JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SECOND TRIMESTER (Batch 2021-23)

END TERM EXAMINATIONS, January 2022

Set-2

Course Name	**CORPORATE FINANCE**	Course Code	**20202**
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS:

1. Attempt all questions.
2. Questions to be attempted on Excel with separate sheet for each Questions.
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 (12 marks)

Apple Ltd at present has all equity capital structure of 200000 shares of Rs 10 each. To finance its new investment project, it now wants to raise additional Rs 2 million for which it has identified three alternative funding sources as follows

a) Additional 200000 shares of Rs 10 each
b) Debt at 14% interest
c) Rs100 Preference capital at 12% dividend

The present EBIT of the company is Rs600000 per annum but with new project the EBIT will rise to Rs1400000 per annum. Tax rate is 30%

Using the EBIT-EPS analysis decide which financing alternative to be accepted

Qs. 2 (2+4=6 marks)

Stocks X and Y have the following probability distributions of expected future returns:

Probability	X (Return %)	Y (Return %)
0.1	(10)	(35)
0.2	2	0
0.4	12	20
0.2	20	25
0.1	38	45

1. Estimate the expected rate of return for Stock X and Y.
2. Evaluate which stock has lower relative risk (Hint: You have to calculate coefficient of variation)

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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	-10,000	2,000	4,000	12,000
Project Q	-10,000	10,000	3,000	3,000

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

Qs.4 (7 marks)

	P&L Account data		**Balance Sheet data**	
	Year ending 2021		Year 2019-20	Year 2020-21
Sales	7,50,000	Inventory	96,000	98,500
COGS	6,00,000	Sundry debtors	81,500	84,800
		Sundry creditors	62,000	65,000

Estimate operating cycle and cash cycle.

Qs.5 (7 marks)

The following is the capital structure of X Ltd. As on 31 December 2021.

	(Rs. in million)
1. Equity Capital (Paid-up)	563.50
2. Reserve and Surplus	485.66
3. 10% Redeemable Preference Shares	84.18
4. 15% Term loans	377.71
Total	**1511.05**

The share of the company is currently selling for Rs. 36. The expected dividend next year is Rs. 3.60 per share anticipated to be growing at 8% indefinitely. The redeemable preference shares were issued on 1st January 2003 with twelve years' maturity period. The company had raised the term loan from a nationalized bank in 2004. A similar loan will cost today at 10%. Assume an average tax rate of 30%. Estimate the weighted average cost of capital for the company using book value weights