



MEASI INSTITUTE OF MANAGEMENT CHENNAI-14

Approved by All India Council of Technical Education and
Affiliated to the University of Madras, ISO 9001:2015 Certified Institute

CASE STUDIES

CORPORATE FINANCE

Case Study Number	1
Level of Teaching	L3
Program Outcomes Covered	PO2, PO4, PO5, PO6
Course Outcome Covered	C302.1

After graduating from a state university with a degree in finance, Mr. Santosh took up a job as a stock broker with Financial Angels in Chennai. Although he had several college loans to make payments on, his goal was to set aside funds for the next eight years in order to make a down payment on house. After considering the various suburbs of Chennai, he choose oragadam as his desired future residency. Based on median house price data, she learned that a three – bedroom, two bath house currently costs Rs. 9,80,000. To avoid payment of 20%.

Because it will be eight years before Santosh buys a house, the Rs. 9,80,000 price will surely not be the same in the future. To estimate the rate at which the median house price will increase she considered the historical price appreciation in Oragadam. In the past, homes appreciated by nearly 4% per annum. Santosh was satisfied with this estimation.

Financial Angels provides several opportunities for Santosh to invest the funds that will be devoted to the purchase of her future home. She feels that a balanced account containing stocks, bonds and government securities would realistically achieve an annual rate of return of 8%.

Questions:

1. Taking into consideration the fact that the Rs. 9,80,000 home price will grow at 4% per year, what will be the future median home selling price in Oragadam in eight years? What amount will Santosh have to accumulate as a down payment if she does decide to buy a house in Oragadam?
2. Based on your answer from number 1, how much will have to be deposited into Financial Angels account (which earns 8% per year) at the end of each month to accumulate the required down payment?
3. If Santosh decides to make end of the year deposits into the Financial Angels account, how much would these deposits be? Why is the amount



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greater than 12 times the monthly payment amount?

4. If homes in Oragadam appreciate by 6% per annum over the next eight years instead of the assumed 4%, how much would Santosh have to deposit at the end of each month to make the down payment?
5. If Santosh decided to deposit her down payment funds in less risky certificates of deposit (CDs) earning only 4%, how much would he have to deposit at the end of each month to make the down payment? What if he pursued a more risky investment of growth stocks that have an expected return of 12%?

Case Study Number	2
Level of Teaching	L3
Program Outcomes Covered	PO2, PO4, PO5, PO6, PO7
Course Outcome Covered	C302.3

Mr. Hemant Kumar was running a factory producing metallic vessels, using a machine which was bought for Rs. 50,000 and has another 10 years of life left in it and will fetch Rs. 10,000 if sold now. He has 100 employees and the cost of labour is Rs. 20,000. The cost of material used to produce 1,000 vessels is Rs. 25,000 and he also incurs Rs. 10,000 towards other expenses. He sells one vessel for Rs. 100. He is in the 20% tax bracket. At this juncture he was offered a new machine by his friend, the machine is more advanced than the old one and has several benefits attached to it which was listed by his friend as given below:

- a. The new machine will cost Rs. 1,00,000 and have an estimated life of 10 years and after 10 years will have a scrap value of Rs. 10,000.
- b. The new machine will save material, as the wastes will reduce, resulting with the increase in the production of number of units by 10%.
- c. Also the work load of the employees is reduced and the number of workers can be reduced by 25%.
- d. But the new machine will consume additional power and maintenance cost and hence the expenses are doubled from its current value.



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Mr. Hemant Kumar was not sure whether he can go for the new machine. Help Mr. Hemant Kumar to decide whether he can go for the new machine or continue with the existing machine, based on the following points given by his friend on the new machine.

Case Study Number	3
Level of Teaching	L3
Program Outcomes Covered	PO1, PO2, PO3, PO4, PO5. PO6, PO7
Course Outcome Covered	C302.3

Sometimes, doing the right thing is more important than profits, a lesson that Malden Mills learned firsthand. When the factory burned down in 1995 just two weeks before Christmas, production halted and employees assumed they'd be out of work until the factory was rebuilt. But CEO Aaron Feuerstein extended the employees 90 days at full pay, as well as 180 days with benefits at a cost of \$25 million to Malden Mills. After the factory was rebuilt and all of the displaced workers were rehired, cooperation and productivity reached a new high, with 40% more business, 95% customer and employee retention, and a production increase from 130,000 to 200,000 yards per week. However, since then, Malden Mills has been to bankruptcy court three times, with much of the debt tied to the rebuild of the factory.

What do you think is about this case is Mr. Feuerstein' s approach right and will the bold philanthropic actions will pay off in the end?