

01825

## MANAGEMENT PROGRAMME

Term-End Examination

June, 2017

### MS-042 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours

Maximum Marks : 100

Weightage : 70%

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

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1. Distinguish between Shares and Debentures. Why do the Companies finance their projects through debentures ? What are Convertible debentures ? Why are such debentures issued ? Assess the effect of their conversion on the Net Worth of a Company.

2: Distinguish between Mergers and Take-Overs and explain different forms of mergers. What factors motivate the companies to merge ?

3. What is Venture Capital ? Explain its chief characteristics and distinguish it from the development finance provided by financial institutions.

Give a brief account of the financial instruments through which Venture Capital is provided.



The market price of the Company's Share is of ₹ 110 and it is expected that a dividend of ₹ 10 per share would be declared for the year 2015. The dividend growth rate is 6% :

- (a) If the Company is in the 50% tax bracket, compute the Weighted average cost of capital.
  - (b) Assuming that in order to finance an expansion plan, the company intends to borrow an amount of ₹ 10 lakh bearing 14% rate of interest, what will be the company's revised weighted average cost of capital ? This financing decision is expected to increase dividend from ₹ 10 to ₹ 12 per share, but the market price of equity share is expected to decline from ₹ 110 to ₹ 105 per share.
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