3.1B: Sources of Finance: Activity

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3.1 SOURCES OF FINANCE: ACTIVITY B

Read the case study below and answer the questions that follow.

AERONAUTICS INDIAN COMPANIES TAKE AIM

Four Indian companies floated on the London AIM market in the last twelve months. Between them these companies have raised a total of $387 million – without the costs or controls of a full public listing on the Stock Exchange. The companies are KEF, Indus Gas, Mortice and OPG power Ventures. The head of equity markets at the London Stock Exchange (LSE), Tracey Pierce, said: "These companies have chosen to go global through AIM as they benefit from a pool of international capital, a professional investor base and a commitment from LSE to serve emerging economies."

Peacocks to go global

Peacocks, the discount clothing and housewares retailer, has issued a prospectus to the public. The company is going public to raise £42 million (after expenses) to fund further expansion and to repay outstanding debt. The managing director believes that there are great benefits in replacing debt finance with equity or share finance.

Rights issue from Australian company

Australian fertiliser maker Incitec Pivot Ltd plans to raise A$1.17 billion through a rights issue of shares. Some of the capital will be used to repay loans and the rest will be used for long-term investment and research. The rights issue is being offered at A$2.50 per share, a 40% discount to the company's latest traded share price. The share issue is likely to reduce the market share price, at least in the short-term. The company has also announced the tripling of annual profits, reflecting gains from a recent takeover and high fertiliser prices.

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*Source: www.**Business**Management**IB**.com*

QUESTIONS: 26 MARKS, 45 MINUTES

1. Explain why Indian companies might decide to join AIM rather than the full Stock Exchange. **[4 marks]**

2. Explain why Peacocks is likely to have decided to issue shares by prospectus to the general public. **[4 marks]**

3. Interpret what the managing director of Peacocks meant when she said there were advantages in selling shares to repay debt. **[6 marks]**

4. Explain why Incitec Pivot is likely to have decided to use a rights issue of shares to raise capital. **[4 marks]**

5. Evaluate whether a shareholder in Incitec pivot would be advised to buy the rights issue of shares being offered. **[8 marks]**