**Corporate Finance**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for June 2025 Examination**

**Q1. Atlas Auto Components, a manufacturer of premium car accessories, reported total revenue of Rs.42,00,000 in the past financial year. The company produced and sold 21,000 units of its flagship product, high-performance car seat covers. The cost structure for the year was as follows:**

**- Raw Materials: Rs.7,20,000**

**- Labour Costs: Rs.11,40,000**

**- Manufacturing Overheads: Fixed: Rs.2,10,000Variable: Rs.1,75,000**

**To expand its market reach, Atlas Auto Components also spent Rs.1,80,000 on advertising and sales promotions, which are categorized as fixed expenses. Additionally, the company has an outstanding loan of Rs.18,00,000, borrowed at an interest rate of 7.5%.**

**Required:**

**Based on the above information, calculate the Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL), and Degree of Total Leverage (DTL) to assess the company's financial risk and operational efficiency.**

**Comment on its financial position based on the Leverages.**

**Answer:**

**Introduction:**

Atlas Auto Components, a manufacturer of premium car accessories, particularly high-performance car seat covers, has showcased a promising revenue figure of Rs. 42,00,000 in the last financial year. With 21,000 units sold, it reflects the company's strong production and sales capabilities. However, assessing only the revenue does not provide a full picture of the company’s operational efficiency and financial risk. Hence, to gain deeper insights, financial tools like the Degree of Operating Leverage (DOL), Degree of Financial Leverage (DFL), and Degree of Total Leverage (DTL) are utilized.

These leverage measures help in evaluating how sensitive the company's profits are to changes in sales and how much risk is embedded in its cost and financing structure. A higher degree of leverage usually implies greater risk, but it can also mean greater potential returns if managed wisely. By calculating and interpreting these leverages, one can understand whether Atlas Auto Components is managing its fixed and variable costs effectively and if its capital structure is optimal in terms of debt usage. In the sections below, the concepts of DOL, DFL, and DTL are explained, applied to Atlas Auto Components’ financial data, and their results are interpreted to assess the company's operational and financial health.

**Concepts and Application:**

**NMIMS June 2025 Assignments Available!**

✅ **Generic/Sample Solutions - Only ₹150 per subject**

**These are sample solutions where you will have to change approximately 30–40% of the content to make it your own.**

**✅ Unique/Customized Solutions – Only ₹500 per subject**

**Ready-to-upload assignments are 100% original and prepared to be submitted directly.**

**Email (Inquiries and Orders): smu.assignment@gmail.com**

**WhatsApp / Call (Seeking immediate help): +919741410271**

**Our website:** [**www.mbaassignmentsolutions.com**](www.mbaassignmentsolutions.com)

**Q2. NovaTech Solutions Pvt. Ltd., a technology infrastructure company, is planning a large-scale expansion by setting up an advanced AI-driven manufacturing facility. The estimated capital requirement for the project is Rs.750 crores. The management is evaluating whether to raise the funds through debt, equity, or a combination of both.**

**Company’s Current Financial Position:**

**- Existing Equity Base: Rs.1,200 crores**

**- Existing Debt: Rs.1,440 crores**

**- Current Debt-Equity Ratio: 1.2:1**

**- Maximum Acceptable Debt-Equity Ratio: 2:1**

**- Current Return on Equity (ROE): 27%**

**- Cost of Debt: 9%**

**- Earnings Before Interest and Taxes (EBIT): Rs.600 crores**

**- Corporate Tax Rate: 30%**

**The company is considering three possible funding strategies:**

**1. Full Debt Financing: Raising the entire Rs.750 crores through debt.**

**2. Full Equity Financing: Issuing new shares worth Rs.750 crores.**

**3. Hybrid Approach: Raising Rs.450 crores through debt and Rs.300 crores through equity.**

**Maximum Acceptable Debt-Equity Ratio: 2:1.**

**Advise on the best way to finance it discussing on each option w.r.t. its advantages and disadvantages. (Hint: Consider impact profitability and any other ratios as may be appropriate)**

**Answer:**

**Introduction:**

NovaTech Solutions Pvt. Ltd., a technology infrastructure company, is preparing for a major expansion by setting up an advanced AI-driven manufacturing facility. This ambitious project is expected to cost Rs.750 crores. To finance this expansion, the management team is currently evaluating three funding strategies: raising the full amount through debt, issuing new shares for the full amount, or adopting a hybrid approach by raising part through debt and part through equity. The company’s financial health shows an existing equity base of Rs.1,200 crores and existing debt of Rs.1,440 crores, leading to a current debt-equity ratio of 1.2:1. The company has set a maximum acceptable debt-equity ratio of 2:1, ensuring that excessive leverage is avoided. At present, the company's Return on Equity (ROE) is 27%, indicating healthy profitability, and its cost of debt is 9%, which is relatively moderate. With Earnings Before Interest and Taxes (EBIT) standing at Rs.600 crores and a corporate tax rate of 30%, careful consideration is necessary before choosing the right funding option. The decision will impact key financial metrics like profitability, risk, financial flexibility, and long-term growth. Therefore, it is important to analyze the advantages and disadvantages of each financing option in detail before making a recommendation.

