**Corporate Finance**

**April 2024 Examination**

**Q1. Gajini Papers Ltd. has a cost of equity capital of 12%.The current market value of all the shares of the company is Rs.30,00,000(@Rs.30 per share. The earning expected at the end of the year is 15,00,000.At the end of the year it wants to make a fresh investment of Rs.25,00,000 and pay a dividend of Re.2 per share. Show how under the MM assumption the payment of dividend does not affect the value of the company. (10 Marks)**

**Ans 1.**

**Introduction**

The Modigliani-Miller (MM) theorem is a cornerstone in the field of corporate finance, offering profound insights into the impact of financial strategies on a company's value. This theory, developed by Franco Modigliani and Merton Miller in 1958, posits that under certain conditions, the financial decisions of a company, including its dividend policy, do not affect its market value. This assumption operates under a world without taxes, transaction costs, and assumes that information is freely available and financial markets are perfectly efficient. Applying this theorem to Gajini Papers Ltd., which is contemplating a dividend payout alongside a fresh investment, provides a compelling framework to examine how these

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**Q2. Hypothetical Engineers Ltd. is expected to grow @25% for the next 3 years. The growth rate is likely to fall to 20% for the next two years. After that, the growth rate is expected to stabilize at 15%.**

**The FREE CASH FLOW (FCFE) for the last year was Rs.10. Find out the maximum price at which an investor would buy the share today if his market capitalization rate is 13% (10 Marks)**

**Ans 2.**

**Introduction**

In the dynamic realm of corporate finance, understanding the valuation of a company's shares is crucial for investors aiming to make informed decisions. The case of Hypothetical Engineers Ltd. presents a scenario where the company is anticipated to experience varying growth rates over different periods: an initial high growth phase at 25% for three years, followed by a moderated growth rate of 20% for two years, and eventually settling into a stable growth rate of 15%. This analysis revolves around determining the maximum price an investor should be willing to pay for the company's share today, considering a market capitalization rate of 13%. The process involves calculating the present value of the expected

**Q3a. From the following data provided to you calculate the duration of cash operating cycle (5 Marks)**

|  |  |  |
| --- | --- | --- |
| **Sr. No.** | **Particulars** | **Amount (Rs.)** |
| **1.** | **Raw material** | **90,00,000** |
| **consumed during** |
| **the year** |
| **2** | **Average stock of****raw materials** | **15,00,000** |
| **3** | **Factory c** | **ost** | **of** | **105,00,000** |
| **goods produced** |  |
| **4** | **Average stock of****work-in-progress** | **16,00,000** |
| **5** | **Office cost** | **of** | **11,40,0000** |
| **goods produced** |  |
| **6** | **Average stock of****finished goods** | **9,00,0000** |
| **7** | **Average** | **trade** | **15,00,000** |
| **debtors** |  |  |
| **8** | **Cost** | **of** | **credit** | **180,00,000** |
| **sales** |  |  |
| **9** | **Average** | **trade** | **15,00,000** |
| **creditors** |  |
| **10** | **Expenses for the****year** | **60,00,000** |
| **11** | **Average creditors** | **5,00,000** |
| **for expenses** |
| **12** | **Number of** | **360** |
| **working days in a year (assume)** |

**Ans 3a.**

**Introduction:**

The cash operating cycle is a crucial metric in financial management, indicating the time it takes for a company to convert its investments in inventory and accounts receivable into cash. It comprises the period from purchasing raw materials to receiving cash from the sale of finished goods. Calculating this cycle is essential for efficient working capital management, as it helps in assessing liquidity and optimizing cash flow. In this scenario, we will delve into

**Q3(b). X Ltd. is studying the possible acquisition of Y Ltd. The following information is available**

|  |  |  |
| --- | --- | --- |
|  | **X Ltd.** | **Y Ltd.** |
| **Profit after tax (Rs. lakhs)** | **40** | **20** |
| **Equity shares outstanding** | **4,00,000** | **1,50,000** |
| **Market price per share (Rs.)** | **25** | **15** |

**If the merger takes place by exchange of equity shares based on market price what will be the EPS of X Ltd. after the merger? (5 Marks)**

**Ans 3b.**

**Introduction:**

In assessing the potential acquisition of Y Ltd. by X Ltd., it is essential to evaluate the impact of the merger on the earnings per share (EPS) of X Ltd. EPS is a crucial financial metric that indicates the portion of a company's profit allocated to each outstanding share of common stock. This analysis will consider the post-merger EPS of X Ltd., assuming the exchange of