

PGDM-IBM, 2019-21

Sub.: Corporate Finance & Insurance Accounting

Paper Code: INS-302

Trimester-III, End Term Examinations: June, 2020

Time Allowed : 1½ hrs.

Roll No.: _____

Marks: 30

CASE 1 :

[Total: 12 Marks]

Spincloth Dye Company is planning to purchase a local company in the business of producing dye chemicals. The local company garners a cash flow of Rs. 2000,000 per year. Once the local company is acquired by Spincloth, the value addition to local company will lead to an increase in its cash flow. The growth rate of cash flows will be 15% per year for initial 10 years. After 10 years the cash flow will remain constant per year. Spincloth will have to invest Rs. 1000,000 annually to obtain above mentioned cash flows. **(CILO-2)**

- (a.) What are the annual cash flows that Spincloth should expect from this acquisition? (4 Marks)
- (b.) If the return required on any investment in such an industry is 18%, what is the maximum price that Spincloth should pay to acquire the local company? (3 Marks)
- (c.) What should be required return which will make Spincloth agnostic about acquiring the local company? (3 Marks)
- (d.) If the required return is indeed as calculated in part (c.), what is your suggestion regarding the maximum price that Spincloth should pay to acquire the local company? (2 Marks)

Case 2 :

(Total : 8 Marks)

Information Related to ABC Company from its financial statements is presented below:

Particulars	20X5	20X6
Net Sales	Rs 86000	Rs 71000
Profit After Tax	Rs 12000	Rs 11000
Assets	Rs 49000	Rs 41000
Equity	Rs 27000	Rs 21000

(CILO-1)

In 20X4, the company had assets of Rs. 35,000 and equity of Rs. 18,000.

Required: 1. Compute the profit margin, asset turnover, return on assets and return on equity for 20X5 and 20X6. (4 Marks)

2. Comment on the company's profitability in 20X5 and 20X6 (4 Marks)

Case 3 :**(Total : 10 Marks)**

AB Ltd. discounts its cash flows at 16% and is in the tax bracket of 35%. For the acquisition of a machinery worth `20,00,000, it has two options – either to acquire the asset by taking a bank loan @ 15% p.a. repayable in 5 yearly instalments of `4,00,000 each plus interest or to lease the asset at yearly rentals of `6,65,000 for five (5) years. In both the cases, the instalment is payable at the end of the year. Depreciation is to be applied at the rate of 15% using ‘written down value’ (WDV) method. You are required to advise which of the financing options is to be exercised and why. **(CILO-3)**

Year	1	2	3	4	5
P.V factor @16%	0.862	0.743	0.641	0.552	0.476
