

Hall Ticket No

--	--	--	--	--	--	--	--	--	--

Question Paper Code: CMBB56



INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad - 500 043

MODEL QUESTION PAPER-I

MBA IV Semester End Examinations, November - 2019

Regulation: IARE-R18

STRATEGIC INVESTMENT AND FINANCING DECISION

(Master of Business Administration)

Time: 3 Hours

(Elective: Finance)

Max Marks: 70

Answer any ONE question from each Unit

All questions carry equal marks

All parts of the question must be answered in one place only

UNIT – I

- 1 a) Demonstrate the future value of multiple cash inflows and effective rate of interest in case of multi period compounding. [7M]
- b) Find out the compound value Rs.1000/-, bearing interest rate 12% per annum if compounded annually and semi-annually. [7M]
- 2 a) Define capital rationing. How would you select the investment projects under one-period capital constraint? [7M]
- b) Should capital rationing lead to sub-optimal investment decision? [7M]

UNIT – II

- 3 a) Critically examine the organization's profit dependency on the decisions taking by the financial manager. [7M]
- b) ABC Ltd is evaluating a proposal involving cash outlay of Rs.40,000 at year 0 and cash outflows of Rs.18,000, Rs.19,020, Rs.20,224 and Rs.21,438 at the end of each of the next 4 years after which the project is expected to have a scrap value of Rs.4,000. The cash inflows are expected to be Rs.28,000, Rs.42,000, Rs.42,000 and Rs.34,000 at the end of year 1 to 4 respectively. All the above estimates of cash flows have been made in terms of money of today i.e., year 0. Evaluate the proposal in real terms by applying the NPV technique given that the inflation rate is 6%p.a and the discount rate is 18%. [7M]
- 4 a) Discuss about Lorie savage paradox and explain the impact of inflation on capital budgeting decisions. [7M]
- b) The earnings per share of a company is Rs.10/- It has an IRR of 15% and capitalization rate of its risk class is 12.5%. [7M]
 - i. What would be the optimum payout ratio of the firm?
 - ii. What would be the price of share at this payout?

UNIT – III

- 5 a) Generalize the meaning that you know about net present value method? List out the advantages of Net present value method. [7M]
- b) Alpha Ltd is considering two machines A and B. Though designed differently, they serve the same function. Machine A, a standard model, costs Rs. 75,000 and lasts for five years. Its annual operating costs will be Rs. 12,000. Machine B, an economy model, costs Rs. 50,000 but lasts for only Three years. Its annual operating costs will be Rs. 20,000. How should Alpha Ltd choose between the two machines if the cost of capital is 12%? [7M]
- 6 a) Write in brief about Hertz simulation and Hiller approach. Discuss the procedure and pros and cons of simulation analysis [7M]
- b) Clarify the concept of “Average rate of return” method? List out the advantages and disadvantages of average rate of return method. [7M]

UNIT – IV

- 7 a) Comment on “financial evaluation of lease- Break even lease rental (BELR)” in leasing as a financing decision [7M]
- b) Apex Steels requires an asset costing Rs.2 million. Laxmi Finance offers a hire-purchase proposal for a period of 3 years at a flat interest rate of 12 per cent. Laxmi also gives a lease proposal wherein the lease rental would be Rs.280 per Rs.1,000 per year for the first 5 years (primary period) and Rs.20,000 per year for the next 5 years (secondary period). Thereafter, the asset would revert to Laxmi. The depreciation rate on the asset is 25% (WDV) and its net salvage value after 10 years would be Rs.2,00,000. Apex has a tax rate of 40 per cent and its post-tax cost of debt is 10 per cent. Should Apex choose the hire-purchase or the Leasing option? [7M]
- 8 a) What is meant by Hire-purchase arrangement? What are its features? How is it different from Leasing? [7M]
- b) Write about lease financing and write about its advantages. How Lease financing is used to minimize the risk in Risk management. [7M]

UNIT – V

- 9 a) Explain the government guidelines for takeover and problems after merging and acquisition. [7M]
- b) Differentiate about mergers and acquisitions, and also Explain about types of mergers and types acquisitions of its theories. [7M]
- 10 a) Describe the horizontal, vertical and conglomerate mergers with suitable examples in the Indian Context. [7M]
- b) Gama Fertilizers Company is taking over Theta Petrochemicals Company. The shareholders of Theta would receive 0.8 shares of Gama for each share held by them. The merger is not expected to yield in economies of scale and operating synergy. The relevant data for the two companies are as follows: [7M]

Table 1

	Gama	Theta
Net sales (Rs Cr)	335	118
Profit after tax (Rs Cr)	58	12
Number of share (Cr)	12	3
Earnings per share (Rs)	4.83	4
Market value per share (Rs)	30	20
Price-earnings ratio	6.21	5

For the combined company after merger, you are required to calculate (i) EPS, (ii) P/E ratio.



INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

Dundigal, Hyderabad - 500 043

COURSE OBJECTIVES:

The course should enable the students to:

I	Understand the role of financial strategies
II	Evaluate the financial resources and different financial decisions.
III	Apply Strategies to avoid risk in the business and to face uncertainties.
IV	Be aware of critical analysis of appraisal techniques, mergers and acquisitions basic issues

COURSE OUTCOMES (COs):

Students, who complete the course, will have demonstrated the ability to do the following:

S. No	Description
CMBB56.01	Understand the risk, uncertainty, risk analysis in investment decisions, risk adjusted rate of return and certainty equivalents.
CMBB56.02	Examine the probability distribution of cash flows decision trees, sensitivity analysis and Monte Carlo approach to simulation.
CMBB56.03	Enumerate the investment decisions under capital constraints like capital rationing, portfolio risk and diversified projects.
CMBB56.04	Familiarize different types of investment, disinvestments, project abandonment decisions and evidence of internal rate of return.
CMBB56.05	Explain the concept of multiple internal rate of return, Modified internal rate of return, pure, simple and mixed investments.
CMBB56.06	Determine the Lorie savage paradox, adjusted net present value and know the impact of inflation on capital budgeting decisions
CMBB56.07	Demonstrate the discounted pay back, post pay back, surplus life, surplus payback and bail out pay back.
CMBB56.08	Express the concepts of return on investment, equivalent annual cost, terminal value, single period constraints, multi period capital constraints and unresolved problem.
CMBB56.09	Apply the techniques of net present value, mean variance analysis hertz simulation, hillier approaches and the significance of information and data bank in project selections.
CMBB56.10	Discuss the concepts of lease financing, leasing Vs. Operating risk, borrowing vs. procuring, hire purchase and installment purchase decisions.

MAPPING OF SEMESTER END EXAMINATION TO COURSE LEARNING OUTCOMES:

SEE Question No.		Course Outcomes (COs)	Course Outcomes	Blooms Taxonomy Level	
1	a	CMBB56.01	Understand the risk, uncertainty, risk analysis in investment decisions, risk adjusted rate of return and certainty equivalents.	CO 1	Understand
	b	CMBB56.02	Examine the probability distribution of cash flows decision trees, sensitivity analysis and Monte Carlo approach to simulation.	CO 2	Understand
2	a	CMBB56.01	Understand the risk, uncertainty, risk analysis in investment decisions, risk adjusted rate of return and certainty equivalents.	CO 1	Remember
	b	CMBB56.02	Examine the probability distribution of cash flows decision trees, sensitivity analysis and Monte Carlo approach to simulation.	CO 2	Remember
3	a	CMBB56.03	Enumerate the investment decisions under capital constraints like capital rationing, portfolio risk and diversified projects.	CO 3	Remember
	b	CMBB56.04	Familiarize different types of investment, disinvestments, project abandonment decisions and evidence of internal rate of return.	CO 4	Remember
4	a	CMBB56.03	Enumerate the investment decisions under capital constraints like capital rationing, portfolio risk and diversified projects.	CO 3	Remember
	b	CMBB56.04	Familiarize different types of investment, disinvestments, project abandonment decisions and evidence of internal rate of return.	CO 4	Remember
5	a	CMBB56.05	Explain the concept of multiple internal rate of return, Modified internal rate of return, pure, simple and mixed investments.	CO 5	Understand
	b	CMBB56.06	Determine the Lorie savage paradox, adjusted net present value and know the impact of inflation on capital budgeting decisions	CO 6	Remember
6	a	CMBB56.05	Explain the concept of multiple internal rate of return, Modified internal rate of return, pure, simple and mixed investments.	CO 5	Understand
	b	CMBB56.06	Determine the Lorie savage paradox, adjusted net present value and know the impact of inflation on capital budgeting decisions	CO 6	Remember
7	a	CMBB56.07	Demonstrate the discounted pay back, post pay back, surplus life, surplus payback and bail out pay back.	CO 7	Understand
	b	CMBB56.08	Express the concepts of return on investment, equivalent annual cost, terminal value, single period constraints, multi period capital constraints and unresolved problem.	CO 8	Remember
8	a	CMBB56.07	Demonstrate the discounted pay back, post pay back, surplus life, surplus payback and bail out pay back.	CO 7	Remember
	b	CMBB56.08	Express the concepts of return on investment, equivalent annual cost, terminal value, single period constraints, multi period capital constraints and unresolved problem.	CO 8	Understand
9	a	CMBB56.09	Apply the techniques of net present value, mean variance analysis hertz simulation, hillier approaches and the significance of information and data bank in project selections.	CO 9	Remember
	b	CMBB56.10	Discuss the concepts of lease financing, leasing Vs. Operating risk, borrowing vs. procuring, hire purchase and installment purchase decisions.	CO10	Understand
10	a	CMBB56.09	Apply the techniques of net present value, mean variance analysis hertz simulation, hillier approaches and the significance of information and data bank in project selections.	CO 9	Remember
	b	CMBB56.10	Discuss the concepts of lease financing, leasing Vs. Operating risk, borrowing vs. procuring, hire purchase and installment purchase decisions.	CO10	Understand

Signature of Course Coordinator

HOD, MBA