No. of Printed Pages : 4 **MS-042**

MANAGEMENT PROGRAMME

(M. P.)

Term-End Examination

December, 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. (a) Discuss the basic factors that influence the long-term financing decisions of a firm.

   (b) "Optimising positive NPV implies the same thing as minimising the cost of capital." Explain this statement with examples.

2. (a) Explain the reasons for dissatisfaction with the IRR approach of capital budgeting as compared with NPV method.

(b) What are differential voting rights shares ? Why are they issued ? How do they differ from bonus shares ?

3. 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.

4. Explain the terms 'Merger' and 'Take-over' and distinguish between horizontal merger and vertical merger. How would you assess a merger as a source of value addition ? Explain with an example.

5. What is Venture Capital ? How does it differ form project finance provided by term lending institutions ? Explain the salient features of Venture Capital Financing. How does it benefit the venture capital provider ?

6. (a) What is the role of systems integration in project management ? Discuss the major objectives of systems integration.

(b) Explain, what do you understand by the term project cycle ?

7. Write explanatory notes on the following :

(a) Portfolio investment

(b) Cumulative convertible preference shares

(c) Leveraged buyout

(d) Factoring service

8. The existing capital structure of ABC Ltd. is as follows :

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Equity shares of ₹ 100 each	40,00,000
Retained Earnings	10,00,000
9% Preference Shares	25,00,000
7% Debentures	25,00,000

Company earns a return of 12% and the tax on income is 50%.

Company wants to raise ₹ 25,00,000 for its expansion project, for which it is considering the following alternatives :

(i) Issue of 20000 equity shares at a premium of ₹ 25 per share.

(ii) Issue of 10% preference shares.

(iii) Issue of 9% debentures.

The projected P/E ratio in case of equity, preference shares and debenture financing is 20,17 and 16 respectively.

Which alternative would you consider to be the best ? Give reasons also for your choice.