**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM IMPROVEMENT EXAMINATION, MARCH-2022**

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

**INSTRUCTIONS:**

1. All answers calculated on Excel must be reproduced in the answer sheet
2. Students are only allowed to use their personal laptops without internet connectivity

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**Q1.** A mining company os set to open a new coal mine. The mine will cost Rs 6 million to open with a life of 11 years. It will generate a cash inflow of Rs 1 million at the end of first year and is set to grow at 8% for the next 10 years.

1. What is the IRR if this project?
2. If the required rate of return is 10%, should the company go for this project? [2+3]

**Q2.** A bank lends Rs 15,00,000 @ 12.75% for 15 years. Prepare a loan amortization schedule to exhibit the total repayment including interest assuming interest is paid semi-annually. If the loan period is reduced to 12 years, what is the total interest paid by the customer? Evaluate your results in light of impact of time value of money on your total repayment. [7]

**Q3.** The TL Corporation currently has no debt outstanding. Josh Culberson, the CFO, is considering restructuring the company by issuing debt and using the proceeds to repurchase outstanding equity. The company's assets are worth $40 million, the stock price is $25 per share, and there are 1,600,000 shares outstanding. In the expected state of the economy, EBIT is expected to be $3 million. If there is a recession, EBIT would fall to $1.8 million and in an expansion EBIT would increase to $4.3 million. If the company issues debt, it will issue a combination of short-term debt and long-term debt. The ratio of short-term debt to long-term debt will be 0.20. The short-term debt will have an interest rate of 3 percent and the long-term debt will have an interest rate of 8 percent. Compute the ROE and EPS under both the options. Also plot the EBIT-EPS relationship. [10]

**Q4.** The following is the capital structure of Simons company Ltd. as on 31st March, current year Equity share: 100000 shares (of Rs 40 each) Rs 40,00,000

12.5% Debentures Rs 40,00,000

**80,00,000**

The market price of the company’s share is Rs 80 and it is expected that a dividend of Rs 2 per share would be declared at the end of the current year. The dividend growth rate is 6 per cent. (i) If the company is in the 35 per cent tax bracket, compute the weighted average cost of capital. (iii) Assuming that in order to finance an expansion plan, the company intends to borrow an additional fund of Rs 10 lakh bearing 12 per cent rate of interest, what will be the company’s revised weighted average cost of capital? [10 Marks]

**Q5.** A company reports the following for two consecutive years – Year 1 (Current) and Year 0 (Last):

**Income Statement (Rs million)**

**Year 1 Year 0**

Sales 550 400

Cost of materials consumed 50 40

Purchase of stock-in trade 110 95

Change in inventory 35 25

**Balance Sheet (Rs million)**

Account receivables 35 15

Account payables 10 10

Inventory 115 210

Compute and interpret the cash conversion period (in days). [8]