**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) | 8775000 | 5650000 | 12525000 | 3775000 |
| 10% Preference Shares | 0 | 5625000 | 0 | 0 |
| 9% Preference Shares | 0 | 0 | 3750000 | 0 |
| 10% Debentures | 7500000 | 0 | 0 | 0 |
| 11% Debentures | 0 | 5000000 | 0 | 0 |
| 12% Debentures | 0 | 0 | 0 | 12500000 |

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 5000000.

**(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 | 75% | 65% |
| Preference | 10% | 15% |
| Debt | 15% | 20% |

Find out the WACC based on a) book values b) market values and comment on WACC. **(8 Marks)**

**Questions.3 (8 Marks)**

Rajesh Exports ltd. shares are trading at Rs. 80 per share. Firm is considering giving bonus shares in the ratio of 1: 10. Explain how the balance sheet and the share price of the firm will be impacted after the event. 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  (1,20,000 Equity Shares of Rs. 10 each) | 12,00,000 | Fixed Assets | 14,00,000 |
| Reserve and Surplus | 15,00,000 | Current Assets (inclusive of cash Rs. 3,00,000) | 13,00,000 |
| **Total** | **27,00,000** | **Total** | **27,00,000** |

**Questions.4 (12 Marks)**

XYZ Cements Limited sells its products on a gross profit of 20% on sales. The following information is extracted from its annual accounts for the current year ended 31st December.

|  |  |
| --- | --- |
|  | Rs. |
| Sales at 3 months’ credit | 40,00,000 |
| Raw material | 12,00,000 |
| Wages paid – average time lag 15 days | 9,60,000 |
| Manufacturing expenses paid – one month in arrears | 12,00,000 |
| Administrative expenses paid - one month in arrears | 4,80,000 |
| Sales promotion expenses – payable half yearly in arrears | 2,00,000 |

The company enjoy one month’s credit from the suppliers of raw materials and maintains a 2 month’s stock of raw materials and one and half month’s stock of finished goods. The cash balance is maintained at Rs. 1,00,000 as a precautionary measure. Assuming a 10% margin, find out the working capital requirements of XYZ Cements Ltd.