

00663

MANAGEMENT PROGRAMME

Term-End Examination

December, 2015

MS-42 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours

Maximum Marks : 100

Weightage : 70%

Note : Attempt any five questions. All questions carry equal marks.

1. Explain what is meant by Cost of Capital. Discuss the different approaches used for calculating cost of equity share capital.
2. What is meant by a firm's capital structure ? Explain the Net Income Approach and Net Operating Income Approach to capital structure of a company.
3. What do you understand by Economic Appraisal of a Project ? Explain the various aspects of economic appraisal.
4. What is an Asset Beta ? Explain the relationship between Certainty Equivalent and Risk adjusted Discount rate for long lived assets.

5. Explain the various instruments through which corporates procure finance both for long term and short term. Discuss the circumstances under which they are preferred. Give reasons for the same.

6. What are the factors which influence dividend decision of a company ? Explain the Walter's and Gordon's Model relating to dividend policy.

7. What is Corporate Restructuring ? What factors motivate an enterprise to undertake restructuring exercise ?

8. Orient Ltd. is considering two projects A and B. For the present, it wants to take up only one of the two projects and not both. The details are as follows :

Particulars	Project A ₹ In lakhs	Project B ₹ In lakhs
Investment required	95	200
Cash flow at the end of year		
1	40	80
2	40	80
3	45	120

The Cost of Capital for the company is 12%. The Discount factors at various discount rates are as follows :

Year	10%	11%	12%	13%	14%	15%	16%	17%	18%
1	.9091	.9009	.8929	.8850	.8772	.8696	.8621	.8547	.8475
2	.8265	.8116	.7972	.7832	.7695	.7561	.7432	.7305	.7182
3	.7513	.7312	.7118	.6931	.6750	0.6575	.6407	.6244	.6086

You are required :

- (a) to recommend which project should be undertaken by the company, using the Net Present Value method, and
 - (b) to calculate the Internal Rate of Return for the two projects.
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