



Subject: Business Finance 1

Chapter: Unit 3 & 4

Category: Assignment 2

1. Internal growth is preferred by firms that wish to:
 - A. avoid unnecessary Government intervention.
 - B. expand geographically.
 - C. to share the financial burden and the risk of the project.
 - D. to acquire assets or experience.

2. Which of the following is not an advantage of external growth against internal growth:
 - a. An easier & quicker method of growth
 - b. An opportunity to acquire experience of the target company
 - c. An opportunity to use spare cash for a mature company
 - d. Avoids the risk of dealing with firms that lack integrity

3. Company A is a smartphone manufacturer seeking to reduce production costs and improve product delivery timelines. It enters into a strategic agreement with Company B, which manufactures microchips, and Company C, a logistics firm specializing in international shipping. This agreement allows them to share production data and co-develop solutions to streamline the supply process.
 From a corporate finance and strategy perspective, this arrangement is best described as:
 - A) A horizontal alliance aimed at increasing market share through product diversification.
 - B) A vertical alliance designed to improve efficiency across different stages of the value chain.
 - C) A backward integration strategy that removes the need for third-party logistics.
 - D) A joint venture formed to eliminate all external dependencies in the supply chain.

4. A firm's cumulative capital requirement graph shows frequent spikes above the long-term financing line, but the average capital requirement remains below the long-term funding level. What is the most appropriate financial strategy for the firm to minimize unnecessary costs?
 - A. Increase long-term financing to match the highest capital spike
 - B. Rely entirely on long-term financing and avoid short-term borrowing
 - C. Keep long-term financing at average capital requirement and use short-term borrowing for temporary spikes
 - D. Maintain zero short-term debt by holding cash reserves at all times

5. A firm has the following financial metrics:

Return on equity (ROE): 12%

Plowback ratio: 70%

Equity-to-net assets ratio: 0.6

What is the firm's internal growth rate, assuming no external financing?

A) 5.04%

B) 6.30%

C) 8.40%

D) 10.08%

6. Which of the following best describes the primary objective of preparing a cash budget?

A) To track profitability and earnings over the financial year

B) To estimate future changes in the firm's equity capital

C) To assess the timing of cash inflows and outflows for liquidity management

D) To allocate long-term investments across various asset classes

7. Branix Ltd, a publicly listed consumer goods company, has been underperforming for several years due to inefficiencies in production and bloated overhead costs. Two competing bids have been made to acquire the company:

Bid A is led by EdgeStone Partners, a private equity firm proposing to finance 90% of the deal with debt and plans to delist the company post-acquisition. Their strategy includes aggressive cost-cutting, asset divestment, and replacing senior leadership.

Bid B comes from Branix's current management team, who are seeking to acquire the firm through a high-debt structure with support from a bank. They argue that they can turn the company around with better internal controls and operational discipline, while preserving most jobs.

a) Classify each bid as either a Leveraged Buyout (LBO) or a Management Buyout (MBO), justifying your classification.

b) Discuss one key risk and one potential benefit associated with each type of buyout in this case.

8. Finance team of ABC Ltd, which wants to raise capital for expansion, is debating whether to issue debt or equity? A junior analyst has come up with a suggestion to issue convertibles instead. Justify the junior analyst's stance.
9. ABC Ltd decides to buy back its own shares rather than make a distribution in the form of a dividend. State the reasons for ABC doing so and effects on the shareholders.
10. ABC Ltd, a large player in hospitality sector is a listed company and the company has been following policy of reinvesting profits in order to fund growth. As a result, the company has attracted shareholders whose tax positions tend to favour capital gains over dividends. The industry faces some difficulties that will slow down investment opportunities for the next three to four years. Explain whether ABC Ltd is likely to change its dividend policy over the period of limited investment opportunities and how it should communicate this change.
11. The Chief Executive Officer AYZ company suggest a change in the capital structure of the company to finance its overall operations by borrowing rather than issuing further share capital. Describe how the capital structure of a company might affect the share price.
12. "Define the following terms along with appropriate examples.
(i) Liquidity Preference
13. Several insurance companies in India have recently listed on the Indian stock exchange. Is the listing likely to affect their dividend policy and how? How does conflict of interest affect a risk management program?
14. Briefly explain the factors that can influence the dividend policy of a company
15. State Modigliani and Miller's irrelevance propositions.

- 16.** Why does a company use the share buy back method to distribute cash dividends? Explain briefly the procedure or different ways to repurchase shares?
- 17.** Describe in brief why companies would want to grow larger?
- 18.** Write a brief on: Different steps taken in an acquisition
- 19.** State the different methods of achieving internal growth
- 20.** Define cash cycle. State the formula of Cash cycle and also all the related terms used in the formula.



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