P P SAVANI UNIVERSITY

Fifth semester of B.B.A Examination
November 2022
SMBB3270 Entrepreneurial Finance

23.11.2022, Wednesday   Time: 09:00 a.m. To 11:30 a.m.   Maximum Marks: 60

Instructions:
1. The question paper comprises of two sections.
2. Section I and II must be attempted in the same answer sheets.
3. Make suitable assumptions and draw neat figures wherever required.
4. Use of scientific calculator is NOT allowed.

SECTION – I

			CO	BTL
Q - 1	**Short Question (Any Five)**	[10]		
(i)	Enlist two sources of Long-term finance.		2	1
(ii)	What is preference share?		2	1
(iii)	What do you mean by Capital optimization?		2	2
(iv)	Which one is the internal source of finance?		2	1
(v)	Which capital is better? Borrowed or Owned?		2	2
(vi)	Enlist two sources of Short-term finance.		2	1
Q - 2	Explain the statement – "Debt Capital is having lesser cost of capital than the Equity Capital"	[10]	1	5

OR

Q - 2	Evaluate and Compare various sources of long term finance on different points.	[10]	2	5
Q - 3	Discuss the IPO Process	[10]	1	2

OR

Q - 3 (a)	What do you mean by red herring prospectus? What does it reveal?	[05]	1	2
Q - 3 (b)	Discuss the importance of having debt capital in the capital structure of any business.	[05]	1	2

SECTION – II

Q - 1	**Write a short note (Any Two)**	[10]		
(i)	Venture Capital in India.		3	2
(ii)	Different methods of investing capital in India. (From the perspective of the VC)		3	4
(iii)	Differentiate between angel investors and private equity financing.		3	4
Q – 2	A company is considering an investment proposal to install new milling controls at a cost of Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 per cent. Assume the firm uses straight line depreciation and the same is allowed for tax purposes. The estimated cash flows before depreciation and tax (CFBT) from the investment proposal are as follows:	[10]	4	5

Year	CFBT (Rs.)
1	10,000
2	10,692
3	12,769

4	13,462
5	20,385

Compute the following:

(i) Payback period, (ii) Average rate of return, (iii) Internal rate of return, (iv) Net present value at 10 per cent discount rate, (v) Profitability index at 10 per cent discount rate.

OR

Q - 2 One project of XYZ Ltd is doing poorly and is being considered for replacement. Three mutually exclusive projects A, B and C have been proposed. The projects are expected to require Rs 2,00,000 each, and have an estimated life of 5 years, 4 years and 3 years, respectively, and have no salvage value. The company's required rate of return is 10 per cent. The anticipated cash inflows after taxes (CFAT) for the three projects are as follows: **[10] 4 5**

Year	CFAT		
	A (Rs.)	B (Rs.)	C (Rs.)
1	50,000	80,000	1,00,000
2	50,000	80,000	1,00,000
3	50,000	80,000	10,000
4	50,000	30,000	—
5	1,90,000	—	—

(i) Rank each project applying the methods of PB, NPV, IRR and profitability index. (ii) Recommend the project to be adopted and give reasons.

Q - 3 A Ltd. is considering takeover of B Ltd. and C Ltd. The financial data for the three companies are as follows: **[10] 1 5**

Particulars	A Ltd.	B Ltd.	C Ltd.
Equity Share Capital of Rs. 10 each (Rs. crores)	450	180	90
Earnings (Rs. crores)	90	18	18
Market price of each share (Rs.)	60	37	46

Calculate:

(i) Price earnings ratios

(ii) Earnings per share of A Ltd. after the acquisition of B Ltd. and C Ltd. separately. Will you recommend the merger of either/both of the companies? Justify your answer.

OR

Q - 3 The following information is provided related to the acquiring firm Mark   **[05] 1 5**

(a)   Limited and the target firm Mask Limited:

Particulars	Mark Limited	Mask Limited
Profits after tax (PAT)	Rs. 2,000 lakhs	Rs. 400 lakhs
Number of shares Outstanding	200 lakhs	100 lakhs
P/E ratio (times)	10	5

Required:

(i) What is the swap ratio based on current market price?

(ii) What is the EPS of Mark Limited after acquisition?

(iii) What is the expected market price per share of Mark Limited after acquisition, assuming P/E ratio of Mark Limited remains unchanged?

(iv) Determine the market value of the merged firm.

(v) Calculate gain/loss for shareholders of the two independent companies after acquisition.

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CO   : Course Outcome Number   BTL   : Blooms Taxonomy Level

Level of Bloom's Revised Taxonomy in Assessment

1: Remember	2: Understand	3: Apply
4: Analyze	5: Evaluate	6: Create