

HW - Chapter 4 - Cost of Capital - Q5

What will the redemption value after 5 years be

1. Either the debenture holder can take Rs. 100

OR

2. Take 10 equity shares with a total value of 10 shares \times Rs. 12 $(1+0.05)^5$

= 10 shares \times 15.312 = Rs. 153.12.

Second option is better and hence will be taken as a redemption value.

$$K_d = \frac{\text{Int}(1-t) + (RV-NP)/n}{\{(RV+NP)/2\}}$$

$$= \frac{\{Rs. 15(1-0.35) + (153.12 - 100)/5\}}{(153.12 - 100)/2}$$

$$= 16.09\%$$

OR

Use the YTM method. In that case K_d will be 17.43%