**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**SECOND TRIMESTER (Batch 2020-22)**

**END TERM EXAMINATION, FEBRUARY-2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Course Name | **Corporate Finance** | Course Code | **FIN 201** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

All the questions are compulsory.

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**Questions.1 (12 Marks)**

The Aditya Mills Ltd has submitted to you the following 4 ways of financing its expansion programme. Assuming the objective of the company is to maximise the EPS, which plan would you recommend? The corporate tax rate is 35 per cent. The key information relating to the 4 plans are as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Source of funds** | **1** | **2** | **3** | **4** |
| Equity shares of 10 Rs Each (Rs) | 1755000 | 1130000 | 2505000 | 755000 |
| 10% Preference Shares |  | 1125000 | 0 | 0 |
| 9% Preference Shares |  | @9% | 750000 |  |
| 10% Debentures  | 1500000 |  |  |  |
| 11% Debentures |  | 1000000 |  |  |
| 12% Debentures |  |  | 0 | 2500000 |

Also compute the following and write your analysis:

1. Financial break-even point or Indifferent EBIT for Plan 1 and 2, Plan 1 and 3, Plan 1and 4. **(6 Marks)**

**(b)** Determine the degree of financial leverage associated with each plan assuming EBIT of Rs 10,00,000.

 **(4 Marks)**

**(C)** Discuss the circumstances in which each plan would be most acceptable. **(2 Marks)**

**Questions.2 (8 Marks)**

XYZ Industries has three sources of capital - the equity shares, preference shares and straight debt, costing 18%, 15% and 7% respectively. The proportions of different kinds of capital as reflected in the balance sheet and as per the market values are as under:

|  |  |  |
| --- | --- | --- |
| **Proportions Capital**  | **Book value**  | **Market value** |
| Equity  | 50% | 70% |
| Preference | 20% | 15% |
| Debt  | 30% | 15% |

Find out the WACC based on a) book values b) market values and comment on WACC.

**Questions.3 (8 Marks)**

Rajesh Exports ltd. shares are trading at Rs. 8,000 per share. Firm is considering stock split in the ratio of 4: 1. Explain how the balance sheet and the share price of the firm will be impacted after the stock split. Following is the balance sheet of Rajesh Exports.

Balance Sheet as on 31st March, 2020

|  |  |  |  |
| --- | --- | --- | --- |
| **a** | **Amount (in Rs.)** | **Assets** | **Amount (in Rs.)** |
| Share Capital(1000000 Equity Shares of Rs. 10 each) | 1,00,00,000 | Fixed Assets | 2,00,00,000 |
| Reserve and Surplus | 2,50,00,000 | Current Assets (inclusive of cash Rs. 1,00,000) | 1,50,00,000 |
| **Total** | **3,50,00,000** | **Total** | **3,50,00,000** |

**Questions.4 (12 Marks)**

Anil Industries turns over its inventory 6 times each year; on an average, debtors make the payment to the firm on 30th day and firm maintain the average payment period of 20 days. The firm’s annual operating-cycle investment is $6 million. Assume a 360-day year.

1. Calculate the firm’s cash conversion cycle, its daily cash operating expenditure, and the amount of resources needed to support its cash conversion cycle.
2. Find the firm’s cash conversion cycle and resource investment requirement if it makes the following changes simultaneously.
3. Shortens the average age of inventory by 2 days.
4. Speeds the collection of accounts receivable by an average of 7 days.
5. Extends the average payment period by 5 days.
6. If the firm pays 11% for its resource investment, by how much, if anything, could it increase its annual profit as a result of the changes in part II?

If the annual cost of achieving the profit in part c is $60,000, what action would you recommend to the firm? Why?