XLRI Jamshedpur School of Business & Human Resources	PGCBM 15		
End Term Examination			
Corporate Finance			
Weightage	**50%**	**Duration**	**60 minutes**

Name ____________________ **Roll No.** ____________________

INSTRUCTIONS

1. Answer all questions.

2. Open text book exam.

You are not allowed to borrow book, paper, calculators, etc. Marks in brackets for a section indicate the marks assigned for each question in that section. In case of multiple-choice questions, you are required to tick the appropriate choice (nearest choice) in the question paper.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

Multiple Choice Questions

Pick the most appropriate answer [Each Correct Match: + 2 mark; Wrong match: – 1 mark, No Attempt: – 1 mark]

1. In the agency problems context of Indian corporate sector, which of the one is a more correct statement about the following three firms - Indian Oil Corporation Limited (IOC), Larsen & Toubro Limited (L&T), and Reliance Industries Limited (RIL):

   a) The agency issues faced by IOC and RIL would be similar compared to one faced by L&T

   b) The agency issues faced by IOC and L&T would be similar compared to one faced by RIL

   c) The agency issues faced by L&T and RIL would be similar compared to one faced by IOC

   d) None of the above

2. Around 26.5% of Mahindra & Mahindra Limited is held by the promoter business group i.e., Keshub Mahindra Group. Mahindra & Mahindra Financial Services Limited, is a subsidiary of Mahindra & Mahindra Limited with over 60% stake being held by the parent firm, Mahindra & Mahindra Limited.

   Hence, in an organization like Mahindra & Mahindra Financial Services Limited, which is a subsidiary of Mahindra & Mahindra Limited, the major goal would be:

   a) Maximizing its own shareholder value

   b) Work towards the interests of non-promoter shareholders of Mahindra & Mahindra Limited

   c) Maximize the sales of Mahindra & Mahindra Limited

   d) None of the above

3. The top ten pay packets of largest paid Indian CEOs are from affiliates of Indian business groups because the CEOs of most of these business groups have major shareholding in these companies. Surprisingly, they prefer to take fatter pay packets than distribute profits as dividends because:

   a) Companies should always work towards saving taxes

b) Higher pay packet would result in the company being more motivated towards maximizing the shareholder value of the company

c) Both (a) and (b)

d) None of the above

4. Please refer to Chapter 2, table 2.1 (b) i.e., the balance sheet of Hindustan Unilever Limited (HUL). The net working capital of HUL was negative for both the years because:

a) HUL does not know how to manage its inventories

b) HUL is going through a phase of financial restructuring

c) HUL enjoys poor bargaining power while dealing with its channel partners i.e., distributors and suppliers

d) None of the above

5. Please refer to Question no 31 of chapter 3, page 95. The companies with the highest asset utilization in table 3.9(b) are

a) Aditya Ispat and Tata Steel

b) Bhusan Steel and SAIL

c) Ispat Industries and JSW Steel

d) None of the above

6. Please refer to question no. 31 of chapter 3, page 95. The wide range of price-earnings ratio of these peer group companies is due to (refer table 3.9(b)):

a) Stock markets (share prices) can be manipulated'

b) Some firms are not performing well

c) Both (a) and (b)

d) None of the above

7. Please refer to question no. 32 of chapter 3, page 95. Based on the financial ratios available, the two companies (in the list) facing severe financial constraints (and get severely hurt) would be:

a) Jindal Steel and JSW Steel

b) Ispat Industries and Tata Steel

c) Bhusan Steel and Lloyd Steel

d) None of the above

8. Please refer to chapter 14, page 497, question 8. The yearly returns of P B S Srinivas would be:

a) Less than 16%

b) More than 19%

c) Negative

d) None of the above

9. Please refer to chapter 14, page 497, question 8. The probable reason for a crash in the bond price is:

a) Bad quarterly (financial) results by Tata Steel

b) Sudden change in countries interest rates

c) Most investors decided to use the put option (and demand their money back)

d) None of the above

10. Please refer to chapter 5, page 190-191, mini-case Stock Valuation of Graphite India. Question 1, the intrinsic value of GIL using the constant growth rate model comes out to be around.

    a) Rs. 5.50;

    b) Rs. 22.50;

    c) Rs. 31.50;

    d) none of the above

11. Please refer to chapter 5, page 190-191, mini-case Stock Valuation of Graphite India. Question 2, Sundu had a friend named Geetha managing a mutual fund named Geetha- Jeetha Mutual Funds. This mutual fund currently owns some shares of GIL. Considering Sundu's calculations regarding its intrinsic value to be true, Geetha should

    a) adopt a wait and watch approach;

    b) sell all GIL shares in one go;

    c) buy more shares from market at the current price in small lots;

    d) sell GIL shares in small lots;

12. Please refer to chapter 5, 'page 190-191, mini-case Stock Valuation of Graphite India. Question 3, in FY2008, a decrease in the company's ploughback ratio would have

    a) spoiled its shareprice;

    b) decreased its shareprice;

    c) remained unchanged;

    d) increased its shareprice;

