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MS-42

01155

MANAGEMENT PROGRAMME

Term-End Examination

June, 2013

MS-42 : CAPITAL INVESTMENT AND FINANCING DECISIONS

Time : 3 hours *Maximum Marks : 100*

Weightage : 70%

Note : *Attempt any five questions. All questions carry equal marks. Use of calculators is allowed.*

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1. What do you understand by Financial Reconstruction ? How does it differ from reorganisation of Capital ? Discuss the steps involved in the formulation of Reconstruction Plan for a company.

2. What do you understand by Securitisation of Assets ? Discuss the procedure involved in Securitisation and point out its advantages to the parties concerned.

3. Distinguish between :
   (a) Global Depository Receipts and Euro - Bonds.
   (b) Commercial Paper and Convertible Debentures

(c) Collateral Security and Contract of Guarantee

(d) Factoring and Discounting of Bills.

4. (a) What do you understand by Earned Value Chart ? For what purpose is it used ? Explain with a diagram.

(b) Discuss the three main types of control systems used in controlling a project.

5. What do you understand by Venture Capital ? What are its special features ? Discuss the stages at which a Venture Capitalist provides finance to a project. In what form is Venture Capital provided ?

6. Write notes on :

(a) Accounting Rate of Return and Internal rate of Return

(b) Leveraged Buyout

(c) Corporate Governance

(d) Supplier's Credit

7. S. Co. Ltd, has the following capital structure on 31^{st} March 2012 :

Ordinary Shares (2,00,000 shares)	Rs. 40,00,000
10% Preference shares	Rs. 10,00,000
14% Debentures	Rs. 30,00,000
	80,00,000

The share of the Co. sells for Rs. 20/- . It is expected that the Co. will pay next year a dividend of Rs. 2 per share, which will grow at 7% forever. Assume a 50% tax rate.

You are required to :

(a) Compute weighted average cost of Capital based on existing capital structure.

(b) Compute new weighted average cost of capital if the Co. raises an additional Rs. 20 lakh debt by issuing 15% debentures. This would result in increasing the expected dividend to Rs. 3 and leave the growth rate unchanged, but the price of the shares will fall to Rs. 15 per share.

(c) Compute the cost of capital if in (b) above the growth rate increases to 10%

8. M.C. Ltd. requires Rs. 25,00,000 for a new plant. This plant is expected to yield earnings before interest and taxes of Rs. 5,00,000. While deciding about the financial plan, the company considers the objective of maximising earnings per share. It has three alternatives to finance the project - by raising debt of Rs. 2, 50, 000 or Rs. 10, 00, 000 or Rs. 15, 00, 000 and the balance, in each case, by raising equity shares.

The company's share is currently selling at Rs. 150, but is expected to decline to Rs. 125 in case the funds are borrowed in excess of Rs.

10,00,000. Funds can be borrowed at the rate of 10% upto Rs. 2,50,000, at 15% over Rs. 2,50,000 and upto Rs. 10,00,000 at 20% over 10,00,000. The tax rate applicable to the company is 50%. Which form of financing should the company choose ?