PGDM (RM), 2020-22

Corporate Finance

RM 201

Trimester – II, End-Term Examination: January 2021

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means.** All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Total Marks
A	Minimum 3 question with internal choices and CILO (Course Intended Learning Outcome) covered Or Maximum 6 questions with internal choices and CILO covered (as an example)	3*10 Or 6*5	30
B	Compulsory Case Study with minimum of 2 questions	20	20
			50

Section A

1) Investment, financing and dividend decisions are inter-related finance functions. Comment
Or
Discuss the conflict between profit and wealth maximization CILO 1

2 PK Ltd has a following book value structure as on March 31, 2020.

	Rs
Equity Share Capital (10,00,000 Shares)	2,00,00,000
11.5% Preference Shares	60,00,000
10% Debentures	1,00,00,000

The equity shares of the company are sold for Rs 200. It is expected that the company will pay a dividend of Rs 10 per share , which is expected to grow at 5% per annum forever. You can assume corporate tax rate to be 35%.

Compute the weighted average cost of capital (WACC) of the company based on the existing capital structure .
Compute the new WACC, if the company raises an additional 50 Lakh debt by issuing 12% debentures. This would result in the increase of expected equity dividend to Rs 12.40 per share. The growth rate will remain unchanged. However the price of the equity will fall to Rs 160 per share

OR

A company has sales of Rs 100,00,000 Variable Cost 55% of sales , fixed cost Rs 6,00,000. The capital structure of the company is : Equity 1,20,00,000 , Debt 80,00,000

Calculate the Operating Financial and Combined Leverage
If the Sales increase by 12% by what percent will the EBIT increase? CILO 2

3) B2) Global Enterprises Ltd. is a manufacturer of high quality running shoes. Ms. Vanita, President, is considering computerizing the company's ordering, inventory and billing procedures. She estimates that the annual savings from computerization include a reduction of ten clerical employees with annual salaries of 40,000 each, 75,000 from reduced production delays caused by raw materials inventory problems, 80,000 from lost sales due to inventor stock-outs and 25,000 associated with timely billing procedures. The purchase price of the system is 5,00,000 and installation costs are 50,000. These outlays will be depreciated on straight-line basis to a 1,50,000 salvage value which is also its market value at the end of five years. Operation of the new system requires two computer specialists with annual salaries of 1,20,000 per person. Also, annual maintenance and operating cash expenses of 1,50,000 are estimated to be incurred. The company's tax rate is 30% and its required rate of return (cost of capital) for the project is 12%.

You are required to —

(i) Find the project's initial cash outlay.
(ii)Find the project's after tax profits and cash flows over its 5 year life.
(iii)Evaluate the project using net present value (NPV) method.
(iv)Evaluate the project using profitability index (PI) method.
(v) Calculate the project's payback period

OR

In Identifying relevant cashflow , the object normally is to determine after tax flows rather than pre tax flows. Why it is best to deal with after tax rather than pre tax flows ?

Section B

The management of Tripsy Food Products Limited has called for a statement showing working capital needed to finance a level of activity of 300000 units of out put for the year. The cost structure of the company's product, for the above activity level is detailed below:

Particulars	Cost per unit
Raw materials	20
Manufacturing Expenses	5
Other overheads	15
Total cost	40
Profit	10
Selling Price	50

Past trends indicate the following:

i. Raw Materials are held in stock for 2 months;
ii. Work-in-progress will be approximate to half a month's production;
iii. Finished goods remain in the warehouse for a month;
iv. Two months' credit is normally allowed to customers;
v. Manufacturing Expenses are expected to occur evenly during the year.

You are required calculate the investment in various current assets including a cash balance of 5% of Gross Working Capital. Your calculations & answers should be rounded off to Rupees in lakhs.