ID No # 16576

Subject Advance corporate Finance

Question No 1

Definition:-

Bond are issued by organizations generally for a period of more than one year to raise money by borrowing

organization in order to raise capital issue bond to invester which is nothing but a financial contract where the organization Promises to pay principal amount and interest (in the form of coupons) to the holder of the bond after a certain date (Also called maturity date.) Some bonds do do not Pay interest to the investers, however it is mandotery for the issures to pay the Principal amount to the investors

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Maturity date refers to the final date for the Payment of any financial Product when the Principal along the with the interest needs to be paid to the investor by the issuer

Characteristic of a bond

A bond generally a form of debt which the investers pay to the issuers for a defined time frame. In a layman's language bond holders offer credit to the company issuing the bond

Bonds generally have a fixed maturity date.

All bonds repay the Principal the maturity date, however some bonds do pay the interest along with the Principal to the bond holders

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Face value :-

Face value is the money amount after the maturity it is also the reference amount the bond issuer uses when calculating interest payment. For example say an invester purchases a bond at a premium $1,090 and another invester buys the same bond later when it is trading at a discount for $980. when the bond matures both investor will receive the $1,000 face value of bond.

The coupon rate :-

The coupon rate is the rate of interest the bond issuer will pay on the face value of the bond, expressed as a percentage. For example, a 5% coupon rate means that bondholders will receive 5% x $1000 face value = $50 every year.

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Coupon dates:-

Coupon dates are the dates on which the bond issuer will make interest payment. Payments can be made in any interval, but the standard is semiannual payments

Maturity date:-

The maturity date is the date on which the bond will mature and the bond issuer will pay the bondholder the face value of the bond

Issue Price:-

The issue price is the Price at which the issuer originally sells the bonds.

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Question No 3

Equity Financing :-

Equity Financing is the process of raising capital through the sale of shares. Companies raise money because they might have a short-term need to pay bills or they might have a long-term goal and require funds to invest in their growth. By selling shares, they sell ownership in their company in return for cash like stock financing.

Equity financing comes from many sources; for example, an entrepreneur's friends and family, investors, or an intial public offering (IPO).

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While the term financing refers to the financing of Public compaines listed on an exchange the term also applies to private company financing

How Equity Financing works ?

Equity financing involves the sale of common equity but also the sale of other equity or quasi-equity instruments such as preferred stock, convertible Preferred stock, and equity units that include common shares and warrants.

A startup that grows into a successful company will have several rounds of equity financing as it evolves.

Since a startup typically attracts different

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types of investors at various stages of its evolution, it may use different equity instruments' for its financing needs.

For example, angel investers and venture capitalists who are generally the first investers in a startup are inclined to favor convertible preferred shares rather than common equity the former have greater upsiale potential and some downside protection. Once the company has grown large enough to consider going public, it may consider selling common equity to institutional and retail investors

Characteristic OF Common stock :-

common stock represents ownership in a company, and each share of common stock holds an equal amount of that ownership

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Common stock grants the stockholder certain rights which typically include the right to sell the stock in the secondary market, either through a public exchange or in a private transaction. Stockholders have the right to participate in the profits of the company through dividend payments, when such dividends are authorized by the company board of directors. They have the right to vote at the annual stockholder's meeting, and they have the right to the company's remaining assets if the company goes out of business.

Common stock Considerations:-

When you raise money for your company by issuing common stock, you don't incur any debt. You have no obligation to pay dividends,

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So your board of directors can decide to plow all of your company's profit back into growing the company. Any time you sell stock in your company, you dilute your ownership position. If you sell more than 50 percent of your company's stock, you risk losing control of your company.

Question No#4

Concept of Time Value of Money:-

The time value of money (TVM) is the concept that money you have now is worth more than the identical sum in the future due to its potential earning capacity. This core principal of finance holds that provided money can earn interest, any amount of money is worth more the sooner it is received. TVM is

is also sometimes referred to as present discounted value.

Understanding Time value of Money :-

Time value of money draws from the idea that rational investor prefer to receive money today rather than the same amount of money in the future because of money's potential to grow in value over a given period of time. For example, money deposited into a savings account earn a certain interest rate and is therefore said to be compounding in value.

- Time value of mony is based on the idea that people would rather have money today than in the future
- Given that money can earn compound interest, it is more valuable in the present rather than the future.
- The formula for computing time value of money

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Consider the payment now, the future value, the interest rate, and the time frame.

Capital budgeting

Capital budgeting involves choosing projects that add value to a company. The capital budgeting Process can involve almost anything including acquiring land or purchasing fixed assets like a new truck or machnery. corporations are typically required, or at least recommended, to undertake those project which will increase profitability and thus enhance shareholders wealth.

However, what rate of return is deemed acceptable or unacceptable is influenced by other factors that are specific to the company as well as the Project. For example, a social or charitable

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Project is often not approved based on the rate of return, but more on the desire of a business to foster goodwill and contribute back to its community

Net present value is the difference between the present value of cash inflows and the present value of cash flows over a period of time. NPV is used in capital budgeting and investment planning to analyze the profitability of a projected investment or project.

Formula:

$$NPV = \sum_{t=1}^{n} \frac{R_t}{(1+i)^t}$$

A positive net present value indicates that the projected earning generated by a project or investment in present dollars - exceeds the anticipated costs, also in present dollars. It assumed that an investment with a negative NPV will be profitable and an investment

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~~worth or nega~~

will result in a net loss. This concept is the basis for the net present value Rule, which ~~that~~ dictates that only investment with positive NPV values should be considered.

Question No # 2

Corporate bond :-

Corporate bonds are issued by companies. Companies issue bonds rather than seek bank loans for debt financing in many cases because bond markets offer more favorable terms and lower interest rate.

Municipal bonds :-

Municipal bonds are issued by states and municipalitres. Some municipal bonds offer tax free coupon income for investor

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Government bonds:-

Government bonds such as those issued by the U.S Treasury. Bond issued by the Treasury with a year or less to maturity are called Bills, bond issued with 1-10 years to maturity are called notes, and bonds issued with more than 10 years to maturity are called bonds. The entire category of bonds issued by a government treasury is often collectively referred to as treasuries." Goverments may be referred to as sovereign debt

Agency bonds:-

Agency bonds are those issued by government affiliated organization such as Fannie Mae or Freddie Mac.

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