



PG – 117

Fourth Semester M.B.A. (Day) Degree Examination, June/July 2013
(2007-08 Scheme)

Management

F-6 : PROJECTS – ANALYSIS AND IMPLEMENTATIONS

Time : 3 Hours

Max. Marks : 75

Instruction : Answer all Sections.

SECTION – A

(6×2=12)

1. Answer any six sub-questions. Each sub-question carries 2 marks.

- a) What is project rating index ?
- b) What is capital rationing ?
- c) Define uncertainty.
- d) Define margin money.
- e) What is work-break-down structure ?
- f) What is loan syndication ?
- g) Define agency problem.
- h) What is risk-free rate of return ?

SECTION – B

(3×8=24)

Note : Answer any three of the following. Each question carries 8 marks.

2. Describe the various means of financing a project.
3. What is the importance of capital structure in project financing ?
4. Discuss the steps involved in project execution.

P.T.O.



5. Sulabh International is evaluating a project whose expected cashflows are as follows :

Years	0	1	2	3	4	5
Cash flows (Rs. in lakhs)	(10)	1	2	3	6	3

- a) What is the NPV of the Project if the cost of capital is 14 percent for the entire period ?
- b) What is the NPV of the Project if the discount rate is 12% for the year 1 and rises every year by 1 percent ?
6. Unique Products Ltd. is considering a proposal of whether to invest in a project which would need an immediate expenditure on capital equipment of Rs. 40,000. The projected sales from the project has been estimated as under :

Sales volume (units)	2,000	6,000	8,000	10,000	14,000
Probability	0.10	0.30	0.30	0.20	0.10

Once sales are established at a certain volume in the first year they will continue at that same volume in subsequent years. The unit selling prices will be Rs. 12, the unit variable cost will be Rs. 8. There will be additional fixed cost of Rs. 20,000 (all cash items). The project will have a life of 6 years after which equipment could be sold for scrap at a price of Rs. 3,000.

You are required to find out :

- a) the expected value of the NPV of the project
- b) the minimum volume of sales per annum required to justify the project.

The cost of capital of the company is 10%. Discount factor of Re. 1 per annum for 6 years at 10% is 4.355 and the discount factor of Re. 1 at the end of six years at 10% is 0.5645. Ignore taxation.



SECTION - C

(2×12=24)

Note : Answer any two of the following. Each question carries 12 marks.

7. Discuss the different methods of demand forecasting.
8. Discuss the importance and problems of venture capital financing.
9. The Shcrisight Company is attempting to decide whether or not to invest in a project that requires an initial outlay of Rs. 4 lakhs. The cash flows of the project are known to be madeup of two parts, one of which varies independently over time and the other one which display perfect positive correlation. The cash flows of the six year life of the project are :

(Rs.)

Year	Perfectly Correlated Components		Independent Component	
	Mean	Standard Deviation	Mean	Standard Deviation
1	40,000	4,400	42,000	4,000
2	50,000	4,500	50,000	4,400
3	48,000	3,000	50,000	4,800
4	48,000	3,200	50,000	4,000
5	55,000	4,000	52,000	4,000
6	60,000	4,000	52,000	3,600

Find out the expected value of the NPV and its standard deviation, using a discount rate of 10%.



SECTION - D

(1×15=15)

Note : Answer the following case study. This question is **compulsory**.

10. A firm has an investment proposal, requiring an outlay of Rs. 40,000. The investment proposal is expected to have 2 years' economic life with no salvage value. In year I, there is a 0.4 probability that cash inflow after tax will be Rs. 25,000 and 0.6 probability that cash inflow after tax will be Rs. 30,000. The probabilities assigned to cash inflows after tax for the year II are as follows :

		(Rs.)			
Cash inflow	Year I	25,000		30,000	
Cash inflow	Year II		Probability		Probability
		12,000	0.2	20,000	0.4
		16,000	0.3	25,000	0.5
		22,000	0.5	30,000	0.1

The firm uses a 10% discount rate for this type of investment.

Required :

- Construct a decision tree for the proposed investment project.
 - What net present value will the project yield if worst outcome is realised ?
What is the probability of occurrence of this NPV ?
 - What will be the best and the probability of that occurrence ?
 - Will the project be accepted ?
- (Discount factor @ 10% 1 year - 0.909; 2 year - 0.826)