



IV Semester M.B.A. Degree Examination, June/July 2012
(2007-08 Scheme)
MANAGEMENT

F6 : Project Analysis and Implementation

Time : 3 Hours

Max. Marks : 75

Instruction : Answer **all** Sections. Marks are indicated against **each** Section.

SECTION – A

1. Answer **any six** of the following questions. **Each** question carries **two** marks. **(6×2=12)**
- a) What do you understand by Project Life Cycle ?
 - b) What is Project Rating Index ?
 - c) Differentiate between strategic planning and capital budgeting.
 - d) What is sensitivity analysis ?
 - e) Define project scheduling.
 - f) What is meant by social cost benefit analysis ?
 - g) Define venture capital.
 - h) What is capital rationing ?

SECTION – B

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

(3×8=24)

- 2. What is Project Feasibility Study ? Explain the market feasibility of a project of your choice.
- 3. What makes risk important in the selection of projects ? Explain briefly the various methods of evaluating risky projects.

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4. Explain the different forms of financing projects. What are the key factors should be considered while financing a project ?
5. X Ltd. is considering to buy a moulding machine. The machine having capital cost of Rs.20 lakh is expected to have 4 years economic useful life with no salvage value. The company follows the straight line method of depreciation and the same is accepted for tax purposes. The expected CFAT (with corporate tax rate of 35 per cent) during its 4 years economic useful life are as follows :

Year	CFAT (Rs. in lakh)
1	8
2	10
3	7
4	5

Inflation is expected to be 5 per cent per year and the machine's cost of capital in real terms would be 10 per cent. Compute the NPV of purchasing this machine.

6. Manoj Limited is considering an investment proposal involving an outlay of Rs. 45,00,000. The expected CF and certainly equivalent co-efficient are :

Year	Expected CF	Certainly equivalent coefficients
1	10,00,000	.90
2	15,00,000	.85
3	20,00,000	.82
4	25,00,000	.78

The risk free interest rate is 5% calculate the NPV of the proposal.



SECTION - C

Answer any two of the following questions. Each question carries twelve marks.
(2x12=24)

- 7. How are venture capital proposals analysed ? What are the factors considered by venture capitalists while evaluating new project ? Discuss.
- 8. Y company is considering two mutually exclusive projects. The initial cost of both projects is Rs.50 lakhs and each has an expected life of 5 years. Under three possible states of economy, their annual cash flows and associated probabilities are as follows :

Economic State	Probability	NCF of Project A (Rs. in lakh)	NCF of Project B (Rs. in lakh)
Good	0.3	60	50
Normal	0.4	40	40
Bad	0.3	20	30

If the discount rate is 7 per cent, which project should the company accept and why ?

- 9. Pioneer Corporation is considering two projects, projects maxi and project mini, each of which requires an initial outlay of Rs. 50 million. The expected cash inflows from these projects are :

Year	Project Mini	Project Mini
1	Rs.11 million	Rs. 38 million
2	19	22
3	32	18
4	37	10



- a) What is discount payback period for each of the projects if the cost of capital is 12% ?
- b) If the two projects are independent and cost of capital is 12%. Which project(s) should firm invest in ?
- c) If the two projects are mutually exclusive and the cost of capital is 10%, which project should the firm invest in ?

SECTION - D

Case Study :

15

10. A company is considering two mutually exclusive projects X and Y. Project X costs Rs. 90,000 and project Y costs Rs.1,08,000. You have been given below the net present value probability distribution for each project.

Project X		Project Y	
N.P.V. estimate	Probability	N.P.V. estimate	Probability
9000	0.1	9000	0.2
18000	0.4	18000	0.3
36000	0.4	36000	0.3
45000	0.1	45000	0.2

- i) Compute the expected N.P.V. of project X and Y.
- ii) Compute standard deviation of each probability distribution.
- iii) Which project would you consider more risky and why ?
- iv) Compute the profitability index of each project.
