**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

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

**END TERM EXAMINATION, JULY-2021**

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

**INSTRUCTIONS:**

All questions are compulsory.

1. Meet Company plans to acquire Sandeep Company. The following are the relevant financials of the two companies.

*Meet Company Sandeep Company*

|  |  |  |
| --- | --- | --- |
| Total earnings, E | Rs.800 million | Rs.400 million |
| Number of outstanding shares | 20 million | 10 million |
| Market price per share | Rs .450 | Rs.180 |

* 1. What is the maximum exchange ratio acceptable to the shareholders of Meet Company if the PE ratio of the combined company is 21 and there is no synergy gain?
	2. What is the minimum exchange ratio acceptable to the shareholders of Sandeep Company if the PE ratio of the combined company is 20 and there is a synergy benefit of 8 percent?
	3. If there is no synergy gain, at what level of PE multiple will the lines ER1 and ER2 intersect?

  **(3+3+2=8 Marks)**

1. Intelli wants a loan of Rs.35 million. Its bankers have told the company that a fixed interest loan can be sanctioned at 13% interest, while a floating interest rate can be sanctioned at the LIBOR + 3 %. HCL is also looking for a Rs.35 million loan. Its bankers have given it a quote of 14 % for a fixed interest loan and LIBOR + 5 % for a floating interest loan. Explain how the swap can be arranged through financial intermediary which charges 30 basis points. **(8 Marks)**
2. As the financial manager of Satya Limited you are investigating the acquisition of Devaraj Limited. The following facts are given:

|  |  |  |
| --- | --- | --- |
|  | *Satya Limited* | *Devaraj Limited* |
| Earning per share | Rs.12.00 | Rs.4.00 |
| Dividend per share | Rs.10.00 | Rs.3.00 |
| Price per share | Rs.110.00 | Rs.38 .00 |
| Number of shares | 5,800,000 | 1,400,000 |

Investors currently expect the dividends and earnings of Devaraj to grow at a steady rate of 4 percent. After acquisition this growth rate would increase to 10 percent without any additional investment. Required:

(a) What is the benefit of this acquisition ?

(b) What is the cost of this acquisition to Satya Limited if it (i) pays Rs.100 per share cash compensation to Devaraj Limited and (ii) offers three shares for every seven shares of Devaraj Limited ? **(3+2+2=7 Marks)**

1. 3M Ltd. has issued 8% debentures of Rs. 50000000, each of Rs. 1000. Avas Ltd. has also issued 10% debenture of Rs. 10 crore, each of Rs.1000. Both the type of bonds have term to maturity of 10 years. Redeemable value for both the bonds is equal to face value. Three years later, yield to maturity increases by 1%. Determine new prices of the bond after 3 years and also find out which bond price will be largely impacted and why?  **(8 Marks)**
2. Alpha Finance has just purchased a stock index fund, currently selling at Rs. 800 per share. To protect against losses, Alpha also purchased an at-the-money European put option on the fund for Rs. 35, with 3-month time to expiration. Beta, Alpha’s financial adviser, points out that Alpha is spending a lot of money on the put. He notes that 3-month puts, with exercise price of Rs. 790 cost only Rs. 30, and suggests that Alpha use the cheaper put.
	1. Analyse Alpha’s and Beta’s strategies by drawing the profit diagrams for the stock-plus-put position for various values of the stock fund in 3 months.
	2. When does Beta’s strategy do better? When does it do worse?
	3. Which strategy entails greater systematic risk? **(4 + 3 + 2=9 Marks)**