3004E303

Candidate's Seat No :________

PGD (FM) Semester-2 Examination

Corporate Finance

April-2024

Time : 2-30 Hours] **[Max. Marks : 70**

Instructions:

1. **Q-1 and Q5 have no options.**
2. **Make suitable assumptions wherever necessary.**
3. **The figures to the right indicate full marks.**

Q.1	**Answer the Following in two to three lines. (Each carries two marks)**		**14**
	1.	What do you mean by corporate finance?	
	2.	What is the primary goal of capital structure management?	
	3.	Distinguish between internal and external sources of financing.	
	4.	Name two methods for managing working capital effectively.	
	5.	Explain the concept of dividend yield.	
	6.	Discuss briefly two strategies for reducing accounts receivable turnover time.	
	7.	What is the purpose of hedging in international finance?	
Q.2	**Answer the following questions. (Any two)**		**14**
	(A)	What is the right issue? What are its advantages and disadvantages from the company's and shareholder's point of view?	
	(B)	Why is a preference share called a hybrid security? Do you agree that it combines the worst features of ordinary shares and bonds?:	
	(C)	How does a term loan differ from a non-convertible debenture?	
Q.3	**Answer the following questions. (Anyone)**		**14**
	(A)	Suhana Ltd. has capital of Rs. 10 lac in a equity of Rs.100 each. The shares are currently quoted at par. The Company proposes to declare a dividend of Rs.10 per share at the end of the current financial year. The capitalisation rate of the risk class of the company is 12%. Compute the Market price of the share at the end of the year if a) Dividend is not declared. b) Dividend is declared. c) Assuming Suhana Ltd pays dividends and has a profit of Rs. 5lac and makes new investment of Rs.10 lac during the period. How many new shares need to be issued? (MM model)	
	(B)	1) Kirti Corp. has an earnings per share (EPS) of Rs. 6 and a capitalisation rate of 12%. The company is evaluating various dividend payout ratios: (i) 40%, (ii) 60%, and (iii) 80%. Using Walter's model, determine the market price of the company's shares under each dividend payout ratio assumption, considering that the company can earn a return of 12% on its retained earnings. 2) As per Walter's model, what shall be the Dividend payout ratio under the following conditions; If r>K, r<K and If r=K	
Q.4	**Answer the following questions. (Any two)**		**14**
	(A)	Develop a cash budget for April, May, and June 2024, ensuring to maintain it in a columnar form. Include calculations for cash sales, collections, cash purchases, credit purchases, wages, expenses, total cash inflows, total cash outflows, net cash flow, and the cash balance for each month.	

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Month	Sales	Purchases	Wages	Expenses
Jan. (actual)	80,000	45,000	20,000	5,000
Feb. (actual)	80,000	40,000	18,000	6,000
Mar. (actual)	75,000	42,000	22,000	6,000
Apr. Budget	90,000	50,000	24,000	6,000
May Budget	85,000	45,000	20,000	6,000
Jun. Budget	80,000	35,000	18,000	5,000

You are further informed that:

- 10% of purchases and 20% of sales are for cash.
- The company's average collection period is half a month, and credit purchases are paid off regularly after one month.
- Wages are paid half-monthly, and the rent of INR 500, excluded in expenses, is paid monthly.
- Cash and bank balance on April 1 was INR 15,000, and the company aims to keep it below this figure at the end of every month. Excess cash is placed in fixed deposits.

(B)

1) Akurate Solutions, a consulting firm, currently provides a 45-day credit period to its clients for sales transactions. With the existing credit policy, the company's current level of sales is INR 150 million. The firm's cost of capital is 12%, and the ratio of variable costs to sales is 60%. Akurate-Solutions is contemplating extending its credit period to 60 days. Such an extension is expected to boost sales by INR 20 million. However, the bad debt proportion on the additional sales resulting from the credit extension would be 7%. The tax rate for Akurate Solutions is 25%. What will be the impact of lengthening the credit period on the residual income of Akurate-Solutions? Assume 360 days in a year.

2) A firm is wondering whether to sell goods to a customer on credit. The sales revenues will be Rs.50,000 and the sale cost will be Rs.36,000. What should be the minimum probability that the customer will pay, to sell profitably?

(C) AI Inc. is a company specializing in electronic components. They are evaluating the economic order quantity for a specific type of capacitor. The company sells 80,000 capacitors annually at a price of Rs. 120 per piece. The purchase price per capacitor to the firm is Rs. 90. The carrying cost per capacitor is Rs. 20 per year, and the cost of placing an order is Rs. 150.
(a) What is the total cost associated with placing one, three, six, and twelve orders per year?
(b) What is the economic order quantity?

Q5 (14)

Case Study: BHAKTI Corporation

BHAKTI Corporation is a multinational company operating in the technology sector. As part of its growth strategy, the company has expanded its operations globally and is now facing various financial management decisions. Let's explore some key aspects of their financial management:

Dividend Decisions:

BHAKTI Corporation has been consistently profitable over the past few years. However, it's now at a crossroads regarding its dividend policy. The management team is debating whether to increase dividends to attract more investors or to retain more earnings to fund future expansion plans and research and development projects. Additionally, they need to consider the impact of dividend decisions on shareholder wealth and market perceptions.

Capital Structure:

The company is considering restructuring its capital to optimize its financial leverage. Currently, BHAKTI Corporation has a significant amount of debt in its capital structure. Management is evaluating the benefits and risks of altering the debt-equity ratio to achieve an optimal capital structure. They need to assess how changes in the capital structure will impact the company's cost of capital, financial flexibility, and overall risk profile.

Working Capital Management:

BHAKTI Corporation operates in multiple countries with different currencies and economic environments. Effective working capital management is crucial for maintaining liquidity and supporting day-to-day operations across diverse markets. The company needs to optimize its inventory management, accounts receivable, and accounts payable processes to minimize costs and maximize cash flow efficiency while mitigating currency exchange risks.

International Financial Management:

With operations spanning across borders, BHAKTI Corporation faces various challenges related to international financial management. These include managing currency risk exposure, evaluating foreign investment opportunities, navigating international tax regulations, and optimizing capital budgeting decisions in different countries with varying economic conditions and political landscapes. The company needs to develop robust strategies to effectively manage these complexities and capitalize on global growth opportunities while mitigating risks.

Questions for Analysis (14 marks):

1. Discuss the factors that BHAKTI Corporation should consider when making dividend decisions. How can the company strike a balance between dividend payments and retained earnings to maximize shareholder wealth? (4 marks)
2. Evaluate the potential advantages and disadvantages of altering BHAKTI Corporation's capital structure. How should the company determine the optimal debt-equity ratio to minimize the cost of capital while maintaining financial stability? (4 marks)
3. Assess the key components of working capital management that BHAKTI Corporation should focus on to enhance liquidity and operational efficiency in its international operations. How can the company mitigate currency exchange risks while managing working capital across different countries? (3 marks)
4. Analyze the unique challenges and opportunities that BHAKTI Corporation faces in international financial management. How should the company integrate global financial strategies to support its expansion plans and mitigate risks associated with operating in multiple countries? (3 marks)

---**All the Best.........................**