



IV Semester M.B.A. Degree Examination, June 2011

(2007-08 Scheme)

MANAGEMENT

F-6 : Project Analysis and Implementation

Time : 3 Hours

Max. Marks : 75

SECTION – A

1. Answer **any six** of the following sub-questions. **Each** carries **2** marks.

(2×6=12)

- What is Capital rationing ?
- What is margin money ?
- What is agency problem ?
- Define Venture Capital.
- What do you mean by work break down structure ?
- What is post completion audit ?
- What is sensitivity analysis ?
- Define cost of capital.
- Explain Mutually Exclusive Projects.

SECTION – B

Answer **any three** of the following questions. **Each** question carries **eight** marks.

(3×8=24)

- Outline the various phases of a project's life cycle.
- Discuss the various types of long term sources of funds available for financing a project.
- Consider the following cash flows about Project 'X' and Project 'Y' :

Year	X	Y
0	(1,00,000)	(1,00,000)
1	30,000	50,000
2	40,000	50,000
3	50,000	30,000
4	50,000	30,000

- Consider NPV and IRR assuming a cost of capital of 10%
- Also calculate MIRR.

P.T.O.



5. The probability distribution of possible net present value of project P has an expected value of Rs. 10,000 and standard deviation of Rs. 5,000. Assuming normal distribution, calculate the probability
- that net present value will be zero or less
 - that net present value will be greater than Rs. 15,000
 - that net present value will be more than Rs. 5,000 and less than Rs. 12,500.
6. Niko has purchased a brand new machine to produce its High Flight line of shoes. The machine has an economic life of 5 years. The depreciation schedule for the machine is straightline with no salvage value. The machine costs Rs. 30,00,000.
- The sales price per pair of shoes is Rs. 600 while the variable cost is Rs. 80. Rs. 10,00,000 of fixed cost per year is attributed to the machine.
- Assume that the Corporate tax rate is 34% and the appropriate discount rate is 8%. What is the present value break-even point ?

SECTION – C

Answer **any two** questions. **Each** question carries **12** marks. (2×12=24)

- Describe the various steps involved in project implementation and control.
- The CFO of Reliance is considering an investment of Rs. 30,00,000 in a machine that will be depreciated by SLM over its 7 year economic life. You are given the following information about the proposed market.

	Pessimistic	Expected	Optimistic
Market size (in units)	2,20,000	2,40,000	2,60,000
Market Share	20%	25%	30%
Selling price per unit	Rs. 110	Rs. 120	Rs. 130
Variable cost per unit	Rs. 75	Rs. 70	Rs. 65
Fixed cost per year	Rs. 17,00,000	Rs. 16,00,000	Rs. 15,00,000

The appropriate discount rate is 12% and the corporate tax rate for the company is 35%.

- Calculate NPV for each of the above scenarios.
- If each scenario is equally likely, is the machine a worthwhile investment ?



9. A firm is contemplating to invest in the following project. Advise the management whether to accept the project or not.

Building Cost	-	Rs. 36,000
Equipment cost	-	Rs. 24,000
Networking capital requirement		
as a percentage on sales	-	10%
First year sales (in units)	-	20,000
Selling price per unit	-	Rs. 9.00
Variable cost per unit	-	Rs. 6.30
Fixed cost	-	Rs. 24,000
Life of the project	-	4 years
Depreciation (WDV)	-	10% on Buildings 25% on Machinery
Market value of Building		
at the end of life	-	Rs. 30,000
Market value of Equipment		
at the end of life	-	Rs. 3,000
Tax rate	-	35%
WACC	-	12%
Growth rate in units sold	-	0%
Growth in selling price per unit	-	2%
Growth in variable cost per unit	-	2%
Growth in fixed cost	-	1%



SECTION - D

10. Case Study compulsory :

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Amco batteries is considering undertaking a special project requiring an initial outlay of Rs. 18,00,000. The project would have a two year life, after which there will be no expected terminal value. The possible incremental after tax cash flows and associated probabilities of occurrence are as follows.

Year 1		Year 2	
Initial probability	Net cash flow	Conditional probability	Net cash flow
0.30	12,00,000	0.30	4,00,000
		0.50	6,00,000
		0.20	8,00,000
0.40	14,00,000	0.30	8,00,000
		0.40	10,00,000
		0.30	12,00,000
0.30	16,00,000	0.20	12,00,000
		0.50	14,00,000
		0.30	16,00,000

The company's required rate of return for this investment is 8%.

- Calculate base case NPV.
- Suppose that the possibility abandonment exists at the end of first year for Rs. 9,00,000, what is the revised NPV ?
- Is it worthwhile to abandon the project ?
