**Corporate Finance**

**April 2022 Examination**

**Q1. The capital structure of ABC Pvt. Ltd is as follows:**

**Equity share capital (each share of Rs. 10) = Rs. 10, 00,000**

**Debentures with a coupon rate of 9.5% = Rs. 8, 00,000**

**Reserves and surplus = Rs. 7, 00,000**

**Revenue from the business activities for the company is Rs. 1.50 crores. Its variable cost is 8% of the revenue; fixed operating cost is Rs. 48 lakhs, and the company pays income tax at a rate of 25%.**

**a. Calculate financial leverage, operating leverage, and combined leverage for the company.**

**b. Determine the likely level of EBIT for EPS of (i) Rs. 20, (ii) Rs. 30, and (iii) Rs. 45**

**Introduction:**

EBIT stands for earnings before interest and taxes and measures an organization's profitability. Sales minus charges, without taxes and interest, are EBIT. Operational earnings, operating profit, and profit before interest and taxes are all terms used to explain EBIT. EBIT (income before interest and taxes) refers to a company's internet profits earlier than deducting earnings tax and interest prices. EBIT is a metric for studying a company's fundamental operations without considering capital shape fees or tax costs. Because they each dispose of hobby and taxes from

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**Q2. The equity shares of a publicly-traded company are priced at Rs. 450 with a P/E (Price to Earnings) ratio of 15. The announces a dividend of Rs. 9 per share. The company's shareholders expect the dividend to grow at a rate of 6% every year, and the cost of equity for the company is 15%. According to the dividend relevance approach suggested by Walter and Gordon, what would be the impact of dividend announcement on the market price of the shares of the company if the required rate of return for investors is (i) 12%, (ii) 15% and (iii) 18%. (10 Marks)**

**Introduction:**

A dividend is a payment made with the aid of an organization to its stockholders. When an organization makes earnings or has a surplus, it could distribute a portion of that income to shareholders. Any money that isn't always dispersed is re-invested inside the corporation. The Gordon growth model (GGM) is used to calculate a stock's intrinsic value primarily based on a chain of dividends that upward push at a consistent pace inside the future. It is a commonplace and fundamental dividend bargain model choice (DDM). The GGM solves for the current price

**Q3. A manufacturing company forecast that it will likely sell 6,00,000 units for the year 2021. The processing cost of an order is Rs. 150, and the carrying cost per inventory unit is Rs. 12. The lead time of an order is eight days.**

**a. What would be the economic order quantity (EOQ) and re-order point assuming 300 days in a year. (5 Marks)**

**Introduction:**

The purchase order amount for replenishment that minimizes universal stock costs is the EOQ. When the inventory level reaches the reorder factor, the purchase order is activated. The EOQ is estimated to reduce the number of expenditures, including buying prices (which may include quantity discounts), stock maintaining costs, ordering costs, and so on. Order quantity

**Qb. The company implements business process reengineering, which results in a reduction of 20% in the cost of an order, 10% in carrying cost per unit of inventory, and 25% in the lead time of order. What would be the new EOQ and re-order point? (5 Marks)**

**Introduction:**

The reorder point (ROP) is the inventory level that causes a movement to refill that stock inventory. It is the minimal amount of an object that a corporation has available so that after the stock goes below that degree, the item should be reordered. It's usually estimated as the projected