiring an initial outlay of ₹ 20,000 and a High Mechanized System (HMS) with an initial

outlay of ₹ 30,000. Each system has a life expectancy of 15 years with no salvage value. The net cash flow associated with each investment proposal are - 10

	LMS (₹)	HMS (₹)
Year 1 to 15	4,000	6,000

Suggest the company about the most feasible proposal. Assume 14% cost of capital.

(b) What is Internal Rate of Return? State the accept-reject rule under it? 4

4. (a) What is Private Placement? State the provisions of Companies Act 2013 for issue of shares under Private Placement? 8

(b) Write the importance of leasing in the context of corporate finance. 6

Or

5. Write notes on the following : 7+7

(a) Role of lead managers in Pre and Post issue of IPO

(b) Differential prices in an IPO

6. (a) Distinguish between direct and indirect cost of bankruptcy. 4

(b) Following financial statements are provided by Wealth Co. Ltd. 10

Income Statement for year ending 31.03.2021			
Particular	₹Cr	Particular	₹Cr
Cost of Goods Sold	650	Sales	1100
Gross Profit	450		
	1100		1100
Operating Expenses	30	Gross Profit b/d	450
Depreciation	40		
Interest	115		
Taxes	79.5		
Net Profit	185.5		
	450		450
Dividend	95.5	Net Profit b/d	185.5
Surplus	90		
	185.5		185.5

Wealth Co. Ltd.
Balance Sheet as on 31.03.2021

Liabilities	₹Cr	Assets	₹Cr
Common Shares	1800	Cash	200
Retained Earnings	350	Account Receivable	320
Account Payable	200	Stock	430
Notes Payable	110	Other Current Assets	470
Other Current Liabilities	260	Prepaid Expenses	3600
Long Term Debt	2300		
	5020		5020

Shares outstanding= 100Cr, Market Price : ₹55 per share

You are required to calculate Altman's Z score and interpret the result.

7. An analyst is keen on testing whether the Indian market are efficient in its semi-strong form. He selected three companies Swapna Infotech Ltd., Vivek Motors Ltd. and Ritu Textiles Ltd. These companies declared higher dividends on March 15, 2022. The characteristics lines of the three companies are estimated by him as follows_ 14

Swpna Infotech Ltd. (SI)

$$R_{SI,e} = 1.40\% + 0.75rm_1$$

Vivek Motors Ltd. (VM)

$$R_{VM,e} = 1.59\% + 1.23\ rm_2$$