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JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

POST GRADUATE DIPLOMA IN MANAGEMENT

2nd Trimester (Batch 2018-20)

END TERM EXAMINATIONS

Course Name	Corporate Finance	Course Code	FIN201
Max. Time	2 hours	Max. Marks	40

Instructions: ATTEMPT ALL QUESTIONS.

1. Demonstrate with an example how a conflict can arise between shareholders and managers goals? Explain how does wealth maximisation goal can take care of this conflict? (3)

2. GFR company is reviewing its capital budget for the upcoming year. It has paid an INR 3 dividend per share (DPS) for the past several years, and its shareholders expect the dividend to be remain constant for the next several years. The company's target capital structure is 60% equity and 40% debt, it has 1,000,000 shares of common equity outstanding with market price INR 20 per share, and its net income is INR 8 million. The company forecasts that it will require INR 10 million to fund all of its positive projects for the upcoming year. (2*5=10)

   1. If company follows the residual dividend policy, solve to find the retained earnings it needs to fund its capital budget.
   2. What will be the best dividend payout ratio, dividend per share and dividend yield for the upcoming year?
   3. If GFR maintains its current INR 3 DPS for next year, determine the retained earnings that will be available for the firm's capital budget.
   4. Assess whether the company can maintains its current capital structure, maintain INR 3 DPS and INR 10 million-investment budget without having to raise new common stock?
   5. Determine the actions that a firm that follows the residual dividend policy can take when its forecasted retained earnings are less than the retained earnings required to fund its capital budget?

2. A company finances its operations with 40 percent debt and 60 percent equity. Its net income is I = \$16 million and it has a dividend payout ratio of x = 25%. Its capital budget is B = \$15 million this year. The annual yield on the company.s debt is rd = 10% and the company.s tax rate is T = 30%. The company.s common stock trades at P0 = \$55 per share, and its current dividend of D0 = \$5 per share is expected to grow at a constant rate of g = 10% a year. The flotation cost of external equity, if it is issued, is F = 5% of the dollar amount issued. (3*2=6)

   (a) Determine whether the company needs to issue equity?
   (b) Estimate the cost of capital for the company.

3. Given the following information about the two assets A and B, determine which asset is preferred with justification? (3)

	A	B
Initial Investment	₹20,000	₹20,000
Annual rate of return:		

Pessimistic	9%	7%
Most Likely	11%	11%
Optimistic	13%	15%

4. A firm is evaluating two projects that are mutually exclusive with initial investments and cash flows as follows:

Project: A		Project: B	
Initial Investment	End-of-Year Cash Flows	Initial Investment	End-of-Year Cash Flows
₹40,000	₹20,000	₹90,000	₹40,000
	20,000		40,000
	20,000		80,000

(a) The firm's management requires the payback period to be 2 years to accept a project. Analyse whether both the projects be recommended based on this criterion? Show relevant calculations.

(b) The firm's required rate of return is 15%. Compute Net Present Value for both the projects. Give your recommendation about the acceptability of projects based on NPVs.

(c) Which is better technique, Net Present Value or Payback Period? Outline the relevant points defending your opinion. (2x3 = 6)

5. The following data relates to International Trading Company:

Annual Sales Revenue	₹1,440 million
Annual Cost of Goods Sold	₹1,080 million
Inventory	₹225 million
Trade Debtors	₹360 million
Trade Creditors	₹90 million

Following information is available about the industry average:

Inventory holding period 40 days

Debtors collection period 50 days

Creditors payment period 45 days

(a) Estimate Inventory holding period, Debtors collection period and Creditors payment period for International Trading Company.

(b) Estimate the cash conversion cycle of the company and estimate the required working capital investment to support the annual sales.

(c) Analyze a firm with negative cash conversion cycle. Which kind of firms will have negative COC? (4X3 = 12)