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MS-042

MANAGEMENT PROGRAMME (MP)

Term-End Examination

June, 2020

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.*

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1. What do you understand by Term Loans ? For what purpose are such loans granted and by whom ? Discuss the salient features of term loans and the risks involved therein for the lenders.

2. What is meant by Assets Securitisation ? Explain the procedure adopted for this purpose and point out its benefits to the parties concerned with it.

3. What do you understand by Financial Reconstruction ? How does it differ from re-organisation of capital ? Discuss the steps that are the to be taken for the formulation of a reconstruction plan.

4. "While selecting a project, not only the financial considerations have to be taken into account but also the overall impact it has on the economy." Explain this statement and discuss the various aspects of economic and social appraisal of a project.

5. What is the purpose of Project Control ? What tools are available to the project manager to use in controlling a project ? Describe characteristics of a good control system.

6. Write notes on any *four* of the following :

   (a) Global Depository Receipts

(b) Weighted Average Cost of Capital

(c) Differential Voting Rights Shares

(d) Leveraged Buyout

(e) Scenario Analysis

7. (a) What are different pay-out methods ? How do shareholders react to these methods ?

(b) Explain profitability index and discuss its significance in capital budgeting decisions.

8. A company needs ₹ 12,00,000 for the installation of a new factory which would yield an annual EBIT of ₹ 2,00,000. The company has the objective of maximising the earnings per share. It is considering the possibility of issuing equity shares plus raising a debt of ₹ 2,00,000; ₹ 6,00,000 or ₹ 10,00,000. The current market price per share is ₹ 40 which is expected to drop to ₹ 25 per share if the market borrowings were

to exceed ₹ 7,50,000. Cost of borrowings are as indicated below :

Upto ₹ 2,50,000	10% p.a.
Between ₹ 2,50,001 and ₹ 6,25,000	14% p.a.
Between ₹ 6,25,001 and ₹ 10,00,000	16% p.a.

Assuming the tax rate of 50% work out the EPS and the scheme which would meet the objective of the management.

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