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Question Paper Code: CMB419



# INSTITUTE OF AERONAUTICAL ENGINEERING

(Autonomous)

MBA IV Semester End Examinations (Regular) - April, 2019

Regulation: IARE-R16

Strategic Investment and Financing Decision  
(MBA)

Time: 3 Hours

(Elective : Finance)

Max Marks: 70

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Answer ONE Question from each Unit

All Questions Carry Equal Marks

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

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## UNIT – I

1. (a) Differentiate between speculation and investment. [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) Would capital rationing lead to sub-optimal investment decision? [7M]

## UNIT – II

3. (a) Write short notes on Net present value and Internal rate of return. [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%.
  - i. What would be the optimum payout ratio of the firm?
  - ii. What would be the price of share at this payout?[7M]

### UNIT – III

5. (a) Explain the significance of information and data bank in project selection. [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. [7M]
- (b) Discuss the procedure and pros and cons of simulation analysis. [7M]

### UNIT – IV

7. (a) Write about lease financing and write about its advantages. [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) How Lease financing is used to minimize the risk in Risk management. [7M]

**UNIT – V**

9. (a) Explain the the government guidelines for takeover and problems after merging and acquisition. [7M]  
(b) Differentiate about mergers and acquisitions. Explain about types of mergers and 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.

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