**Corporate Finance**

**September 2022 Examination**

**Q1. Alfamedics Lts received Rs 10 crores as equity through a new issue of equity shares. The company is going to use the proceeds from equity shares and its retained earnings worth 5 crores for the expansion purpose of one of the project.**

**The equity shareholders expect a desired return of 14%. The cost of bringing the equity issue is 2%.**

**Define these terms and discuss how the cost of external equity and cost of retained earnings differs from cost of debt. Compute these costs and provide suitable reasons for the answers (10 Marks)**

**Ans 1.**

**Introduction:**

The groups are available for equity, borrowing, debt instruments, net earnings, traces of credit, operating capital loans, promissory word, foreign money issues, challenge funding, and other financing styles. This cash is utilized in a variety of eventualities. They're categorized through terms, possession and control, and generation source. Before selecting a supply of capital, it's miles important to assess it. Financing assets are the maximum promising industry for Its sample only

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**Q2. Financial risk is about using more fixed cost financing in the business. Financial leverage does have a significant impact on the shareholder’s profits. Justify the statement with a real life example from the business environment reflecting on how the increase amount of fixed cost financing increases the risk of financial distress and impacts the earnings available to shareholders. (10 Marks)**

**Ans 2.**

**Introduction:**

To run a business, an organization wants financial assets. Financial capital is raised for leading organizations via issuing debt securities and promoting not unusual stock. The ratio of debt to equity in a company's capital shape has a lot of threat and return implications. As a result, company management should utilize a rigorous and sensible method even in determining a company's desired capital structure. The capital structure describes how an organization price ranges its operations and growth using combining several funding assets. Economic trouble

**3. A Project costs Rs 80,000 and is expected to generate cash inflows as:**

|  |  |
| --- | --- |
| **Year** | **Cash inflows(Rs)** |
| **1** | **20,000** |
| **2** | **24,000** |
| **3** | **30,000** |
| **4** | **36,000** |
| **5** | **40,000** |
| **6** | **44,000** |

**a. Discuss the steps for calculating the NPV and (5 Marks)**

**Ans 3a.**

**Introduction:**

Net present value analysis is a technique for analyzing financial cash flows that aids assignment choice. Moreover, the NPV venture choice system is assessed as a benefit measuring approach. Furthermore, the discounted cash flow approach is utilized in NPV analysis to decide project profitability. An essential gain of the net present value technique is that it employs the time value

**b. Calculate the Net Present Value of the project if the cost of capital is 15%. (5 Marks)**

**Ans 3b.**

**Introduction:**

Net present value refers to the difference between the value of cash today and the value of cash at a later duration (NPV). In dealing with initiatives, net present value (NPV) is getting used to determine if a project's predicted economic rewards will exceed its current investment,