**Corporate Finance**

**September 2024 Examination**

**Question 1**

**From the following projections of NTR Ltd. for the year 2024-2025, you are required to determine the working capital requirement of the company.**

**Annual sales Rs.28,80,000**

**Cost of production (excluding depreciation) Rs.24,00,000**

**Raw material purchases Rs.10,57,500**

**Estimated opening stock of raw materials Rs.2,11,500**

**Estimated closing stock pf raw materials Rs.2,00,000**

**Inventory norms**

**Raw Materials 2 months consumption**

**Work-in-process ½ month**

**Finished goods 1 month**

**Credit period allowed to customers 1 month Credit period allowed by suppliers 2 months Minimum cash balance to be maintained Rs,75,000.**

**Assume that production is carried out evenly during the year Also assume that opening stock of finished goods=closing stock of finished goods**

**Statement showing determination of working capital (10 Marks)**

**Ans 1.**

**Introduction**

Working capital management is a critical aspect of corporate finance, especially for companies aiming to optimize their operational efficiency and financial stability. The concept of working capital refers to the funds required for a business to conduct its day-to-day operations, encompassing the management of its assets and liabilities. Efficient working capital management ensures that a company maintains sufficient cash flow to meet its short-term obligations and operational needs. In this analysis, we will delve into the working capital requirements

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**Question 2**

**X Ltd. wants to acquire Y Ltd.by exchanging 0.4 of its share for each share of Y Ltd. The relevant financial data are as follows:**

|  |  |  |
| --- | --- | --- |
| **Particulars** | **X Ltd.** | **Y Ltd.** |
| **Earnings after tax (Rs.)** | **25,00,000** | **5,00,000** |
| **Equity shares outstanding** | **5,00,000** | **1,25,000** |
| **P/E Ratio (times)** | **15** | **8** |

**Determine**

**(i) Number of shares required to be issued to shareholders of Y Ltd.**

 **(ii) EPS of X Ltd. after the merger.**

**(iii) the equivalent earning per share of Y Ltd.**

**(iv) the expected market price per share of A Ltd. after the acquisition assuming its P/E ratio remains unchanged.**

**(v) the market value of X Ltd. after the acquisition. (10 Marks)**

**Ans 2.**

**Introduction**

Mergers and acquisitions (M&A) represent strategic financial decisions companies make to enhance their market position, expand their operational capabilities, or achieve synergies. X Ltd.'s proposed acquisition of Y Ltd. through a share exchange illustrates a common method used in such corporate restructuring. This process involves assessing the value of both entities and determining the terms of the exchange to ensure the deal is fair and beneficial to the shareholders of both companies. This analysis will evaluate the financial implications of the merger for X Ltd., including the number of shares to be issued, the impact on earnings per share (EPS), and the

**3a. Viraskha Sports Ltd. is presently growing at an average rate of 25%. This trend is expected to continue for the next three years after which it is likely to stabilize** **@10%** **per year. The amount of free cash flow per equity share for the year just ended was Rs.10. Find out the maximum price an investor following the free Cash approach will be prepared to buy the company’s shares if he expects a return of 15%. (5 Marks)**

**Ans 3a.**

**Introduction**

Valuing a company’s shares using the Free Cash Flow to Equity (FCFE) approach involves forecasting future cash flows and discounting them back to their present value. This valuation method is particularly useful for investors aiming to determine the maximum price they should pay for a share based on expected returns. In this analysis, we'll calculate the maximum price an investor might consider reasonable for purchasing shares of Viraskha Sports Ltd., taking into account the company's projected growth rates and the investor's required rate of return.

**Concept and**

**3b. The following information is made available to you in relation to a product manufactured by Sundaram Fasteners Ltd.**

|  |  |  |
| --- | --- | --- |
|  | **2021-2022** | **2022-2023** |
| **Sales units** | **1,20,000** | **1,50,000** |
| **Total cost (Rs.)** | **56,00,000** | **65,00,000** |

**Determine the break even point in units and also in Rupees if the selling price per unit is**

**Rs.40. (5 Marks)**

**Ans 3b.**

**Introduction**

The break-even point is a fundamental financial metric used to determine when a business will start making a profit, accounting for fixed and variable costs. It is crucial for understanding the minimum production and sales levels required to cover costs, thereby preventing losses. By examining the past sales and costs of Sundaram Fasteners Ltd., we can ascertain the company's break-even point both in units and in rupees. This information helps management make informed decisions regarding pricing, budgeting, and production planning to enhance financial stability and profitabilit