

PGDM RM Batch 2015-17

Corporate Finance

Paper Code RM 203

Trimester – II, End-Term Examination: December 2015

Time allowed: 2 hrs 30 min

Max Marks: 50

Roll No: _____

Section A 15 Marks

Attempt three questions out of the following. Each question carries 5 marks

- A1) Are the shareholders of a company likely to gain when debt component is employed ?
- A2) Why are capital budgeting decision important ?
- A3) What are the factors which influence the need for working capital in a company ?
- A4) What is sensitivity analysis?
- A5) How does the production cycle effect the requirement of working capital?

Section B 20 Marks

Attempt two questions out of the following. Each question carries 10 marks.

B) Three companies X Ltd., Y Ltd. and Z Ltd. are in the same type of business and hence having similar operating risks. However, the capital structure of each of them is different as follows :

	X Ltd	Y Ltd	Z Ltd
Equity share capital (Face value 10 per share)	400000	250000	500000
Market Value Per Share	15	20	12
Dividend Per Share	2.70	4.00	2.88
Debentures Face Value Rs 100 Per Debenture	----	100000	250000
Market Vale Per Debenture	----	125	80
Interest on Debentures	-----	10%	8%

Assume that the current level of dividend is expected to continue indefinitely and the income tax rate is 30%.

You are required to compute the weighted average cost of capital (at market value) of each company.

B 2) Lokesh Ltd is buying a machine costing Rs 15,00,000 which yields the following annual income

End of Year	1	2	3	4	5
Annual Income After Depreciation But before Taxes	3,50,000	3,72,000	3,10,000	1,75,000	1,10,000
PV Factor at 12% of Rs 1	0.893	0.797	0.712	0.636	0.567

Corporate Tax Rate is 30%. Depreciation is on straight line method . Residual Value is zero .
Nominal Rate of Return is 12%
Compute –
Pay Back Period , NPV , Profitability Index

B3) "Operating Leverage is determined by firms cost structure and financial leverage by the mix of debt and equity funds to finance the fixed assests . These two leverages when combined provide the risk profile of the firm" Explain

Section C 15 Marks

Compulsory Case

Calculate the amount of working capital requirement for SRCC Ltd from the following information

	Rs (Per Unit)
Raw Material	160
Direct Labour	60
Overheads	120
Total Cost	340
Profit	60
Selling Price	400

Raw Material & Finished Goods are held in stock on an average for one month. Work in Progress is held for half a month Credit allowed by the suppliers is one month. Credit Allowed to Debtors is two months.

Payment of wages and overheads is one month .

One fourth of the total sales are made on cash basis .

Cash in Hand and Bank is expected to be Rs 50,000 and expected level of production amounts to 1,04,000 units for 52 weeks . You may assume that the production is carried on evenly throughout the year and the time period for four weeks is equivalent to a month.