



JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM Section MA

2ND TRIMESTER (Batch 2023-25)

END-TERM EXAMINATIONS, JANUARY 2024

Set-2 (Reappear)

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

Q1. A firm is evaluating a cold storage system that will cost Rs.12 lakh and returns annual cash flows as per the given table.

Year	CF
1	475000
2	495000
3	535000
4	565000
5	585000

If the salvage at the end of useful life is nil, show whether the project should be undertaken -

- By following NPV technique (Your required rate of return is 15%)
- By following simple payback method if you expect that the cost of the project should be recovered in 2 years. (CLO 2; BT Level II) Marks: 6 + 2 = 8

Q2. The following is the capital structure of Beta Ltd. As on 31 March 2023.

		(Book Value Rs. in million)
1.	Equity Capital (Paid-up) (563,00,000 shares of Rs10 each)	563.00
2.	Reserve and Surplus	<u>476.00</u>
	Shareholders Fund (A)	<u>1039.00</u>
3.	8% Debentures (B)	<u>461.00</u>
	Capital Employed (A + B)	<u>1,500.00</u>

The shares of the company are currently selling for Rs.36 per share. The expected dividend next year is Rs.3.60 per share anticipated to be growing at 8% indefinitely. The debentures were issued 5 years' back. The debentures are now being traded at 95% of the book value with a yield (interest rate) of 10%. Assume an average tax rate of 30%.

- Demonstrate rate of return of the equity share
- Show the weighted average cost of capital

Show the weighted average cost of capital for the company using market value weights.
(CLO 2; BT Level II) Marks: 4+8

Q3. N Ltd share has a beta of 1.25. The market risk premium is 8%. The risk free rate of the government bond is 6% PA. The current dividend paid is Rs 9. The dividend of the share is expected to grow at 4%. (CLO 2; BT Level II)

- Infer what will be its price now?
- Infer what will be the price of the share after 3 years?

Marks: 3+3

Q4. The following table represents the two years information about Rohit Sports Ltd. From the following data, show the operating and cash cycle of the Rohit Sports Ltd. for both the years and interpret the changes. (Assume 365 days in a year).

Particulars	2022	2021
Stocks:		
Raw materials	Rs 20,000	Rs 27,000
Work-in-process	14,000	18,000
Finished goods	21,000	24,000
Cost of goods sold	1,40,000	1,80,000
Sales	1,60,000	2,00,000
Debtors	32,000	50,000
Creditors	16,000	18,000

(CLO II, BT Level II)

Marks : 6

Q5. For higher study abroad and living expenses you will need Rs.10,00,000 per year for 4 years starting from the end of current year. That is, you need to withdraw first Rs.10,00,000 one year from now, and so on. Your guardians want you to pursue the course. Your guardians plan to deposit in an instrument paying 8% interest per year (annually compounded) that is sufficient to provide 4 payments of Rs.10,00,000 each. The deposit will be made today.

- Infer what will be the amount of deposit?
- Show what will be the balance in the account after the first withdrawal?

(CLO II, BT Level II)

Marks : 5+3
