PGDM Batch 2015-17

Corporate Finance

DM 303

Trimester – III, End-Term Examination: March 2016

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.** In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	**50**

Section A

A1)X Ltd issued Rs 100, 12% debenture five years ago. Interest rates have risen since then, so that the debentures of the company are selling at 15% current yield basis.What is the expected market price of the debenture? (Rs.80/-)

A2)You plan to accumulate Rs 4,50,000 over a period of 12 years by making equal annual deposits in an account that pays an annual interest rate of 9% (assume all payments will occur at the beginning of each year). What amount must you deposit each year to reach your goal?

A3You are valuing an investment that will pay you Rs 12,000 the first year, Rs 14,000 the second year, Rs 17,000 the third year, Rs 19,000 the fourth year, Rs 23,000 the fifth year, and Rs 29,000 the sixth year (all payments are at the end of each year). What it the value of the investment to you now if the appropriate annual discount rate is 11.00%?

A4) Distinguish between Profitability Index and Internal Rate of Return methods of capital budgeting.

A5) How is wealth maximization as a goal superior to profit maximization ?

Section B

B1a) Short-term government securities yield 7% and the expected market return is 12%. Stock A's beta is 0.8, its growth rate is 4% and its last (latest) dividend was Rs.2.00. What would be the stocks equilibrium price?

B1b) Apoorva Ltd. has assets of Rs. 32,00,000 that have been financed as follows :

Equity shares of 100 each	Rs. 1800000
General reserve	Rs. 3,60,000
Debt	Rs. 1040000

For the year endedMarch 31, 2015, the company's total profits before interest andtaxes were Rs. 6,23,000. The company pays 8% interest on borrowed capital and the taxbracket is 40%. The market value of the equity as on March, 2015 was Rs. 150 pershare.
From the above, determine the weighted average cost of capital using market valuesas weights.

B2) A company is considering which of the two mutually exclusive project it should undertake.The Finance Director thinks that project with the higher NPV should be chosen where as the Managing Director thinks that one with higher IRR should be undertaken especially because the initial outlay and length of life is same.
The company anticipates the cost of capital of 10% and after tax cash flows as under

Year End	0	1	2	3	4	5
Cash Flow (Rs./000) Project X	(200)	35	80	90	75	20
Project Y	(200)	218	10	10	4	3

1. Calculate the NPV of each project?
2. Which project do you think will have higher IRR ? Why?
3. Under what circumstances will NPV and IRR give different ranking of the project?Why?
4. Which project do you recommend ? Why?

B3a) You are given following information of Alpha Ltd. for the year ended March 31,, 2015

	Rs in Thousands
Sales	105000
Variable Cost	76700
Fixed Cost	7500
Interest	11000
Income Tax @30%	

On the basis of above information, you are required to calculate and interpret operating, financial and combined leverages.

B3b) Gel Corporation presently gives credit terms of 'net 30 days'. It has Rs.600 lakhin credit sales and its average collection period is 45 days. To stimulate sales, thecompany may give credit terms of 'net 60 days' with sales expected to increase by15%. After the change, the average collection period is expected to be 75 dayswith no difference in payment habits between old and new customers. Variablecosts are Re.0.80 for every Re.1 of sales; and the company's before tax requiredrate of return on investment in receivables is 20%. Assume 360 days in a year.Should the company extend its credit period ?

Section C (15 Marks)

Unit cost structure of the product at current level :

Raw Material	4.00
Wages (variable)	2.00
Overheads (variable)	2.00
Fixed OverHeads	2.00
Profits	3.00
Selling Price	12.00

-

- Raw materials will remain in stores for 1 month before being issued for production.
- Material will remain in process for further 1 month. Suppliers grant 3 months creditto the company.
- Finished goods remain in godown for 1 month.
- Debtors are allowed credit for 2 months.
- Lag in wages and overheads payments is 1 month and these expenses accrue evenlythroughout the production cycle.
- No increase either in cost of inputs or selling price is envisaged.

You are required to prepare a projected profitability statement and the working capitalrequirement of Smile Ltd. at the new level, assuming that a minimum cash balance of Rs 19,500 has to be maintained.