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MS-042

MANAGEMENT PROGRAMME (MP)

Term-End Examination

December, 2021

MS-042 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 Hours *Maximum Marks : 100*

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

1. (a) What is Time Value of Money ? Why is it independent of inflation and risk ? Differentiate between present value and terminal value.

   (b) Describe the basic factors that influence long-term investment decisions of a firm. Explain, how do these factors affect which is called 'ease of doing business' ?

2. (a) What is meant by project life cycle ? Explain the various stages of project life cycle and the areas on which focus of attention is centred at these stages.

   (b) What is Earned Value Chart ? For which purpose is it used ? Explain with a diagram.

3. What do you understand by Economic Appraisal of a Project ? What aspects of a project are considered for this purpose ? Discuss in detail the meaning, scope and significance of social cost-benefit analysis in this regard.

4. (a) What do you understand by Financial Engineering ? Why is it considered necessary ?

   (b) "Financial Engineering developed several innovative products in debt instruments." Describe these products and explain their significance.

5. Distinguish between the following :

   (a) Venture Capital and Term Loans

(b) Non-Voting shares and Preference shares

(c) Divestiture and spin-offs and carve-outs

(d) Business risk and Financial risk

6. What do you understand by sensitivity analysis ? Explain, how sensitivity analysis is used to measure project risk ? Give an example.

7. Write explanatory notes on the following :

(a) Global depository receipts

(b) Asset securitisation

(c) Horizontal and vertical mergers

(d) Letters of credit

8. The capital of XYZ Ltd. consists of 35000 equity shares of ₹ 100 each. Its authorised capital is of 60000 shares. For the financial year 2018-19 particulars of production, cost and sales are as follows :

Units produced and sold (at 80% level of activity)	50000
Selling price per unit	₹ 20

Variable cost per unit	₹ 10
Fixed operating cost per unit	₹ 4

The company decides to utilise full capacity to meet the additional demand for its products. This would involve an additional capital of ₹ 15,00,000. As a result of utilization of full capacity, variable cost will be reduced by 10% but fixed cost will go up by 10%. The additional output can be sold at the existing selling price.

The possible alternative sources of finance for the required additional capital would be :

(i) Entirely by equity shares of ₹ 100 each

(ii) Entirely by 6% bonds of ₹ 500 each, or

(iii) 50% by equity capital and 50% by 6% bonds of ₹ 500 each.

Assuming Corporate Income Tax as 40%, which alternative financing scheme would you recommend ? Calculate all leverages and comment.