

**A12**

**Sreenidhi Institute of Science & Technology**

(An Autonomous Institution)

**Code No:3Z436**

**MBA II - YEAR II – SEMESTER MAY 2015 (REGULAR)**

**STRATEGIC INVESTMENT AND FINANCE DECISIONS**

**Time: 3 Hours Max. Marks: 60**

**Note : No additional answer sheets will be provided.**

**Part – A**

**Max. Marks: 10**

**Answer all the QUESTIONS**

1. Write a formula to find out certainty equivalent co-efficient.
2. Define “Bailout payback period method”.
3. What is financial distress?
4. What is the other name for profitability index?
5. Differentiate between capital budgeting and capital rationing
6. Do you consider “Time value of Money” under Average Rate of Return method in capital budgeting appraisals? (Yes / No)
7. When do you use “Benefit Cost Ratio”?
8. Capital Rationing applies to the projects where availability of capital is NOT a constraint.(True/False)
9. Discounted cash flow techniques of capital budgeting DO NOT take the time value of money. (True / False)
10. Differentiate between risk and uncertainty.

**Part – B**

**Max. Marks: 50**

**Answer any Five. All questions carry equal marks.**

1. Machine A costs Rs.1,00,000, payable immediately. Machine B costs Rs. 1,20,000, half payable immediately and remaining half payable at the end of 1st year. The expected CFAT of the projects are as follows:

|  |  |  |
| --- | --- | --- |
| Year(at the end) | A (Rs.) | B (Rs.) |
| 1 | 20,000 | - |
| 2 | 60,000 | 60,000 |
| 3 | 40,000 | 60,000 |
| 4 | 30,000 | 80,000 |
| 5 | 20,000 | - |

With 7% cost of capital, which machine should be selected?

(Note : The PV table value shows 0.935, 0.875, 0.816, 0.763 and 0.713 for year ending 1, 2, 3, 4 and 5 respectively @ 7% discounting rate.)

1. From the following data of cash flows, state which project is better?

|  |  |  |
| --- | --- | --- |
| Year | Project -A (Rs) | Project -B (Rs.) |
| 0 | -10,000 | -10,000 |
| 1 | 4,000 | 5,000 |
| 2 | 4,000 | 6,000 |
| 3 | 2,000 | 3,000 |

Riskless discount rate is 5%. Project A is less risky as compared to project B. The management considers risk premium rate at 5% and 10% respectively appropriate for discounting the dash inflows.

(Note: The present value factor table has the following values at different discount %s:)

|  |  |  |  |
| --- | --- | --- | --- |
|  | Yr.1 | Yr.2 | Yr.3 |
| Pvf @5% | 0.952 | 0.907 | 0.864 |
| Pvf @10% | 0.909 | 0.826 | 0.751 |
| Pvf @ 15% | 0.870 | 0.756 | 0.658 |

1. Discuss on the following concepts: (5 Marks for each)

a) Capital Rationing

b) Allocation of resources to divisions on the basis BCG approach.

1. Differentiate among Payback period, discounted payback period and bailout payback period with their procedures.
2. Explain what is agency problem? Give suggestions as to how to overcome this problem.
3. Distinguish between product market and capital market risks with suitable examples.
4. Explain the following capital budgeting appraisal techniques in detail (5 marks for each)

a) Sensitivity analysis

b) Decision Tree analysis

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