No. of Printed Pages : 3

MS-42

03104

MANAGEMENT PROGRAMME

Term-End Examination

June, 2016

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.*

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1. Any successful project plan must contain nine key elements. List these items and briefly describe the composition of each.

2. What do you understand by Financial Engineering ? Why is it considered necessary ? Describe the important steps taken in this regard in the field of fixed income securities.

3. What do you understand by Financial Reconstruction ? How does it differ from re - organisation of capital ? What steps are taken for the formulation of a Reconstruction Plan ? Explain.

4. What do you understand by Assets Securitisation ? Explain the procedure adopted for this purpose. Discuss the advantages derived by various parties to Securitisation.

5. Distinguish between :

   (a) Horizontal Merger and Vertical Merger

   (b) Foreign Direct Investment and Portfolio Investment

   (c) Business Risk and Financial Risk

   (d) Private Placement of Shares and Public Issue of Shares

6. Explain and distinguish between Internal Rate of Return Method and Net Present Value Method of evaluating investment proposals. Which one would you prefer and why ? Why is profitability Index prepared ? Explain.

7. (a) What is Social Cost - Benefit Analysis ? Why is it considered necessary for economic appraisal of a project ? Explain with examples.

   (b) What do you understand by Global Depository Receipts ? How are they different from Euro Convertible Bonds ? Explain.

8. The Modern Chemicals Ltd. requires ₹ 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of ₹ 5,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project by raising debt of ₹ 2,50,000 or ₹ 10,00,000 or ₹ 15,00,000 and the balance, in each case, by issuing equity shares. The company's share is currently selling at ₹ 150 but is expected to decline to ₹ 125 in case the funds are borrowed in excess of ₹ 10,00,000. Funds can be borrowed at the rate of 10% upto ₹ 2,50,000, at 15% over ₹ 2,50,000 and upto ₹ 10,00,000 and at 20% over ₹ 10,00,000. The tax rate applicable to the company is 50%. Which form of financing should the company choose ?