JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SECOND TRIMESTER (Batch 2020-22)

END-TERM EXAMINATIONS

Set-I

Course Name	**Corporate Finance**	Course Code	**FIN 102**
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS:

1. Attempt all questions.
2. Qs to be attempted on Excel with separate sheet for each Qs.
3. It is a closed book exam.
4. Videos to be on. No use of ear phones/phones.
5. Any two or more sheets with similar answer will be scrapped.

Qs.1 (2 + 3 + 1 + 1 = 7 Marks)

Possible Outcomes Probability		Rate of Return	
		Company A	Company B
Strong Demand	0.2	55%	35%
Normal Demand	0.5	25%	15%
Weak Demand	0.3	(15%)	10%

1. Estimate the expected return of the two companies.
2. Estimate the risk of each company?
3. Using a suitable measure of risk-return analysis to explain, decide which of the company is best for investment.
4. Interpret beta values of 1.5 and 0.8

Qs. 2 (8 + 1 + 1 = 10 Marks)

Sun Refiners Limited is planning to invest Rs20 lakh in a new project. It is considering financing options with different level of debt and equity. Refer the incomplete table given below:

Amount Borrowed (Rs)	Weight of Debt	Weight of Equity	Beta	Cost of Equity (ke)	Before-tax Cost of Debt	After-tax Cost of Debt (kd)	WACC
0			1.00				
250000			1.09		8.0%		
500000			1.20		9.0%		
750000			1.36		11.5%		
1000000			1.60		14.0%		

The risk free rate is 6% and market rate of return is 12% pa. The tax rate is 30 percent.

(a) Calculate the missing figures in the above table
(b) Recommend the optimum capital structure for financing the project.

(c) Explain the reason for the increase in beta and before-tax cost of debt with rising level of debt financing.

Qs. 3 (2 + 2 + 2 = 6 Marks)

Assuming that The Paint company sells a unit of paint for Re 0.50 each. The manufacturing and distribution costs per unit of paint is Re 0.20. The company has fixed operating cost of Rs 5,500 and fixed financing cost of Rs 4000.

1. Estimate and interpret the company's degree operating leverage at 50,000 units produced and sold with 51000 units produced and sold.
2. Estimate and interpret the company's degree of financial leverage at 50,000 units produced and sold with 51000 units produced and sold.
3. Estimate and interpret the company's degree of combined (total) leverage at 50,000 units produced and sold with 51000 units produced and sold.

Qs. 4 (2 + 4 + 4 = 10 Marks)

Aalia Creations is considering installing a machine for manufacturing readymade garments. It has finalized two machines: one being automatic and the other one semi- automatic costing Rs *50* lakhs and Rs 33 lakhs respectively.

Cash flow estimates of the two machines are as follows

₹ in Lakh

Year	Automatic	Semi-automatic
1	14	10
2	16	14
3	18	14
4	22	12
5	16	10
6	18	10
7	20	18

Using following methods advise the company as to which machine should be installed, if the expected rate of return on investment is 10% p.a.

a. Payback period method
b. Net Present value method
c. Internal rate of Return method

Qs. 5 (6 + 1 = 7 Marks)

You are provided the following working capital information for the Primrose corporation:

Account	Beginning Balance (Rs)	Closing Balance (Rs)
Inventory	26000	28900
Accounts receivable	32220	28000
Accounts payable	25000	26700

Other Information:

(a) Net Sales Rs 245890
(b) Cost of Goods Sold Rs 196300
(c) Cost of Material Purchased Rs 105000

1. If all sales are on credit, Estimate firm's operating and cash conversion cycles?
2. If Suppose Primrose corporation's managers believe that the inventory turnover can be raised to 8.9 times. Estimate Primrose new cash conversion cycle?