Subject Code: MB946 / R09

M B A - IV Semester Regular/Supply Examinations, Oct/Nov -2013

STRATEGIC INVESTMENT AND FINANCING DECISIONS

Time: 3 hours **Max Marks: 60**

Answer any **FIVE** of the following

All questions carry equal marks. **Q.No.8 is compulsory**

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1. What are the characteristics of investment decisions and Explain about Investment decision process?
2. What is decision tree approach to investment decision making? Discuss the procedure for decision tree analysis. What are its Pros and Cons?
3. What is meant by disinvestment? Discuss different kinds of disinvestment?
4. a) What are the advantages and disadvantages of payback period?

   b) "Discounted payback ensures that you don't accept an investment with negative NPV, but it can't stop you from rejecting projects with a positive NPV". Illustrate why this can happen?
5. Define hire purchase? What are the different types of hire purchase? Explain the characteristics of Hire Purchasing agreement?
6. A new company proposes to invest Rs. 10 lakh in assets and will maintain its capital structure at book value. It is expected to earn a net operating income of Rs.1,60,000. The company wants to have an optimum mix of debt and equity. The cost of debt and the equity-capitalization rate at different debt-equity ratios are as follows.

Debt-Equity Ratio	*Cost of Debt*	*Equity-Capitalization Rate*
-	-	0.125
10:90	0.05	0.130
20:80	0.05	0.136
30:70	0.06	0.143
40:60	0.07	0.160
50:50	0.08	0.180
60:40	0.10	0.200

a) What is the optimum capital structure for the company?

b) If the M-M hypothesis is valid, what should be the equity capitalization rate at different debt-equity ratios?

7. a) What are the utilities of bankruptcy?
   b) Explain the procedure of liquidation?

8. **CASE STUDY(COMPULSARY)**

A firm is considering the following project:

Cash Flows (Rs)					
C_0	C_1	C_2	C_3	C_4	C_5
-50,000	+11,300	+12,769	+14,429	+16,305	+18,421

a) Calculate the NPV for the project id the cost of capital is 10 per cent.What is the project's IRR?

b) Recomputed the project's NPV assuming a cost of capital of 10 percent for C_1 and C_2, of 12 percent for C_3 and C_4, and 13 percent for C_5. Should the project be accepted? Can the internal rate of return method be used for accepting or rejecting the project under these conditions of changing cost of capital over time? why or why not?.

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