**Corporate Finance**

**April 2025 Examination**

**1. Mr. Joshi is the Finance Manager at M/s Vriddhi Impex. The Company is looking at lateral growth and diversification into garment making from cloth making. For doing this, there needs to be put up a factory with all the latest machinery for cutting and stitching garments. The cost of acquisition of land, setting up the factory and buying the machinery works out to Rs. 100 lacs. It is estimated that the project will start generating revenue immediately from year 1. The Net revenue (after tax) for the next 5 years is Rs. 20 lacs, 30 lacs, 35 lacs, 45 lacs, 48 lacs.**

**A new loan is available to Vridhi Impex at 9% p.a. interest rate (net of tax). Mr. Joshi has another proposal which gives him a return of 12% p.a. and hence he does not want to invest below this rate.**

**Assist Mr. Joshi to evaluate the project proposal using NPV and IRR. (Show all calculations for comparing it with the alternative proposal also). Should he go ahead with the project proposal? (10 Marks)**

### **Ans 1.**

### **Introduction**

Corporate finance focuses on strategic financial planning, investment decisions, and optimizing resources to enhance business growth and shareholder value. One of the critical aspects of corporate finance is capital budgeting, which involves evaluating potential investments and their profitability. Common tools for project evaluation include Net Present Value (NPV) and Internal Rate of Return (IRR), which assess the viability of projects based on cash flow projections and required returns.

M/s Vriddhi Impex is evaluating a ₹100 lacs project to diversify into garment manufacturing. The project’s expected cash inflows for five years are ₹20 lacs, ₹30 lacs, ₹35 lacs, ₹45 lacs, and

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**2. Parag is evaluating 3 options for investment of his surplus money of Rs. 15,00,000/- for a period of 5 years.**

**i. Invest it in a Debenture which gives him a return of 12% compounded quarterly.**

**ii. Invest in a Corporate Deposit at a rate of 9% compounded bi-annually.**

**iii. Invest it in a Business Proposal which gives him the following returns.**

**Considering the risk involved, the discounting factor is considered @ 11%.**

|  |  |
| --- | --- |
| **Year** | **CF** |
| **1** | **250,000** |
| **2** | **350,000** |
| **3** | **575,000** |
| **4** | **525,000** |
| **5** | **645,000** |

**As his finance advisor which option would you suggest him. Provide reasons. (10 marks)**

### **Ans 2.**

### **Introduction**

Investment decisions are critical for maximizing returns on surplus funds while managing associated risks. Evaluating investment options involves considering the time value of money, the nature of returns, and the risk-reward tradeoff. This requires the use of financial techniques like future value (FV) and Net Present Value (NPV), which provide a clear understanding of the profitability and feasibility of different options.

Parag has ₹15,00,000 available for investment over five years. He is considering three options: a debenture offering 12% returns compounded quarterly, a corporate deposit at 9% compounded

**3. a) In the following Balance sheet, calculate the Current Ratio and the Acid Test Ratio for both years Mar 2024 and Mar 2023. What do they indicate about the company’s financial position and the movement over the years? (5 Marks)**

|  |  |  |
| --- | --- | --- |
| **Tata Motors** |  |  |
| **Standalone Balance Sheet** | **------------------- in Rs. Cr. -----------------**  **--** | |
|  | **Mar 24** | **Mar. 23** |
| **EQUITIES AND LIABILITIES** | |  |
| **SHAREHOLDER'S FUNDS** | |  |
| **Equity Share Capital** | **766.50** | **766.02** |
| **Total Share Capital** | **766.50** | **766.02** |
| **Reserves and Surplus** | **29,374.83** | **21,701.37** |
| **Total Reserves and Surplus** | **29,374.83** | **21,701.37** |
| **Money Received Against Share Warrants** | **-** | **-** |
| **Total Shareholders Funds** | **30,141.33** | **22,467.39** |
|  | **1.72** | **2.46** |
| **NON-CURRENT LIABILITIES** | |  |
| **Long Term Borrowings** | **5,235.67** | **10,445.70** |
| **Deferred Tax Liabilities [Net]** | **49.78** | **51.16** |
| **Other Long Term Liabilities** | **1,392.16** | **1,411.78** |
| **Long Term Provisions** | **1,936.92** | **1,588.75** |
| **Total Non-Current Liabilities** | **8,614.53** | **13,497.39** |
| **CURRENT LIABILITIES** | |  |
| **Short Term Borrowings** | **8,535.37** | **8,426.74** |
| **Trade Payables** | **8,826.46** | **7,162.60** |
| **Other Current Liabilities** | **8,830.41** | **9,805.30** |
| **Short Term Provisions** | **1,133.92** | **408.89** |
| **Total Current Liabilities** | **27,326.16** | **25,803.53** |
| **Total Capital And Liabilities** | **66,083.74** | **61,770.77** |
| **ASSETS** | |  |
| **NON-CURRENT ASSETS** | |  |
| **Tangible Assets** | **11,990.26** | **12,129.14** |
| **Intangible Assets** | **2,353.79** | **2,413.18** |
| **Capital Work-In-Progress** | **645.03** | **575.65** |
| **Intangible Assets Under Development** | **588.92** | **509.30** |
| **Fixed Assets** | **15,578.00** | **15,627.27** |
| **Non-Current Investments** | **30,315.57** | **29,181.62** |
| **Deferred Tax Assets [Net]** | **1,558.65** | **1,477.26** |
| **Long Term Loans And Advances** | **101.89** | **114.40** |
| **Other Non-Current Assets** | **3,321.96** | **3,870.27** |
| **Total Non-Current Assets** | **50,876.07** | **50,270.82** |
| **CURRENT ASSETS** | |  |
| **Current Investments** | **1,993.50** | **3,142.96** |
| **Inventories** | **3,470.38** | **3,027.90** |
| **Trade Receivables** | **2,765.16** | **2,307.72** |
| **Cash And Cash Equivalents** | **5,150.96** | **1,414.65** |
| **Short Term Loans and Advances** | **132.19** | **132.29** |
| **Other Current Assets** | **1,695.48** | **1,474.43** |
| **Total Current Assets** | **15,207.67** | **11,499.95** |
| **Total Assets** | **66,083.74** | **61,770.77** |

### **Ans 3a.**

### **Introduction**

Analyzing a company’s financial position is essential for understanding its short-term liquidity and ability to meet immediate obligations. Two critical metrics for this purpose are the **Current Ratio** and the **Acid Test Ratio (Quick Ratio)**. These ratios measure a firm's ability to cover current liabilities using its current assets. The financial health of Tata Motors for the financial years ending March 2024 and March 2023 will be evaluated using these metrics to observe any

**b) Monica has a debenture of Face value Rs. 100/- @ 8.5%. Calculate its current yield if: (5 Marks)**

**i) Market Price is Rs. 98.90**

**ii) Market Price is Rs. 95.20 iii) Market Price is Rs. 105**

**What inference can you draw from this about the relation between Market price and yield?**

**Ans 3b.**

### **Introduction**

Debentures are fixed-income securities that offer periodic interest payments, called the coupon rate, based on their face value. However, the return an investor actually earns depends on the market price at which the debenture is purchased. This return is known as the **Current Yield**, which is the effective yield an investor earns relative to the market price. By calculating the current yield for Monica's debenture under different market price scenarios, we can analyze the