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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)**  **Special Improvement Examination, Term – II (Batch 2022-24) (March 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.** Your company is considering two projects*, M* and *N*. Each of these projects requires an initial outlay of Rs.240 million. The expected cash inflows from these projects are:

*Year Project M Project N*

1 85 100

2 120 110

3 180 120

4 100 90

1. What is the payback period for each of the projects? (2 marks)
2. What is the discounted payback period for each of the projects if the cost of capital is 15 percent? (3 marks)
3. If the two projects are independent and the cost of capital is 15 percent, which project(s) should the firm invest in? (4 marks)
4. If the two projects are mutually exclusive and the cost of capital is 12 percent, which project should the firm invest in? (3 marks)

**(12 marks)**

**Q2.** Madhu Corporation has the following book value capital structure:

Equity capital (30 million shares, Rs.10 par) Rs.300 million

Preference capital, 15 percent (1,000,000 shares, Rs.100 par) Rs. 100 million

Retained earnings Rs. 100 million

Debentures 11 percent (2,500,000 debentures, Rs.100 par) Rs .250 million

Term loans, 13 percent Rs. 300 million

Rs.1050 million

The next expected dividend per share is Rs.4.00. The dividend per share is expected to grow at the rate of 15 percent. The market price per share is Rs.80. Preference stock, redeemable after 6 years, is currently selling for Rs.110 per share. Debentures, redeemable after 6 years, are selling for Rs.102 per debenture. The tax rate for the company is 35 percent.

Calculate the average cost of capital using

1. book value proportions, and
2. market value proportions

**(6+6 marks)**

**Q3.** Following is the financial statement data of Sequoi Ltd. for the year 2022

|  |  |  |  |
| --- | --- | --- | --- |
| **Profit and Loss Account Data for the year ending 2022 (in ₹ lakhs)** | | **Balance Sheet Data as on 31st March, 2022 (in ₹ lakhs)** | |
| Sales | 830 | Inventories | 140 |
| COGS | 360 | Bills Receivables | 120 |
|  |  | Bills payables | 100 |

Examine the above data to find out the operating cycle and cash conversion cycle of Sequoi Ltd. for the year 2022.

**(5 marks)**

**Q4.** The key information pertaining to the proposed new financing plans of Hippie Ltd is given below:

|  |  |  |
| --- | --- | --- |
| Sources of funds | Financing Plans | |
|  | 1 | 2 |
| Equity | 15,000 shares of Rs. 100 each | 30,000 shares of Rs. 100 each |
| Preference Shares | 12%, 25,000 shares of Rs. 100 each | - |
| Debentures | Rs. 5,00,000 at a coupon rate of 0.10 | Rs. 15,00,000 coupon rate of 0.11 |

Assuming a 35 percent tax rate,

If the firm is certain that it’s EBIT will be Rs. 12, 50,000. Which plan would you recommend and why?

**(5 Marks)**

**Q5** You own 1,000 shares of stock in Schneider Corporation. You will receive a dividend of $2.60 per share in one year. Schneider will pay a liquidated dividend of $53 per share in two years. The required return on Schneider stock is 14%. What is the current share price of your stock (ignoring taxes)? If you would rather have equal dividends in each of the next two years, show you can accomplish this by creating homemade dividends.

**(6 marks)**

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