

PGDM, 2013-15
Corporate Finance
DM-303

Trimester – III, Supplementary Examination: September 2014

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	$3 \times 5 = 15$
B	2 out of 3 (Long Questions)	10 Marks each	$2 \times 10 = 20$
C	Compulsory Case Study	15 Marks	15
		Total Marks	50

Section A (15 Marks)

Attempt three questions from the following. Each question carries five marks

1. Explain the concept of Economic Order Quantity and compute the annual percentage cost associated with 2/10 net 30 credit term.
2. A company is considering raising funds of about Rs 100 lakh by one or two alternate methods, viz 14 % institutional term loan and 13% non convertible debentures. The term loan option would attract no major incidental cost. The debenture would have to be issued at a discount of 2.5% and would involve cost of issue of Rs 1 Lakh. Advise the company as to the better option based on the effective cost of capital in each case. Assume a tax rate of 50%.
3. State the areas which you consider would require the particular attention of the management for effective working capital management?
4. How is wealth maximization as an objective superior to profit maximization?

5. The share of Tough Limited is available at Rs. 50 per share. The beta coefficient for the company is 1.2 and growth (over an indefinite period) of the company's earnings and dividends is 6%. The last dividend on the share is Rs. 3/-. Given that rate of interest on government bonds is 8% and that the market return is 11.3%, what is recommendation as to buy, sell or hold the stock.

Section B (20 Marks)

Attempt two questions from the following. Each question carries ten marks

B1) JKL Ltd. is considering the revision of its credit policy with a view to increasing its sales and profit. Currently all its sales are on credit and the customers are given one month's time to settle the dues. It has a contribution of 40% on sales and it can raise additional funds at a cost of 20% per annum. The marketing manager of the company has given the following options along with estimates for considerations:

Particulars	Current	Option I	Option II	Option III
Sales (Rs. in lakhs)	200	210	220	250
Credit period (in months)	1	1.5	2	3
Bad Debt (% of Sales)	2	2.5	3	5
Cost of Credit Administration Rs in Lakhs	1.20	1.30	1.50	3.00

You are required to advise the company for the best option.

B2) Consider the following mutually exclusive projects:

Cash flows (Rs.)

Projects	C0	C1	C2	C3	C4
A	-10000	6000	2000	2000	12000
B	-10000	2500	2500	5000	7500
C	-3500	1500	2500	500	5000
D	-3000	0	0	3000	6000

Required:

- Calculate the payback period for each project.
- If the standard payback period is 2 years, which project will you select? Will your answer differ, if standard payback period is 3 years?
- If the cost of capital is 10%, compute the discounted payback period for each project. Which projects will you recommend, if standard discounted payback period is 3 years;?
- Compute NPV of each project. Which project will you recommend on the NPV criterion? The cost of capital is 10%. What will be the appropriate choice criteria in this case? The PV factors at 10% are:

Year	1	2	3	4
PV factor	0.9091	0.8264	0.7513	0.6830

B 3) Elegant Papers Limited has the following market value of capital structure as on 31st March 2013.

Debt (Term Loan, 12%)	Rs. 30 Crores
Equity Capital	Rs. 20 Crores
Retained Earnings	Rs. 40 Crores
Market value of Equity	Rs. 50 Crores

Earnings per share and dividend per share have grown steadily, almost at the same rate, over the last seven years. Dividend per share has increased in this period from Rs.2/- to Rs.3/- with CAGR of 6%. It is expected to grow in future, too, at the same rate. The market price share as of 31st March 2013 was Rs.40. The tax rate for the company is 33%. Calculate the cost of capital for Elegant Papers Limited.

Case Study (15 Mark)

Compute the operating cycle from the data collected from the last year annual report of a company and estimate the working capital (Figures in lakhs of Rupees)

Opening Balance of	2013
Raw Materials, Stores & spares etc	3454.84
Work-in-Process	56.15
Finished goods	637.98
Accounts Receivable	756.45
Accounts Payable	2505.18

Closing Balance of	2013
Raw Materials, Stores & spares etc	4095.41
Work-in-Process	72.50
Finished goods	1032.74
Accounts Receivable	1166.32
Accounts Payable	3087.47

Figures of	2013
Purchases of 'Raw Materials, Stores & Spares etc.	10676.10
Manufacturing Expenses	1146.76
Depreciation	247.72
Customs & Excise duties	35025.56
Selling, administration & ,financial Expenses	4557.48
Sales	54210.65