

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

Vidyavihar, Mumbai- 400077

Program: PGDM Executive (Batch 2016-17), Trimester II

Subject: Corporate Finance & Valuation

(End Term Examination)

Maximum Marks: 50

Duration: 3 hours

Date: 29th March, 2017

Instructions: 1. All questions are compulsory. 2. Answers written in pencil shall not be accepted and will invoke negative marking. 3. Cancellation of any answer is to be done in pen only. 4. Usage of pen color other than black and blue is strictly prohibited.

Q.1A Explain the various components of a Facility Term Sheet (In-principle sanction letter) **10 Marks**

OR

Q.1B Free cash flows to the firm (FCFF) for a forecast period of 5 years are as follows: Year 1: Rs. 31.2 million, Year 2: Rs. 30.1 million, Year 3: Rs. 26.8 million, Year 4: Rs. 29.5 million, Year 5: Rs. 30.0 million. The cost of capital is 10 % and long term growth rate in perpetual phase (terminal phase) is 3%. Compute the Present value of the firm **10 Marks**

Q.2A Explain the components of an Information Memorandum with a suitable example. **10 Marks**

OR

Q.2B Explain the concept of Operating and Financial Leverage. Consider the following numbers:

Sales	\$6, 00, 000
Variable costs	<u>3, 00, 000</u>
Contribution	3, 00, 000
Fixed costs	<u>1, 60, 000</u>
EBIT	1, 40, 000
Interest	<u>0</u>
PBT	1, 40, 000
Taxes	<u>42, 000</u>
PAT	<u>98, 000</u>
No of shares	1, 00, 000

If for the next, year, the sales increases or decreases by 5%, what is the leverage value associated with the firm? **10 Marks**

Q.3 What are the typical parameters considered while computing ratings of a firm? **10 Marks**

Q.4 Fill in the Blanks (Each sub question carries 2 Marks) **10 Marks**

i) In the title "Capital Structure", the word Capital refers to _____. (Sources of Funds / Application of Funds) and the word Structure refers to _____. (Composition of Funds/ Application of Funds)

ii) Financial Leverage implies proportion of _____. (Debt / Investments)

iii) Difference of Sales and Variable costs is termed as _____. (Contribution / Fixed Costs)

iv) Proportion of Debt in the capital structure is 20% and the balance is equity. Tax rate is 30%. Cost of Equity is 12% and cost of debt is 10%. Then, the Weighted Average Cost of Capital equals _____.

v) For transferring Receivables to the bank by a borrower, a Power of Attorney in favor of the bank is not required. This statement is _____. (True / False)

Q.5 Explain the components of a CMA sheet

10 Marks

----- *All The Best* -----