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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management |
| **Course Title: Corporate Finance (Course Code: 40202)**  **End-Term Examination, Term - II (Batch 2022-24) (January 2023)** | |
| **Time Duration : 2 Hours Total Marks: 40** | |

***Instructions*:**

1. *This exam is completely an MS -excel based exam*
2. *No answer sheet will be given*
3. *Students need to submit one excel workbook as an answer script. The workbook will have multiple worksheets.*
4. *Students need to solve each question in a separate worksheet and name the worksheet with ques no.*
5. *No Internet access will be given*
6. *No formula, interest factors tables will be provided*
7. *Students should continually keep saving their work*
8. *Students should save the final excel answer sheet with their name, roll no. and division*
9. *Do not write anything on the question paper apart from your roll no.*

**Q1**.

1. Zeta Ltd is considering four independent projects – A, B, C and D with the following characteristics

|  |  |  |
| --- | --- | --- |
|  | **Initial Investment** | **Annual Net Cash Flow** |
|  | Year 0 | Years (1through 5) |
| A | -20 | 7.5 |
| B | -4.5 | 1.5 |
| C | -7 | 2.5 |
| D | -8 | 3.5 |

The funds available for investment are limited to Rs.20 lakh and the cost of funds to the firm is 14%.

Categorize and Rank the four project(s) in terms of the NPV, IRR and Payback period. Which project(s) will you recommend given the limited supply of funds? **(9 marks)**

1. Indo-African Mining Corporation (IAMC) is considering opening a copper mine in northern Zambia with following cash flows information:

|  |  |
| --- | --- |
| Year | Cash Flows |
| 0 | -60 |
| 1 | 20 |
| 2 | 40 |
| 3 | 50 |
| 4 | 30 |
| 5 | -15 |

The mining project has substantial cash outflows at the end of year 5 since machinery has to be decommissioned and the land must be returned to “green field” status. The project’s cost of capital is 10%.

Should the project be accepted based on IRR?

Should the project be accepted based on MIRR?

Which criterion is better for appraising this project and why? **(5 marks)**

**Q2.**

a) Kolby Corp. is comparing two different capital structures. The plan I would result in 1,300 shares of stock and $80,640 in debt. Plan II would result in 2,900 shares of stock and $19,200 in debt. The interest rate on debt is 10 %. Ignoring taxes compare both of these plans to an all–equity plan assuming that EBIT will be $10,500. The all–equity plan would result in 3,400 shares of stock outstanding. Which of the three plans has the highest EPS? The lowest? **(4 Marks)**

1. Zoha Ltd. is a firm operating in the IT sector. The capital structure of Zoha ltd. consists of debt and equity in the ratio of 1:4, as per market value weights. TBN ltd. is a similar firm operating in the same sector and has a beta of 1.2. The 91-day treasury bills are giving a return of 5% and the market index is giving a return of 17%. The debt of Zoha ltd. consists of corporate bonds whose current market value is $ 95 per bond and it has been 2 years since the bonds were issued. The bonds have an annual coupon rate of 15% and a maturity period of 10 years. The par value of the bond is $ 100. Zoha Ltd. pays a corporate tax of 30%. Analyze the information given and calculate the WACC (as per market value weights) of Zoha ltd.

**(8 Marks)**

**Q3.** The relevant information for Zenith Limited is given below: Calculate the length of the operating cycle and the cash cycle?

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Profit and Loss Account Data** | | **Balance Sheet Data** | | |
|  |  |  | Beginning of 2022 (in $ Millions ) | End of 2022  (In $ Millions ) |
| Sales | 500 | Inventories | 60 | 64 |
| COGS | 360 | Bills Receivables | 80 | 88 |
|  |  | Bills payables | 40 | 46 |

**(6 marks)**

**Q4.**

a) The market price of each share of XTR ltd. is $42. It has decided to pay a cash dividend of $2. John owns 80 shares of XTR ltd. However, John prefers a $3 dividend. Relate to John’s situation by comparing the cash that John will get by selling two shares ex-dividend or by receiving a $3 dividend. Also, compare the value of stock holdings in both cases. **(5 marks)**

b) TRS ltd. has 6,000 shares of stock outstanding and the current market value of the firm is $429,000. The company just announced a 2-for-1 stock split. Calculate the market price of the share after the split.  **(3 marks)**

**-----------------------------------------------End of the question paper---------------------------------------------**