**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM EXAMINATION, FEBRUARY-2021**

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| --- | --- | --- | --- |
| 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) | 175500 | 113000 | 250500 | 75500 |
| 10% Preference Shares |  | 112500 | 0 | 0 |
| 9% Preference Shares |  |  | 75000 |  |
| 10% Debentures  | 150000 |  |  |  |
| 11% Debentures |  | 100000 |  |  |
| 12% Debentures |  |  | 0 | 250000 |

Also compute the following and write your analysis:

**(a)** 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 100000.

 **(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  | 40% | 60% |
| Preference | 30% | 20% |
| Debt  | 30% | 20% |

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. Due to cash crunch, firm couldn’t pay the dividend to the shareholders. But in the recent board meeting, BOD have decided to issue one bonus shares on 10 shares. Suggest what changes will happen to balance sheet post the issue of bonus issue.

Balance Sheet as on 31st March, 2020

|  |  |  |  |
| --- | --- | --- | --- |
| **Liabilities** | **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  | 1,50,00,000 |
| Total | 3,50,00,000 | Total | 3,50,00,000 |

**Questions.4 (12 Marks)**

Mahindra Automobile Ltd. (MAL), a car manufacturer in India is having sales revenue of Rs. 110 crore (on all credit). The company’s inventory, receivables and payables are 20%, 30% and 15% of sales respectively. Credit purchases is 70 crore. The MAL is having its cost of goods sold equals to 70% of total sales revenue. You are expected to calculate the followings;

1. What is Primrose's inventory conversion period, payable deferral period and receivables conversion period. Also calculate the operating cycle and cash conversion cycle (CCC)?
2. Calculate the cash conversion cycle and operating cycle if the firm’s inventory and receivables are reduced by 15% & 10% respectively, and the payables are increased by 10% (assuming that the sales and CoGS are unchanged).
3. How much cash will be freed up with the change in CCC.

If the interest rate is 10%, then how would this affect the pretax profit of MAL.