K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH
Vidyavihar, Mumbai- 400077
Program: *PGDM Financial Services (Batch 2017-19), Trimester III*
Subject: Corporate Finance
(End Term Examination)

Maximum Marks: 50
Duration: 3 hours **Date: 26th March, 2018**

Instructions: 1. Answers written in pencil shall not be accepted and will invoke negative marking. 2. Cancellation of any answer is to be done in pen only. 3. New answer is to be written on a new page.

Q.1 Explain the concept of Operating and Financial Leverage. Consider the following numbers:
Sales: $6, 00, 000, Variable costs: $3, 00, 000, Fixed costs: $1, 60, 000, Interest: $0, Taxes: $42, 000
No of shares: 1, 00, 000. If for the next, year, the sales increases or decreases by 5%, what is the leverage value associated with the firm? **10 Marks**

Q.2A Explain the components of a CMA sheet with a suitable example. **10 Marks**

OR

Q.2B With an example of your choice, explain the parameters considered while computing ratings of a firm. Also, demonstrate a rating scale of your liking for at least five of the parameters. **10 Marks**

Q.3 Explain the components of an Information Memorandum **10 Marks**

Q.4 Explain the Altmann Z Score Model used for predicting sickness in a firm. **10 Marks**

Q.5A Consider the data for the base year (Year 0) as provided in the following table : **10 Marks**

Year	Revenues	Operating Costs	EBIT	Tax Rate	EBIT * (1-t)	Net Capex	Chg. In WC	FCFF = EBIT*(1-t) - Net Capex - Chg. In WC	Present Value
0	27,200.00	19,130.00	8,070.00	25.00%	6,052.50	4,094.58	-26.94		

Assumptions: Growth rate in Revenues = Growth rate in Net Capex = Growth rate in Operating costs = Growth rate in Change in WC = 15.10%. Assume WACC to be 14%, tax rate as 25%, duration of forecasting phase to be five years and growth rate in perpetuity phase to be 5%.
Part A: Using this information, carry out the DCF valuation for the firm.
Part B: If the WACC changes to 20%, the growth rate of 15.10% drops to 3% and perpetuity phase growing only by 2%, calculate the new value of the firm assuming all other factors to remain the same.

OR

Q.5B Explain with suitable arguments as to why DCF valuation model fails to address valuation issues for Financial service firms. **10 Marks**

-- **All the Best** ---