JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
PGDM / PGDM (M) / PGDM (SM)
THIRD TRIMESTER (Batch 2020-22)
END TERM EXAMINATIONS, May 2021
Set-1 (Main)

Course Name	**ADVANCED CORPORATE FINANCE**	Course Code	**G/S/M/FIN301**
Max. Time	**2 hours**	Max. Marks	**40**

1.This question paper is to be attempted on Moodle platform, with each question on a separa

2.Answer each question below the data provided duly marking beginning and end of the answer.

3. Answers to the questions will be plagiarism checked on assignment basis in moodle with limit of 10% . E

Roll number	

Q No.	**1**	**2**	**3**
Maximum marks	**10**	**10**	**4**
Marks obtained			

ıte excel sheet in this file.

ıery additional 10% will attract a penalty of 5 marks.

4	**5**	Total
4	**12**	**40**

Q 1	10 Marks

A. For a project being considered for SK Electronics evaluate whether it should be undertaken using N
method. (5 Mar
B. Create Scenario analysis and discuss success of the project with computation and analysis of Expe
Standard Deviation and Coefficient of variation . (5 Marks)

All amounts in Rs'000	
Investment	50,000
Sales Volume in units	2,000
Price	20
Variable cost	8
Fixed Cost	5,000
Depreciation WDV (on investments)	25%
Income Tax	30%
Discount Rate for NPV	11%

1

Cashflows					
Year	0	1	2	3	4
Sales		40,000.00	40,000.00	40,000.00	40,000.00
Variable Cost		16,000.00	16,000.00	16,000.00	16,000.00
Fixed Cost		5,000.00	5,000.00	5,000.00	5,000.00
EBDIT		19,000.00	19,000.00	19,000.00	19,000.00
Investment Value	50,000.00	37,500.00	28,125.00	21,093.75	15,820.31
Depreciation		12,500.00	9,375.00	7,031.25	5,273.44
EBIT		6,500.00	9,625.00	11,968.75	13,726.56
Tax		1,950.00	2,887.50	3,590.63	4,117.97
PAT		4,550.00	6,737.50	8,378.13	9,608.59
Cashflows	**-50,000.00**	**17,050.00**	**16,112.50**	**15,409.38**	**14,882.03**

For Scnario analysis

Key Variables	**Pessimistic**	**Optimistic**	**Expected**
Sales Volume in units	1,000.00	3,000.00	2,000.00
Price	15.00	25.00	20.00
Variable cost	10.00	7.00	8.00
Fixed Cost	6,000.00	4,000.00	5,000.00
Probability	0.25	0.25	0.50

NPV
rks)
cted NPV,

5	6	7
40,000.00	40,000.00	40,000.00
16,000.00	16,000.00	16,000.00
5,000.00	5,000.00	5,000.00
19,000.00	19,000.00	19,000.00
11,865.23	8,898.93	0.00
3,955.08	2,966.31	8,898.93
15,044.92	16,033.69	10,101.07
4,513.48	4,810.11	3,030.32
10,531.45	11,223.58	7,070.75
14,486.52	**14,189.89**	**15,969.68**

Q 2	10 Marks

Tulip Communications, a large telecom company, is evaluating the possible acquisition of Zoda
local cable company in the year 2020. Tulip's analysts project the following post-merger free ca
Zodafone Cables (assume all the cash flows occur at the end of the year):

Free cash flow to firm in upcoming years (in Crores, Rs.)			
2021	**2022**	**2023**	**2024**
3.5	3.9	4.25	6

The other required data for the valuation of equity of Zodafone Cables are as follows:

Key inputs of Zodafone Cables	
Initial debt	30 Crores
Pre-merger value of shareholders' funds	60 Crores
Number of shares outstanding	20 Crores
Tax rate (For the valuation period)	40%
Longterm growth rate (2026 till infinity)	7%
Risk-free rate of return	5%
Market risk-premium	8%
Cost of Debt (before tax)	9%
Beta	1.25

Determine, for use and application of discounting free cash flow to firm (FCFF) method (or cor
cash flow model):

i). Cost of equity, cost of debt after-tax, and Weighted Average Cost of Capital (WACC) **(3**

ii). Horizontal/terminal value of Zodafone at the end of 2025. **(2**

iii). Value of Zodafone's equity assuming non-operating assets are zero. **(3**

iv). Value per share of Zodafone's equity. **(2**

ıfone Cables, a
ash flows of

2025
6.2

porate free

Marks)
Marks)
Marks)
Marks)

Q 3	4 Marks

The current market price of an ITC share is Rs205.
You are bearish for the stock and have bought a put option for 3200 shares of ITC expiring in June 20
Rs2.25 for each share at the strike price of Rs195.
Evaluate your net payoff (after deducting option premium) if the price of ITC share on the expiry date
192.50, 200 or 190 .

21, at the premium of

: turns out to be Rs185,

Q 4	4 Marks

Ramji Enterprises, an export house, is expecting to receive USD 500,000 from its buyer in USA after
The spot rate for INR/USD is 73.80 and the firm wants to protect against exchange risk.
The 6 months forward rate for INR/USD is quoted at 74.25 -74.39 and the firm goes for forward rat
Evaluate the amount Ramji Enterprises will receieve against the forward contract after 6 months.
Show the amount of gain/ loss if the spot rate in INR/USD after six months turns out to 74.80 or 74.

6 months.

te contract.

(2 Marks)

.10. **(2 Marks)**

Q 5	12 Marks

Explain with examples *(in around 200 words)* **(4*3=12 Marks)**

i). Real Options in capital budgeting

ii). Interest Rate Swaps

iii). Horizontal/ vertical mergers

iv). Risk management using Futures