

Laxmi Rice Mill Ltd case study solution



Brand: Mehta Solutions

Product Code: case69

Weight: 0.00kg

Price: Rs500

Short Description

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Description

Senior executives of Laxmi Rice Mill Ltd have been considering the proposal to replace the existing coal-fired furnace in the paddy boiling section by a new furnace is cyclone type husk-fired furnace. The capital cost of the new furnace is expected to be Rs 1 lakh. It will have useful life of 10 years at the end of which period its residual value will be negligible. The present furnace has a book value of Rs 15,000 and can be used for another 10 years with only minor repairs. If scrapped now, it can fetch Rs 10,000 but it cannot fetch any amount if scrapped after ten more years of use.

The basic advantage of the new furnace is that it does not depend on the coal whose supplies are becoming increasingly erratic in recent years. On a conservative estimate, the new furnace will result in a saving of Rs 25,000 per annum on account of eliminated coal cost. However, the cost of electricity and other operating expenses are likely to go up by Rs 8,000 and Rs 4,000 per annum respectively.

The husk which results as a by-product during the normal milling operations at 3,000 metric ton of paddy milled per year is considered adequate for operating the new furnace. On an average, for every metric ton of paddy milled, the husk content is 20 per cent. At

present, the husk resulting during the milling operations is sold at a price of Rs 50 per metric ton. Once the new furnace is installed, the husk will be diverted for own use. 'White Ash' which constitutes about 5 percent of the husk burnt in the new furnace, will be collected in a separate ash-pit as it has considerable demand in the refractory industry. It can be sold very easily at a price of Rs 1,500 per metric ton.

The new furnace will require a motor of 15 HP, whose cost is not included in Rs 1 lakh, the capital cost of the furnace. A 15 HP motor is lying idle with the polishing section of the Mill which can fetch an amount of Rs 3,000 on sale. It has a net book value of Rs 5,000. The motor can be used for the new furnace. At the end of the ten years, it can be scrapped at zero residual value.

All the assets of the company are in the same block. Depreciation will be on straight-line basis and the same is assumed to be acceptable for tax purpose as well. Applicable tax rate is 35 per cent and cost of capital is 12 per cent.

Questions :

(i)Formulate the incremental net after-tax cash flows associated with the replacement project.

- 1. (ii)Also calculate the project's NPV.**
- 2. (iii)Give your recommendation.**

Details

1. Case study solved answers

2. pdf/word in 24-48 hrs

3. Fully Solved with answers