**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM EXAMINATION, MAY-2021**

|  |  |  |  |
| --- | --- | --- | --- |
| Course Name | **Advanced Corporate Finance** | Course Code | **FIN 301** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

All questions are compulsory.

………………………………………………………………...…………………………

**Questions.1 (6 Marks)**

Zydus Ltd. has issued 8% debentures of Rs. 50000000, each of Rs. 1000. Term to maturity is 10 years. HCL has also issued 8% debenture of Rs. 10 crore, each of Rs.1000. Term to maturity for these bonds is 15 years. After 2 years, yield to maturity increases by 1%. Determine new prices of the bond after 2 years and also find out which bond price will be largely impacted and why? You may assume redeemable value equal to face value.

**Questions.2 (8 Marks)**

Rajesh, a manager at Infosys Technologies Limited, received 2000 shares of company stock as part of his compensation package. The stock currently sells for Rs. 3000 a share. Rajesh would like to defer selling the stock until the next January. In February, however, he will need to sell all his holdings to provide for a down payment on his new house. Rajesh is worried about the price risk involved in keeping his shares. If the value of his stock holdings falls below Rs. 55,00,000, his ability to come up with the necessary down payment would be jeopardized. On the other hand, if the stock value rises to Rs. 65,00,000, he would be able to make a small cash reserves even after making the down payment. Rajesh considers Strategy A to write February call options on the Infosys shares with strike price Rs. 3250. These calls are currently selling for Rs. 100 each. Evaluate this strategy with respect to Rajesh’s investment goals. What are the advantages and disadvantages of this strategy?

**Questions.3 (a) (9 Marks)**

The following information is given about two firms X and Y

|  |  |  |
| --- | --- | --- |
|  | Firm X | Firm Y |
| Market price for share | Rs.60 | Rs.20 |
| Number of shares | 6,00,000 | 2,00,000 |
| Market value of the firm | Rs.360 lakh | Rs.40 lakh |

Firm X intends to acquire Firm Y. The market price per share of Y Ltd. has increased by Rs.4 because of rumors that Y might get a favorable merger offer. Firm X assumes that by combining the two firms it will save in costs by Rs.20 lakh. Firm X has two options

1. Pay Rs.70 lakh cash for Firm Y.
2. Offer 1,25,000 shares instead of Rs.70 lakh to the shareholders of Firm Y.

Calculate

1. The cost of the cash offer if Y’s market price reflects only its value as a separate entity.
2. Cost of cash offer if Y’s market price reflects the value of the merger announcement.
3. Apparent cost of the stock offer.
4. True cost of the stock offer.

**Questions.3 (b) (5 Marks)**

Companies Alpha Ltd. & Beta Ltd. are valued as follows:

|  |  |  |
| --- | --- | --- |
|  | Alpha Ltd. | Beta Ltd. |
| Earnings per share  Price per share Number of shares | Rs.8  Rs.25 7,000 | Rs.1.75  Rs.10 3,000 |

Alpha Ltd. acquires Beta Ltd. by offering 1 share of Alpha Ltd. for every 2 shares of Beta Ltd. If there is no economic gain from the merger, what is the price earnings ratio of Alpha’s stock after the merger?

**Questions.4 (6 Marks)**

On January 2 of a particular year, an American Firm decided to close out its account at a Canadian bank on February 28. The firm is expected to have 5 million Canadian dollars in the account at the time of withdrawal. It would convert the funds to U.S.Dollars and transfer them to a New York bank. The relevant spot forward exchange rate was $0.7564. The March Canadian dollar futures contract priced at $0.7531. Determine the outcome of a future hedge if on February 28 the spot rate was $0.7217 and the future rate was$ 0.7230. All prices are in US Dollars per Canadian dollar. The Canadian dollar futures contract covers CD 1, 00,000.

**Questions.5 (6 Marks)**

Company P wants a loan of Rs.10 million. Its bankers have told the company that a fixed interest loan can be sanctioned at 9% interest, while a floating interest rate can be sanctioned at the LIBOR + 2 %. Another company Q is also looking for a Rs.10 million loan. Its bankers have given it a quote of 10 % for a fixed interest loan and LIBOR + 4 % for a floating interest loan. Explain how the swap can be arranged through financial intermediary which charges 10 basis points.