



JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM Section MA

2ND TRIMESTER (Batch 2023-25)

END-TERM EXAMINATIONS, JANUARY 2024

Set- 1

| | | | |
|-------------|-------------------|-------------|-------|
| Course Name | Corporate Finance | Course Code | 20202 |
| Max. Time | 2 hours | Max. Marks | 40 MM |

PLEASE READ THE INSTRUCTIONS THOROUGHLY AND STRICTLY FOLLOW THEM:

- a. Open book examination. Only the prescribed text book, calculator, pen, pencil, scale and eraser are allowed.
- b. Hand written note / paper / any other material, mobile phone, and scientific watch are strictly prohibited during the examination. Disciplinary action will be taken if any examinee is found to carry / use any such material.
- c. All parts of the same question must be answered in the same place. For example, if the question 2 contains 3 parts – (a), (b) and (c), the answers to each part must be given sequentially in the same place. No marks will be awarded for the part written elsewhere even if the answer is correct.
- d. Exchange of calculator is strictly prohibited.
- e. Step by step all workings must be shown clearly without which marks will not be awarded.
- f. Extreme caution has been taken in making the questions. There is no ambiguity in the question paper. Hence do not ask for any explanation from the invigilator. Still if you feel that there exists room for any assumption then write the same clearly. However, illogical assumptions will be ignored.

ANSWER ALL THE QUESTIONS

1. a) An investment offers Rs.50,000 per annum for 15 years with the first payment occurring one year from now. If the required return on investment is 8%, what is the value of the investment? Show what would be the value of the investment if the payment occurs for ever?
- b) Prepare an amortization schedule for a 5-year loan of Rs.42 lacs. The interest rate is 8% per annum, and the loan calls for *equal yearly instalment payments*. Show how much interest is paid over the life of the loan? (CLO2, RBT II)

Marks : 4+8

2. Consider the following two mutually exclusive projects.

| Year | Cash flow (A) | Cash Flow (B) |
|------|----------------|---------------|
| 0 | -300000 | -40000 |
| 1 | 20000 | 19000 |
| 2 | 50000 | 12000 |
| 3 | 50000 | 18000 |
| 4 | 390000 | 10500 |

Your required rate of return on investment is 15% for both the projects. Show and explain:

- If you apply the payback period criterion, which investment will you choose and why?
- If you apply the NPV criterion, which investment will you choose and why?
- If you apply the discounted payback period method which one will you choose and why?
- If the IRR of A and B are 16% and 19% respectively, which one will you choose? Will your choice be different from NPV criterion? Which one will be preferable - NPV criterion or IRR criterion and why? (CLO2, RBT II)

Marks : 2+4+2+2

3. GS is originally an all equity firm. Its cost of equity is 14%. The firm grows and the growth is financed by interest bearing debt in such a manner that, now of the total market value of the firm, the 55% consists of equity and the remaining 45 % is debt. Cost of debt is 9%. The tax rate of the firm is 40%. Using MM proposition – show, what will be the new cost of equity and WACC (weighted average cost of capital). (CLO2, RBT II)

Marks 5

4. You look after the marketing of the two equity funds of a mutual fund house, fund X and fund Y. For your clients you produce the returns of the two equity funds.

| Year | 2018 | 2019 | 2020 | 2021 | 2022 |
|------|-------|------|------|------|------|
| X | -12.1 | 28.2 | 11 | 8.9 | 15 |
| Y | -20.9 | 31.6 | 12.5 | 6.4 | 15.8 |

Show:

- a) Average return and standard deviation of each of the funds. Compare which one is better in respect of return and risk respectively.

- b) Average return and standard deviation of a portfolio consisting of 50% each of the funds.

(CLO2, RBT II)

Marks 8

5. A whole seller has a yearly turnover of Rs.12 crore. His profit margin on sales is 25%. The entire sale is on credit. His average inventory at any point is Rs.3 crore on the average. He extends 15 days credit to the retailers (customers). He gets about one month credit from his suppliers. Show – a) his cash conversion cycle, b) If he is to keep Rs. 25000/ for day-to-day expenditure further – his total working capital requirement. **(CLO2, RBT II)**

Marks 5
