00266

MANAGEMENT PROGRAMME

Term-End Examination

June, 2018

MS-042 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours | *Maximum Marks : 100*
Weightage : 70%

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

1. What is meant by Financial Engineering ? Discuss the factors contributing to financial engineering.

2. "Acquisitions and Mergers should be planned carefully". Explain this statement and discuss how an acquisition strategy is developed ?

3. What do you understand by Time Value of Money ? Explain the Internal Rate of Return method of project appraisal and state the reasons for dis - satisfaction with the IRR approach.

4. What is meant by 'Globalisation' ? What are the major global sources of financing ? Discuss the role of Foreign Direct Investment and Portfolio Investment in this regard.

5. What do you understand by Project Monitoring ? How is the monitoring system designed ? Discuss the application of Earned Value Chart in project monitoring.

6. Distinguish between :
   (a) Dividend Pay out ratio and Dividend Yield.
   (b) Leasing and Hire purchasing.
   (c) Divestiture and Spin - offs and Carve - outs.
   (d) Technical and Financial feasibility of a project.

7. What do you understand by Sensitivity Analysis ? Explain with the help of an example how Sensitivity Analysis is used to measure project risk ?

8. The following figures of Krishna and Co. Ltd are presented to you :

Earnings before Interest and Tax		₹ 23,00,000
Less Interest on Debentures @ 8%	80,000	
Less Interest on Term Loan @ 11%	2,20,000	3,00,000
Less Income Tax		20,00,000
Earnings after Tax		10,00,000
		10,00,000
No. of Equity shares of ₹ 10 each	5,00,000	
EPS	₹ 2	
Market Price of Share	₹ 20	
P/E Ratio	10	

The company has undistributed reserves and surplus of ₹ 20 lakhs. It needs ₹ 30 lakhs to pay off Debentures and to modernise its plants. It seeks your advice on the following alternative modes of raising finance.

Alternative 1 -	Raising entire amount as term loan from banks @ 12%.
Alternative 2 -	Raising part of the funds by issue of ₹ 10,0000 shares at ₹ 20 each and the rest by term loan at 12%.

The company expects to improve its rate of return by 2% as a result of modernisation but P/E ratio is likely to go down to 8 if the entire amount is raised as Term Loan.

Advice the company on the financial plan to be selected.