JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SECOND TRIMESTER (Batch 2021-23)

END TERM EXAMINATIONS, January 2022

Set-1

Course Name	**CORPORATE FINANCE**	Course Code	**20202**
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 must be kept on. Use of earphones/headphones/phones is prohibited.
5. Any two or more sheets with similar answer will be subjected to unfair means.
6. Excel files to be saved as per your name and roll number.
7. Ensure to upload your excel files on the moodle within the time limit.
8. Do not send your excel sheet by email.

Qs.1 (16 marks)

Since its inception, Supreme Plastics Company has been revolutionizing plastic and trying to do its part to save the environment. Its founder, Mr. Mohan Chaubey, developed a biodegradable plastic that his company is marketing to manufacturing companies throughout the northern India. After operating as a private company for 10 years, Supreme Plastics went public in 2015 and is listed on BSE.

As the CFO of a young company with lots of investment opportunities, you closely monitor the company's cost of capital. You keep tab on each of the individual costs of Supremes' three main financing sources: long-term debt, preference shares and equity shares. The target capital structure for the company is given by the weights in the following table:

Source of Capital	Weight
Long-term debt	30%
Preference Share Capital	20%
Equity Share Capital	50%

At the present time, Supreme Company can raise debt by selling 20-year debentures with a Rs1,000 par value and a 10.5% annual coupon interest rate. The company's tax rate is 30%, and its debentures generally require an average discount of Rs45 per debenture. Supremes' outstanding preference shares pays a 9% dividend and has ₹100 per share par value. Because Supreme is a young company that requires lot of cash to grow it does not currently pay a dividend to equity shareholders. To track the cost of common stock, CAPM is advised. The appropriate risk-free rate is 6% and the market's expected return equals 14%. Using data from 2015 to 2021, the company's beta is estimated as 1.3.

Although Supremes' current target capital structure includes 20% preference share capital, the company is considering using debt financing to pay outstanding preference shares, thus shifting their target capital structure to 50% long-term debt and 50% equity. If the company makes this change in its capital structure, its beta is expected to rise to 1.5.

Decide, by calculating and comparing the current with the proposed weighted average cost of capital, which capital structure to choose.

Qs. 2 (4+2=6 marks)

(a) Zenith Limited borrows Rs1 million at an interest rate of 14 percent. The loan is to be repaid in 4 equal annual instalments payable at the end of each of the next 4 years. Develop the loan amortization schedule.
(b) Consider the following information about two stocks where the probability of an economic boom is 40%:

Economic State	**Return A (R_A)**	**Return B (R_B)**
Boom	38%	6%
Recession	–4%	12%

Using relevant calculations select the stock that you would invest in and why?

Qs. 3 (7 + 1 = 8 marks)

Consider the following two projects. The cash flows are given below. Cost of capital is 9%.pa

	Co	C1	C2	C3
Project P	-840	700	350	70
Project Q	-840	70	420	760

a) Evaluate them on basis of NPV and IRR.
b) Recommend, which project to select and why?

Qs.4 (2+1+2=5 marks)

Sun trader turns over its inventory 6 times each year; it has an average collection period of 45 days and an average payment period of 30 days. The firm's annual operating-cycle investment is $3 million.
Estimate the firm's cash conversion cycle, its daily cash operating expenditure, and the amount of resources needed to support its cash conversion cycle.

Qs.5 (1x5=5 marks)

For each of the companies described below, would you expect it to have a medium/high or a low dividend payout ratio? Explain.
1) A company with a large proportion of inside ownership, all of whom are high income individuals.
2) A growth company with an abundance of good investment opportunities
3) A company experiencing ordinary growth that has high liquidity and much unused borrowing capacity
4) A dividend paying company that experiences an unexpected drop in earnings from a trend.
5) A company with volatile earnings and high business risk.