2020

BUSINESS ADMINISTRATION — HONOURS

Paper : A 503 DSE-1A

(Strategic Corporate Finance)

Full Marks : 80

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Answer ***any five*** questions.

1. Rakesh Sharma is interested in a six-month Call Option on a company's share. The share is currently selling for 120. The volatility of the share is estimated as 67%. Rakesh would like the exercise price to be 120, the risk free rate is assumed to be 10%. How much premium should Rakesh charge for writing the Call Option? 16

2. An investor wants to invest in an equity share of ABC Ltd. The company's last EPS was ₹ 50 per share and dividend pay out ratio is 40%. The required rate of return from equity investment is 20%. Calculate the intrinsic value of equity if

(a) there is not growth in the dividend.

(b) the dividend is expected to grow at the constant rate of 18% per annum. 8+8

3. What is MBO? What is target costing? 8+8

4. What is debt-equity swap? What is over capitalization and under capitalization? 8+8

5. What are different types of Options ? 16

6. What are the diffrent tools of cost reduction? 16

7. Briefly describe the strategy of share holders' value? 16

8. (a) What are the steps in Zero-Base Budgeting?

(b) What are the components in Quality costing? 8+8

9. X Ltd. Company is considering the acquisition of Y Ltd. with common stock. Relevant financial information is as follows :

Particulars	X Ltd.	Y Ltd.
Present earnings (in thousands)	₹ 4,000	₹ 1,000
Common shares outstanding (in thousands)	2,000	800
Earnings per share	₹ 2.00	₹ 1.25
Price/earnings ratio	12	8

X Ltd. plans to offer a premium of 20% over the market price of Y Ltd. stock.

(a) What is the *ratio* of exchange of stock? How many *new shares* will be issued?

(b) What *are earnings per share* for the surviving company immediately following the merger?

(c) If the price/earnings ratio for X Ltd stays at 12, what is the *market price* per share of the surviving company? 5+6+5

10. The investment data of P Company Ltd. launching a new product and with 12% cost of capital, is as follows :

Particulars	Amount (₹)
Investment	7,00,000
CFAT : Year 1	5,00,000
2	4,00,000
3	2,00,000
4	1,00,000
5	1,00,000

Assuming an inflation rate of 5% determine *NPV* of the project by using both the nominal rate of discount and the real rate of discount. 16

11. Give a critical appraisal of the NI approach and the NOI approach to the theory of capital structure. 16

12. What is corporate restructuring? State the major forms in which it can be carried out. 16