**Corporate Finance**

**NMIMS Solved Assignments for December 2024**

**1. ABC Limited has equity with a market value of Rs. 20 Lacs and debt with a market value of Rs. 15 Lacs. The Balance sheet of the company showed the Capital Structure as under:**

|  |  |
| --- | --- |
| **Capital Structure** | **BV** |
| **Share Capital** | **10,00,000** |
| **Debentures** | **5,00,000** |
| **Bank Loan** | **8,00,000** |

**Cost of debt is 9%. The risk-free rate is 8% and the market rate is 18%. The beta of the company is 0.15. The firm pays no taxes.**

**a. What is ABC Limited’s debt to equity ratio?**

**b. What is ABC Limited’s weighted average cost of capital based on Market value as well as Book value? Answer up to 2 decimal places.**

**c. ABC Limited is in growing stage and soon the company will be under 35% tax bracket, in such a scenario the company is thinking to raise the debt up to 70%. Under these conditions, what will be the new DE ratio and the new cost of capital of the company?**

**d. What is the impact of change in DE ratio as above on the Company and why?**

**Answer:**

**Introduction:**

ABC Limited is a company with a capital structure that includes both equity and debt. Understanding the debt-to-equity (DE) ratio and the weighted average cost of capital (WACC) is crucial for assessing the financial health and risk profile of the company. The DE ratio indicates the proportion of debt used to finance the company's assets compared to equity, while WACC represents the average rate of return that a company is expected to pay its security holders. This analysis is particularly relevant as ABC Limited plans to adjust its capital structure, potentially increasing its debt to 70%, which will impact both its DE ratio and WACC. An examination of these financial metrics will help the company understand the implications of its capital structure decisions and their effect on overall financial risk and return.

**This is partially solved sample answer**

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**2. XYZ Ltd. is evaluating a new project proposal with a cash outlay of Rs. 80,000. Cash inflows are 25,000, 28,200, 32,000, 12,000, 15,000. The project is being funded entirely by a bank loan raised at an interest rate of 9% p.a. Currently there is no tax applicability to the firm. Evaluate the project using NPV and IRR methodologies.**

**The Board of Directors want a minimum of 12% as its rate of return on the project. Will the company take up the project?**

**How will the situation be different if the company is subject to a tax of 25%?**

**Answer:**

**Introduction:**

XYZ Ltd. is considering a new project proposal requiring an initial cash investment of Rs. 80,000. The project is projected to generate cash inflows of Rs. 25,000 in the first year, followed by Rs. 28,200, Rs. 32,000, Rs. 12,000, and Rs. 15,000 in the subsequent years. The entire funding for this venture comes from a bank loan with a 9% interest rate, and currently, the company is not liable for any taxes. To determine the project's viability, the Board of Directors requires a minimum return of 12%. The evaluation will employ Net Present Value (NPV) and Internal Rate of Return (IRR) methodologies to assess whether the project meets the required return threshold. Additionally, the potential impact of a 25% tax rate on project feasibility will be examined.

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**3a) Maya bought a house of value Rs. 65,00,000. She got a loan of 80% of the value of the house from the bank. The bank offered her a loan for 10 years @ 8.5% interest payable annually. Calculate the equated annual payment to be made by her and draw up her annual payment schedule.**

**Answer:**

**Introduction:**

Maya is looking to purchase a house valued at Rs. 65,00,000 and has opted for a bank loan covering 80% of the property value. The loan will be repaid over 10 years with an annual interest rate of 8.5%. To determine her financial obligations, we will calculate the equated annual payment (EMI) she needs to make and create an annual payment schedule detailing each payment's principal and interest components.

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**3b) With the following data, calculate DSO and Debtor Turnover Ratio (in no. of times) for FY 2021-22. What is better for the company, a higher ratio or lower ratio? Give brief reasons? (In one line)**

|  |  |  |
| --- | --- | --- |
|  | **FY 2021-22** | **FY 2020-21** |
| **Sales** | **1,500,000** | **1,650,000** |
| **Receivables** | **30,000** | **35,000** |
| **60% of the sales are on credit basis** | | |

**Answer:**

**Introduction:**

In financial analysis, measuring the efficiency of a company's credit and collection processes is crucial for assessing its liquidity and operational effectiveness. The Days Sales Outstanding (DSO) and Debtor Turnover Ratio are key metrics that help evaluate how quickly a company collects cash from its credit sales. Understanding these ratios aids stakeholders in making informed decisions regarding the company's financial health and operational performance over the fiscal years in question.

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