**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM EXAMINATION, MAY-2021**

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

**INSTRUCTIONS:**

All questions are compulsory.

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**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)**

Sun Pharma, with its need to grow and maintain its leadership position in the industry, is planning to acquire ABTCPL. The recent financial details of the two companies are as follows:

|  |  |  |
| --- | --- | --- |
|  | Sun Pharma | ABTCPL |
| Profit after tax | Rs.2,200 lakh | Rs.40 lakh |
| Market price per share (face value Rs.10) | Rs.200 | Rs.24 |
| P/E Ratio | 18.18 | 12 |
| Projected growth rates (p.a.) | 9% | 5% |

There are two views expressed by two leading consultants on the benefits due to synergy, one arguing that there can be no benefit from synergy while the other predicts a 3% increase in earnings after the acquisition.

* 1. If ABTCPL’s shareholders want an exchange ratio of 0.4 (i.e. 0.4 shares of Sun Pharma for 1 share of ABTCPL), would that be acceptable to the shareholders of Sun Pharma if
     1. There is no synergy due to the merger?
     2. There is an increase in earnings of the merged entity by 3% due to synergy?
  2. If Sun Pharma accepts an exchange ratio of 0.4 and synergy benefits are not realized, will there be any dilution in EPS of Sun Pharma? If so, when will the dilution be wiped off?

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

As the finance manager of Al Hasan International, you are investigating the acquisition of Starlight Company. The following facts are given.

|  |  |  |
| --- | --- | --- |
|  | Al Hasan | Starlight |
| Earning per share | Rs.6.75 | Rs.2.5 |
| Dividend per share | Rs.3.25 | Rs.1.00 |
| Price per share | Rs.48 | Rs.15 |
| Number of shares | 60,00,000 | 20,00,000 |

Investors currently expect the dividends and earnings of Starlight to grow a steady rate of 7%. After acquisition this growth rate would increase to 8% without any additional investment.

Required:

1. What is the benefit of this acquisition?
2. What is the cost of this acquisition to Al Hasan if it pays (i) Rs.17 per share compensation (cash) to Starlight and (ii) offers one share for every 3 shares of Starlight?

**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 $0.7541. Determine the outcome of a future hedge if on February 28 the spot rate was $0.7207 and the future rate was).7220. 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 10% interest, while a floating interest rate can be sanctioned at the LIBOR + 1 %. Another company Q is also looking for a Rs.10 million loan. Its bankers have given it a quote of 11 % for a fixed interest loan and LIBOR + 3 % for a floating interest loan. Explain how the swap can be arranged through financial intermediary which charges 20 basis points.