JAIPURIA INSTITUTE OF MANAGEMENT
LUCKNOW NOIDA JAIPUR INDORE

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**
**PGDM / PGDM (M) / PGDM (SM)**
**THIRD TRIMESTER (Batch 2021-23)**
**END TERM EXAMINATIONS, April 2022**
**Set-1 (Main)**

| | | | |
|---|---|---|---|
| Course Name | **ADVANCED CORPORATE FINANCE** | Course Code | **FIN20221** |
| Max. Time | **2 hours** | Max. Marks | **40** |

1. *This question paper is to be attempted on Moodle, with each question on a separate excel sheet in this files only.*
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% . Every additional 10% will attract a penalty of 5 marks.*

| | |
|---|---|
| Roll number | |

| Q No. | 1 | 2 | 3 | 4 | Total |
|---|---|---|---|---|---|
| Maximum marks | 10 | 11 | 7 | 12 | 40 |
| Marks obtained | | | | | 0 |

==================================== your answer should start below this line ==========================

| Q 1 | 10 Marks |
|---|---|

A. For a project being considered for SK Electronics evaluate whether it should be undertaken using NPV method. (5 Marks)
B. Prepare Scenario analysis and discuss success of the project with computation and analysis of Expected NPV, 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 per annuam(Straight line, SLM) | 7000 |
| Salvage value | 1000 |
| Income Tax | 35% |
| Discount Rate for NPV | 12% |

| | Year | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Cashflows** | **0** | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| Sales | | | | | | | | |
| Variable Cost | | | | | | | | |
| Fixed Cost | | | | | | | | |
| EBDIT | | | | | | | | |
| Depreciation | | | | | | | | |
| EBIT | | | | | | | | |
| Tax | | | | | | | | |
| PAT | | | | | | | | |
| **Cashflows** | **-50,000** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |

| For Scenario 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 |

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| Roll Number | |
|---|---|

| Q 2 | 11 marks |
|---|---|

Prem Power Grid, a large electric pole company, is evaluating the possible acquisition of KC Towers, a regional firm specializing in poles for high tension lines. PPG's analysts project the following post-merger free cash flows of the target (assume all the cash flows occur at the end of the year):

| Free cash flow to firm of target in upcoming years (in Crore Rupees) | | | | |
|---|---|---|---|---|
| | **2022** | **2023** | **2024** | **2025** |
| FCFF or FCF | 13.9 | 15.85 | 21.4 | 26.25 |

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

| **Key inputs of the target firm** | | |
|---|---|---|
| Initial debt, Rs. | 30 | Crores |
| Pre-merger book value of equity (book value), Rs. | 60 | Crores |
| Pre-merger value of equity (market value), Rs. | 80 | Crores |
| Number of shares outstanding | 16 | Crores |
| Tax rate (For the valuation period) | 35% | |
| Longterm growth rate (2025 till infinity) | 7.6% | |
| Risk-free rate of return | 7.2% | |
| Market risk-premium (Rm - Rf) | 8.0% | |
| Cost of Debt (before tax) | 12.0% | |
| Beta | 1.15 | |

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

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

ii) Horizon / Terminal value of target at the end of 2025. **(2 Marks)**

iii) Value of the target firm assuming non-operating assets are zero. **(3 Marks)**

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

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| Roll Number | |
|---|---|

| Q 3 | 7 Marks |
|---|---|

The current market price of RIL share is hovering around Rs.2,600.
You have bought a call option for 300 shares of RIL expiring in May 2022, at the premium of Rs.50 for each share at the strike price of Rs.2,580.
Evaluate your (a) net payoff (after deducting option premium) if the price of RIL share on the expiry date turns out to be Rs.2500, Rs.2600, Rs.2700, or Rs.2800 and (b) draw the profit profile of the call option.
Show your calculations in details. **(1+1+1+1+3 Marks)**

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| Roll Number | |
|---|---|

| Q 4 | 12 Marks |
|---|---|

**Explain with examples *(in around 100 words each)*** **(3 marks x 4 = 12 Marks)**

i) Use of simulation in capital budgeting

ii) Using futures in managing risk in stock markets

iii) Features of hostile takeover

iv) Issues in foreign exchange risk

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| Roll Number | |
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