13. Please refer to chapter 5, page 190-191, mini-case Stock Valuation of Graphite India. Question 4, if it were known that GIL would follow the growth rates of Indian graphite industry (as given in the mini case text), then GIL's intrinsic value would be around

    a) Rs. 161;

    b) Rs. 11;

    c) Rs. 31;

    d) none of the above

14. Please refer to chapter 5, page 190-191, mini-case Stock Valuation of Graphite India. Question 5, a Europe-based graphite major with expected rate of return of 10% wants to make a takeover bid of GIL. It knows that GIL would follow the growth rates of Indian graphite industry (as given for in the text). In that case, to what extent (i.e., share price) would GIL be a good buy for it?

    a) Rs. 15;

    b) Rs. 45;

    c) Rs. 96;

    d) none of the above

15. Please refer to chapter 5, page 190-191, mini-case Stock Valuation of Graphite India. Question 6, if the balance sheet figures were true indicators of market value of its assets and its liabilities then Sundu Lynch should give ________________ as the suggestion to GIL

    a) clearly mention this fact as part of annual report;

    b) sell the company as a going concern;

    c) buyback its shares from the market;

d) go for liquidation of the company.

16. Please refer to chapter 20, page 710-711, question 11, the returns for Ms. Uma Irudayaraj would be
    a) less than 11%
    b) more than 13%;
    c) insufficient nformation;
    d) none of the above

17. Please refer to chapter 20, page 710-711, question 11, the returns for Ms. Priti Padhi would be
    a) less than 20%
    b) more than 21%;
    c) insufficient information;
    d) none of the above

18. Please refer to chapter 20, page 710-711, question 12, what is the YTM for someone who invested initially
    a) around 11.49%
    b) around 12.49%
    c) around 13.49%
    d) around 14.49%

19. Please refer to chapter 20, page 710-711, question 12, what is the YTM for someone who had purchased it from the markets in January 2008
    a) around 14%
    b) around 24%
    c) around 34%
    d) around 44%

20. Please refer to chapter 4, page 141, Mini Case on Dhirubhai Ambani Pioneer Offer. Which of the ones you agree to:
    a) The financing cost of option II compared to option I works out to more than 16%
    b) The financing cost of option II compared to option I works out to less than 13%
    c) The HR manager should quickly take up the attractive first option (installments) offer
    d) None of the above

21. Please refer to chapter 4, page 141-142, mini case on investment dilemma of a Sevashram. Anjul Pratyush should take the following decision:
    a) Make the deposit with the RBI
    b) Reject both the offers
    c) Avoid the Bank of Champa ran offer
    d) None of the above

22. Please refer to chapter 6, page 239, mini case on Bullock Gold Mining. Calculate the payback period and net present value of the proposed mine.

a) pay back period = 4 years and NPV = 24.22 crores

b) pay back period = 5 years 1 months and NPV = 22.22 crores.

c) pay back period = 4 years 1 months and NPV = 23.44 crores.

d) pay back period = 5 years 2 months and NPV = 21.33 crores

23. Please refer to chapter 6, page 239, mini case on Bullock Gold Mining. Calculate the internal rate of return of the proposed mine.

    a) IRR = 26 %

    b) IRR = 20 %;

    c) IRR = 25 %;

    d) IRR = 21 %.

24. Please refer to chapter 28, page 960, question 26. Determine credit period to be allowed to each customer.

    a) 30 days credit for TCS and 90 days credit for all other players i.e. Wipro, Infosys and Satyam

    b) No credit for TCS and 60 days credit for all other players i.e. Wipro, Infosys and Satyam

    c) 60 days credit for TCS and 90 days credit for all other players i.e. Wipro, Infosys and Satyam

    d) No credit for TCS and 90 days credit for all other players i.e. Wipro, Infosys and Satyam.

25. Please refer to chapter 28, page 958, question 8. What is the company's balance sheet amount in accounts receivables?

    a) around $ 754,210

    b) around $ 712,309

    c) around $ 776,545

    d) around $ 745,205

26. Please refer to chapter 4, page 134, question 29. Find the Present value.

    a) around $ 1,586

    b) around $ 1,856

    c) around $ 1,568

    d) around $ 1,658

27. Please refer to chapter 2, page 43, question 5. Calculate Operating Cash Flows.

    a) $ 4,923

    b) $ 4,973

    c) $ 5,723

    d) $ 5923

28. If a company raises more money from selling stock than it pays in dividends in a particular period, its cash flows to stock holders will be:

    a) none of the below mentioned choices

    b) zero

    c) positive

    d) negative

29. Please refer to chapter 26, page 898, question 6. Calculate Operating Cycle.
    a) around 90 days
    b) around 87 days
    c) around 91 days
    d) around 92 days

30. Please refer to chapter 27, page 931, mini case on Cash management at PaGalGuy Magzine. At this stage it is preferable to divide the revenues in __________ .
    a) small portion of retail sales;
    b) large portion of institutional sales;
    c) both (a) and (b);
    d) none of the above.