**Corporate Finance**

**December 2021 Examination**

**Q1. MCARTECH Pvt. Ltd. is considering two mutually exclusive capital investments. The project’s expected net cash flows are as follows:**

|  |  |  |
| --- | --- | --- |
| **Expected Cash Flows** | | |
| **Year** | **Project A** | **Project B** |
| **0** | **-500** | **-875** |
| **1** | **100** | **150** |
| **2** | **110** | **200** |
| **3** | **120** | **250** |
| **4** | **175** | **375** |
| **5** | **240** | **530** |
| **6** | **300** | **680** |

**a. If you were told that each project’s cost of capital was 12%, which project should be selected using the NPV criteria?**

**b. What is the profitability index for each project if the cost of capital is 12%?**

**c. What is the regular payback period for these two projects? (10 Marks)**

**Ans 1.**

**Introduction:**

When a business evaluates possible massive projects or investments, it employs the tool of capital budgeting to facilitate the evaluation. For capital budgeting tasks, such as developing a new factory or a substantial investment in an outside organization, capital budgeting is required as early as possible before they can be considered legal or denied. If capital budgeting also includes assessing the lifetime cash inflows and outflows of an assignment, it would also evaluate whether or not the potential returns can be used in determining a benchmarking goal Its Half solved only

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**Q2. Assume that you plan to take a housing loan with a tenor of 20 years. The loan has to be repaid in equal monthly installments. Considering that the loan amount is Rs. 50 lakhs and the interest rate on loan is 9% p.a., what would be the equated monthly installment (EMI)? (10 Marks)**

**Ans 2.**

**Introduction:**

In the contemporary society we are becoming more dependent on loans to provide us with the ability to accomplish many of our most essential goals. If you have ever bought a house, a vehicle, or even taken out a loan to buy the overseas education of your children, you will know that loans are an integral part of our lives. However, what is crucial to know about loans is EMI, or the monthly interest payment. It is very important that you understand that an EMI, which stands for equated monthly installment, represents a monthly payment towards a loan that we

**3. LT India Ltd has the following capital structure, which it considers optimal:**

**Debt 35%**

**Equity shares 65%**

**Total 100%**

**The applicable tax rate for the company is 25%. The risk-free rate of return is 6%, average equity market investment has an expected rate of return of 12%. The company's beta is 1.10. Debt will bear an interest rate of 9% p.a**

**Calculate**

**a. component cost of Debt and equity shares assuming that the company does not issue additional equity shares. (5 Marks)**

**Ans 3a.**

**Introduction:**

It is the combination of Debt and equity that a company uses to finance its operations and expansion. Stock possession and claims to destiny coins flow, and profits are the sources of equity capital. Instead of Debt, fairness might be inside the shape of regular inventory, desired

**b. Weighted Average Cost of Capital (WACC). (5 Marks)**

**Ans 3b.**

**Introduction:**

Each type of capital is proportionally weighted in a firm's cost of capital computation, resulting in a "weighted average cost of capital." there is no manner to calculate WACC without such as all sources of capital. If an employer's beta and return on equity increase, the WACC increases properly since it shows a drop in valuation and a growth of chance for the business enterprise as