**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 maximize 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 3, Plan 2 and 3, Plan 3 and 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 17%, 14% and 8% 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 | 35% | 50% |
| Preference | 35% | 35% |
| 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. 60 per share. Firm is considering bonus shares in the ratio of 1 : 5. 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  (50,0000 Equity Shares of Rs. 10 each) | 5,00,0000 | Fixed Assets | 8,00,0000 |
| Reserve and Surplus | 7,50,0000 | Current Assets (inclusive of cash Rs. 2,00,000) | 4,50,0000 |
| **Total** | **12,50,0000** | **Total** | **12,50,0000** |

**Questions.4 (12 Marks)**

The following data relate to Esteem Snacks, a manufacturing company

|  |  |
| --- | --- |
| **Sales Turnover for the year** | **Rs 150000** |
| Costs as % of Sales | % |
| Direct Material | 25 |
| Direct labour | 30 |
| Variable Production OH | 10 |
| Fixed Production OH | 15 |
| Selling & Distribution Expense | 10 |
| Profit margin | 10 |

On average:

Debtors take 2.5 months for payment, Raw material are in stock for three months, WIP represents two month’s work of half produced goods (100% material used), Finished good represent on month production.

Credit period allowed by supplier is as follows:

Material 2 months, labor & Overheads 1 months In addition to this the firm would need to maintain cash balance of Rs 25000 on regular basis to ensure smooth running of business Compute the working capital requirement of Eastern Snack Company.