**Concepts and Application:**

**NMIMS June 2025 Assignments Available!**

✅ **Generic/Sample Solutions - Only ₹150 per subject**

**These are sample solutions where you will have to change approximately 30–40% of the content to make it your own.**

**✅ Unique/Customized Solutions – Only ₹500 per subject**

**Ready-to-upload assignments are 100% original and prepared to be submitted directly.**

**Email (Inquiries and Orders): smu.assignment@gmail.com**

**WhatsApp / Call (Seeking immediate help): +919741410271**

**Our website:** [**www.mbaassignmentsolutions.com**](www.mbaassignmentsolutions.com)

**Q3 (A) ABC Ltd., a consumer electronics company, has provided the following financial details for the year ending 2024:**

**- Current Assets: Rs.12,00,000**

**- Current Liabilities: Rs.6,00,000**

**- Cash & Cash Equivalents: Rs.1,80,000**

**- Inventory: Rs.3,00,000**

**- Net Credit Sales: Rs.24,00,000**

**- Accounts Receivable: Rs.4,00,000**

**Required: Calculate any the below Liquidity ratios and briefly comment on the company's liquidity position:**

**1. Current Ratio**

**2. Quick Ratio (Acid-Test Ratio)**

**3. Accounts Receivable Turnover Ratio**

**Answer:**

**Introduction:**

Liquidity ratios are important financial metrics that help assess a company’s ability to meet its short-term obligations without facing financial stress. These ratios provide insights into how well a business can cover its liabilities using its assets in the near term. ABC Ltd., a consumer electronics company, has shared its key financial data for the year ending 2024. Using the provided information, we will calculate three important liquidity ratios: the Current Ratio, the Quick Ratio, and the Accounts Receivable Turnover Ratio. These calculations will help us understand how comfortably ABC Ltd. can manage its short-term financial commitments.

**Concepts and Application:**

**NMIMS June 2025 Assignments Available!**

✅ **Generic/Sample Solutions - Only ₹150 per subject**

**These are sample solutions where you will have to change approximately 30–40% of the content to make it your own.**

**✅ Unique/Customized Solutions – Only ₹500 per subject**

**Ready-to-upload assignments are 100% original and prepared to be submitted directly.**

**Email (Inquiries and Orders): smu.assignment@gmail.com**

**WhatsApp / Call (Seeking immediate help): +919741410271**

**Our website:** [**www.mbaassignmentsolutions.com**](www.mbaassignmentsolutions.com)

**Q3 (B) Sancha House is putting up a new Ice Cream Factory whose initial cost is Rs. 300,000. It expects to get inflows of Rs. 154000, Rs. 155,000, Rs. 175,000, Rs. 182,000 and Rs. 198,000. Cost of borrowing for this project is 11%. Calculate the NPV and decide whether it is a good proposal to invest in.**

**Answer:**

**Introduction:**

When a company like Sancha House plans to set up a new Ice Cream Factory, it is important to evaluate whether the investment will be profitable. One of the best methods to assess a project’s profitability is through the Net Present Value (NPV) method. NPV takes into account the time value of money, comparing the value of cash inflows expected in the future to the initial investment made today. By discounting future cash flows at the required rate of return, businesses can make informed decisions. A positive NPV indicates a potentially profitable investment, while a negative NPV suggests otherwise.

**Concepts and Application:**

**NMIMS June 2025 Assignments Available!**

✅ **Generic/Sample Solutions - Only ₹150 per subject**

**These are sample solutions where you will have to change approximately 30–40% of the content to make it your own.**

**✅ Unique/Customized Solutions – Only ₹500 per subject**

**Ready-to-upload assignments are 100% original and prepared to be submitted directly.**

**Email (Inquiries and Orders): smu.assignment@gmail.com**

**WhatsApp / Call (Seeking immediate help): +919741410271**

**Our website:** [**www.mbaassignmentsolutions.com**](www.mbaassignmentsolutions.com)