

R15
Code No: 724AF
JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD
MBA IV Semester Examinations, April/May-2019
STRATEGIC INVESTMENT AND FINANCING DECISIONS
Time: 3hours
Max.Marks:75

Note: This question paper contains two parts A and B.
Part A is compulsory which carries 25 marks. Answer all questions in Part A. Part B consists of 5 Units. Answer any one full question from each unit. Each question carries 10 marks and may have a, b, c as sub questions.

PART - A
5 × 5 marks = 25

- 1.a) What do you understand by 'risk analysis'? Explain types of risks. [5]
- b) Differentiate the investment from Disinvestment. [5]
- c) What is Hertz simulation? Explain its importance. [5]
- d) Define 'lease'. How does it differ from a hire purchase? [5]
- e) Discuss the possible reasons for mergers. [5]

PART - B
5 × 10 marks = 50

2. Explain the concept of risk and uncertainty and what are the types of investment decisions that can be adopted under uncertainty? [10]

OR

3. Suppose a firm has an investment proposal, requiring an outlay of Rs 2,00,000 at percent ($t=0$). The investment proposal is expected to have 2 years economic life with no salvage value. In year 1, there is a 0.3 probability (30 percent chance) that CFAT will be Rs 80,000; a 0.4 probability (40 percent chance) that CFAT will be Rs 1,10,000 and 0.3 probability (30 percent chance) that CFAT will be Rs 1,50,000. In year 2, the CFAT possibilities depend on the CFAT that occurs in year 1. That is, the CFAT for the year 2 are conditional on CFAT for the year 1. Accordingly, the probabilities assigned with the CFAT of the year 2, are conditional probabilities. The estimated conditional CFAT and their associated conditional probabilities are as follows.

If CFAT = Rs 80,000		If CFAT = Rs 1,10,000		If CFAT = Rs 1,50,000	
CFAT ₂	Probability	CFAT ₂	Probability	CFAT ₂	Probability
Rs 40,000	0.2	Rs 1,30,000	0.3	Rs 1,60,000	0.1
1,00,000	0.6	1,50,000	0.4	2,00,000	0.8
1,50,000	0.2	1,60,000	0.3	2,40,000	0.1

Comment on investment proposals. [10]

4. What is the impact of inflation on capital budgeting decisions? Elaborate. [10]

OR

5. A firm whose cost of capital is 10% is considering two mutually exclusive projects X and Y, the details of which are:

	Year	Project X	Project Y
Cost	0	Rs.70,000	Rs.70,000
Cash inflows	1	10,000	50,000
	2	20,000	40,000
	3	30,000	20,000
	4	45,000	10,000
	5	60,000	10,000

Compute the Net Present Value at 10%, Profitability Index, and Internal Rate of Return of the two projects. [10]

6. Explain scope and importance of information and data bank in project selections. [10]

OR

7. Write a short note on:

- Discount payback
- Post payback
- Surplus payback
- Bail-out pay back

[10]

8. How do you evaluate the lease from the lesser point of view? [10]

OR

9. A company is considering the lease of an equipment which has a purchase price of Rs.3,50,000. The equipment has an estimated economic life of 5 years. As per the income tax rule a written down depreciation at 25 percent is allowed. The lease rentals per year are Rs. 1,20,000. Assume that the company's marginal corporate tax rate is 50 percent. If the before-tax borrowing rate for the company is 16 percent, should the company lease the equipment? Ignore tax shield on depreciation after 5 years. [10]

10. Explain different types of mergers. Compare and contrast between mergers and acquisition. [10]

OR

11. Videsh Limited is keen on reporting earnings per share of Rs. 6.00 after acquiring Swadesh Limited. The following financial data are given.

	Videsh Limited	Swadesh Limited
Earnings per share	Rs. 5.00	Rs. 5.00
Market price per share	Rs. 60.000	Rs. 50.00
Number of shares	1,000,000	800,000

There is an expected synergy gain of 5 percent. What exchange ratio will result in a post-merger earnings per share of Rs. 6.00 for videsh Limited. [10]

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