

**SVKM's NMIMS**  
**School of Distance Learning**

Programme PGDFM/PGDBM

Academic Year: 2011-2012  
Subject: Corporate Finance

Semester	IV
Course	New
Marks:	70
Time:	3.00 p.m to 6.00 p.m

Date: 4.1.2012

**Instruction : Candidate should read carefully the instruction printed on the question paper and on the cover of the Answer book, which is provided for their use**

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**NB :**

1. All 4 questions to be attempted
  2. All sub questions carry equal marks.
  3. Answer to each new question to be stated on a fresh page
  4. Figures in bracket indicate full marks.
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**Q1 Attempt any 2 out of any 4**

**(Marks 10)**

- (a) XYZ Ltd. produced and sold 1,00,000 units of a product at the rate of Rs. 10~~0~~. For production of 1,00,000 units, it has spent a variable cost of Rs.6,00,000 at the rate of Rs.6 per unit and a fixed cost of Rs.2,50,000. The firm has paid interest Rs. 50,000 at the rate of 5 % and Rs.1,00,000 debt. Calculate operating leverage.
- (b) Determine Re- order level, minimum level, maximum level, and average stock level from the following data:  
Normal usage 100 units per week, Lead time 4- 6 weeks  
Minimum usage 50 units per week, Maximum usage 150 per week  
Re-order quantity 600 units
- (c) Short note on JIT
- (d) What do you mean by Sensitivity Analysis ?

Cont.....

Q2 Write Short note on any two out of five

(Marks 10)

- a. Lease Finance
- b. ECB
- c. ADR
- d. Types of Equity Shares
- e. Overseas ADR's/ GDR's & ECB'S

Q3 Attempt any 3 out of 5

(Marks 30)

a) M/s Finboom Ltd. is having an investment opportunity costing Rs.40,000 with following expected net cash flows (after taxes but before depreciation)

Year	Net Cash flows Rs.
1	7,000
2	7,000
3	7,000
4	7,000
5	7,000
6	8,000
7	10,000
8	15,000
9	10,000
10	4,000

Year	1	2	3	4	5	6	7	8	9	10
At 10%	0.909	0.826	0.751	0.683	0.621	0.564	0.513	0.467	0.424	0.386
At 15 %	0.870	0.756	0.658	0.572	0.497	0.432	0.376	0.327	0.284	0.247

Using 10% as the cost of Capital (rate of discount) determine the following:

- (i) Payback Period
- (ii) Net Present Value at 10% discount factor
- (iii) Profitability index of 10% discount factor
- (iv) Internal rate of return with help of 10% discount factor and 15% discount factor

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b) Equity share of M/s Hot Care Ltd. is currently quoted in the market at Rs. 20. The company pays a dividend of Rs. 1 per share (i.e. 10%) and the investor expect a growth rate of 5% p.a.

Compute

- (a) The company's equity cost of capital
- (b) If the anticipated growth rate is 6% , calculate the estimated market price per share
- (c) If the cost of capital is 8% with the anticipated growth rate at 5% p.a. and the dividend 10% is to be maintained , what should be the likely market price?

c).KT Industries manufactures one product with selling price of Rs. 20 per unit and variable cost is Rs. 10 per unit. The plant has installed capacity of 2000 unit , but utilization is only 50%. Fixed cost Rs. 5,000

It's capital needs Rs. 20,000. It considers following Debt Equity Ratios:-

- (i) Debt 25% Equity 75%
- (ii) Debt 50% Equity 50%
- (iii) Debt 75% Equity 25%

The cost of Debt is 10%

You are required to calculate all leverages (viz Financial , Operating and Combined ) and suggest capital structure

d). From the following particulars you are required to compute working capital investment to be made for N.P. Ltd.

- i ) Sales price Rs. 20 per unit. With profit @ 20% , the cost structure is material 50% wages 25% and overhead 25%, all in relation to total cost.
- ii ) Yearly output expected is 1,04,000 units
- iii ) Time lag from receipts to issue of material is 4 weeks, whereas processing time is 2 weeks, Finished goods remain in stock for 1 month before sale.
- iv ) Credit period allowed to customers 2 months whereas credit earned from suppliers is 1 month.
- v ) Wages are paid at interval of  $\frac{1}{2}$  month whereas other expenses are paid two weeks after occurrence.
- vi ) 25% of purchases and sales are on cash basis
- vii ) Minimum cash balance required is Rs. 5,000 and a contingency margin @ 5% on Gross Current Assets should be provided
- viii ) For computation purpose consider 4 weeks = 1 month

Continue....

e). If  $K = 11\%$  and earnings per share is Rs. 15. Calculate the price per share of Sushma Ltd. For  $r = 12\%, 11\%$ , and  $10\%$  for the following levels of D/P ratios.

	D/P ratio	Retention ratio
1	10%	90%
2	30%	70%
3	50%	50%

Q4 a). Explain with reference to Capital Budgeting, the Traditional Technique and Modern Technique for evaluating Investment (20)

b). What do you mean by Gross and Net working Capital? Also explain Operating Cycle

With Diagram .

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