

Optimal Capital Structure and Initial Public Offerings of Teknoaids
(pvt) limited company



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(2015)

CLIENT LETTER

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TEKNOAIDS
Since 1978

Date: 27th February 2015

To whom it may Concern

Dear Sir or Madam,

Please note that we, the management of Teknoaids Pvt Limited, have contracted the three MBA (final year) students of *Bahria University Islamabad* With Permission of the University for **Re-Capitalization & Structuring of Financial Operation**, We would like to utilize the services of Mr. Rana Ammar Mahmood, Mr. Ali Mujahid & Mr. Mehmood Ali Shah as our outsourced Financial Analysts, and will be required to provide their services at our company.

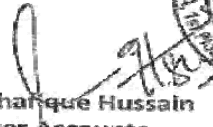
Start Date: 2nd March 2015

Anticipated End Date: 1st June 2015

The Candidates will not be compensated in monetary terms by Teknoaids pvt Ltd, however, they will be provided experience letters to empower their resumes. The management of Teknoaids Pvt Limited will try to cooperate with the Students to the best of their knowledge.

If you have any questions or concerns, feel free to contact us. Sincerely,

For, Teknoaids Pvt Limited


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Acknowledgement

First of all, we are grateful to Almighty Allah for awarding us the courage to confront every challenge in life with greater success and complete the whole project in the required time.

Moreover, we are also thankful to our supervisor Maam Hina samdani for her constant guidance, understanding, patience, support and motivation that has encouraged us to come up with this project.

Finally, and most importantly, we would like to thank our parents for continuous support and encouragement to complete our project.

Abstract

The purpose of this project is to find the optimal capital structure of Teknoaids (pvt) limited company and maximization of its value by adopting debt and equity financing.

As the management of Teknoaids (pvt) limited has decided to go public by issuing initial public offerings, so for this the company has to first convert itself from private limited to public limiter by following the policies and guidelines of the governing body of the stock exchange of Pakistan i-e Security and the Exchange Commission of Pakistan (SECP). After getting public, the company has to meet the criteria of SECP to go public and the most basic requirement of SECP for the companies issuing IPO's for the very first time is that the companies should have paid up capital of Rs 200 millions. In this project we have also discussed the significance of initial public offerings for the companies and benefits that the firm's get after going public.

As we have some limitations to find the cost of equity of the Teknoaids because it has not taken any leverage to support its business activities since its establishment, and data related to find the optimal capital structure is limited as it is supporting its operations by full equity. And we know that cost of equity is finding by capital asset pricing model (CAPM), but due to unavailability of data which might be helpful to find the cost of equity of the company by CAPM approach is not directly applied to find the optimum capital structure of Teknoaids (pvt) limited company.

So to overcome this limitation, we have find the cost of equity of Teknoaids by company own yield plus judgmental approach as suggested in the book "financial management theory and practice" by EHRHARDT and BRIGHAM (Michael C. Ehrhardt, 2011).

After finding cost of equity of the company we have calculated the cost of equity at different levels of debt i-e 15% of total assets of the company, 20%, 25% and 30%. Then calculate the value of equity, total value of the equity at each level of debt.

As argued by Brigham and Gapenski in 1996, optimal capital structure maximizes the value of the firm and at optimal capital structure the weighted average cost of capital is also minimized, which helps in identifying the optimum capital structure of the company.

After determining the capital structure of the Teknoaids (pvt) limited, we have further found the stock price of the shares of the company at different levels of debt and also found the number of shares to float in the market for trading at different level of debts.

At the end, we have concluded that if teknoaids (pvt) limited take leverage of 20% of its total assets then the wacc at this level of debt is also minimum and the stock price of the company is at its maximum price as comparable at other three levels of debts.

Table of Contents

Abstract.....	04
<u>CHAPTER 1</u>	07
Introduction to Teknoaids (pvt) limited.....	07
1.1 Company profile.....	07
1.2 Company vision.....	08
1.3 Core values	08
1.4 Mission statement.....	09
1.5 Company Objectives.....	09
1.6 Project Rationale.....	09
1.7 Project purpose.....	10
1.8 Project Goal.....	10
1.9 Project Objectives.....	10
<u>CHAPTER2</u>	12
2.1 Problem Definition and requirement analysis.....	12
<u>CHAPTER 3</u>	14
3.1 LITERATURE REVIEW.....	14
<u>CHAPTER 4</u>	16
4.1 Design and Implementation.....	16
4.1.1 optimal capital structure.....	16
4.1.2 Concept of Optimal Capital Structure.....	16
4.1.3 Characteristics of Optimal Capital Structure.....	16
4.1.4 Importance of Capital Structure.....	17
4.1.5 The importance of designing a proper capital structure.....	17
<u>CHAPTER 5</u>	20
5.1 Calculations to find optimal capital structure.....	20
5.2 APPROACHES TO FIND COST OF EQUITY(Ks).....	21
5.2.1 CAPM approach.....	21
5.2.2 DIVIDEND YIELD PLUS GROWTH RATE.....	21
5.2.3 Company own bonds yield plus judgmental approach.....	22

Balance sheet of teknoaids (pvt) limited.....	23
Income statement	24
Findings of Market risk R_m	25
<u>CHAPTER 6</u>	33
6.1 INITIAL PUBLIC OFFERING	33
6.1.1 What is Initial Public offerings.....	33
6.1.2 Why companies go for IPO's.....	34
6.1.3 Benefits of IPO's.....	35
6.1.4 Guidelines for companies going public	36
6.1.5 LEGAL REQUIREMENTS relevant TO IPO's AND LISTING.....	38
6.1.6 Fee structure In order to subscribe for Karachi Stock Exchange	41
<u>CHAPTER 7</u>	42
7.1 CONCLUSION AND RECOMMENDATIONS	42
7.1.1 Conclusion.....	42
7.1.2 Recommendations.....	43
References	44