MS-042

MANAGEMENT PROGRAMME

Term-End Examination

June, 2021

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. "The major portion of Project Finance is raised either through the capital market or/and from the financial institutions." Explain the main instruments through which companies raise finance from these two sources. Who provides Venture Capital ? What are its salient features ? Discuss.

2. Explain the Internal Rate of Return method and the Net Present Value method of evaluation of investment proposals and point out the differences between them.

Which one would you prefer and why ? Why is Profitability Index prepared ? Explain.

3. What are the major global sources of financing ? Discuss the meaning and significance of (a) External Commercial Borrowings; and (b) Depository Receipts, in this regard.

4. Distinguish between Mergers and Take-overs and explain different forms of mergers. What factors motivate the companies to merge ? Discuss.

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. Any successful project plan must contain nine key elements. List these elements and briefly describe the composition of each.

7. Write notes on the following :

   (a) Corporate Governance

   (b) Leveraged Re-capitalisation

   (c) Floating Rate of Interest

   (d) Convertible Debentures

8. A company's capital structure consists of the following :

	₹
Equity Shares of ₹ 100 each	10,00,000
Retained Earnings	5,00,000
9% Preference Shares	6,00,000
7% Debentures	4,00,000
	25,00,000

The company earns 12% on its capital. Income Tax Rate is 50%. The company requires a sum of ₹ 12,50,000 to finance its expansion programme for which the following alternatives are available :

Issue of ₹ 10,000 Equity Shares at a premium of ₹ 25 per share.

Issue of 10% Preference Shares.

Issue of 8% Debentures

It is estimated that P/E Ratio after Equity, Preference Shares and Debenture finance would be 21·4, 17 and 15·7 respectively.

Suggest the best alternative of financing the expansion programme.