



PG – 795

IV Semester M.B.A. Degree Examination, July/August 2014
(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 questions. **Each** carries **2** marks. **(6×2=12)**
- What is feasibility analysis ?
 - What are the sources of positive N.P.V. ?
 - What is project life cycle ?
 - What is Delphi method of demand forecasting ?
 - What is deep discount bond ?
 - What is sensitivity analysis ?
 - What are the reasons for uncertainty in a new venture ?
 - What do you mean by post completion audit ?

SECTION – B

(3×8=24)

Answer **any three** of the following questions. **Each** carries **8** marks.

- Explain the characteristic features of a project.
- What is project rating Index ? Explain the steps involved in developing Project Rating Index.
- ABC Ltd. which makes only one product, sells 10,000 units of its product making a loss of Rs. 10,000. The variable cost is Rs. 8 and fixed cost is Rs. 30,000.
The company has estimated its Sales demand as under.

Sales (Units)	10,000	12,000	14,000	16,000	18,000
Probability	0.10	0.15	0.20	0.30	0.25

 - What is the probability the company will continue to make loss ?
 - What is the probability the company will make a profit of atleast Rs. 6,000 ?

P.T.O.



5. Delta Corporation is considering in one of the following two mutually exclusive proposals

Project – A : Involves initial outlay of Rs. 17,00,000

Project – B : Involves initial outlay of Rs. 15,00,000

The certainty equivalent approach is employed in evaluating risky investments. The current yield on treasury bills is 8% and the company uses this as risk free (less) rate. The expected values of net cash inflow with their respective certainty equivalents are

Year	Project – A		Project – B	
	Cash inflow	C.E.	Cash inflow	C.E.
1	9,00,000	0.8	90,000	0.9
2	10,00,000	0.7	90,000	0.8
3	1,10,000	0.5	1,00,000	0.6

- a) Which project should be acceptable to the company ?
 b) Which project is riskier and why ? Explain.
6. S Ltd. has Rs. 10 crores allocated for capital budgeting purposes. The following are the proposals and ascertained profitability Indexes have been determined.

Project	Amount/Investment (Rs. in lakhs)	Profitability Index
A	30	1.22
B	15	0.95
C	35	1.20
D	45	1.18
E	20	1.20
F	40	1.05

Assume that projects are indivisible and there is no alternative use of money allocated to capital budgeting. Which of the above investments should be undertaken on the basis of

- a) Profitability Index Method
 b) Net Present Value Method ?



SECTION – C

(2x12=24)

Answer **any two** questions. **Each** question carries **12** marks.

7. Briefly explain the techniques used in evaluating the investment proposals under uncertainty in order to choose the best project.
8. A company is considering two mutually exclusive projects X and Y. Project X costs Rs. 30,000 and Y costs Rs. 36,000. You have been given below the Net Present Value probability distribution for each of the project.

Project X		Project Y	
N.P.V. Estimate (Rs.)	Probability	N.P.V. Estimate (Rs.)	Probability
3,000	0.1	3,000	0.2
6,000	0.4	6,000	0.3
12,000	0.4	12,000	0.3
15,000	0.1	15,000	0.2

- a) Compute the expected N.P.V. of project X and Y.
- b) Compute risk attached to each project i.e S. D. of each probability distribution.
- c) Which project do you consider more risky and why ?
9. XYZ Ltd. wants to purchase a plant for its expanding operations. The cost of the plant is Rs. 10,00,000. The expected EBDT during its five years economic life are as shown below.

Year	EBDT
1	3,50,000
2	3,80,000
3	4,00,000
4	3,25,000
5	2,50,000

The rate of inflation during the period is expected to be 8% and the stated EBDT are also expected to grow at the rate of inflation. The Cost of capital is 10%. The firm follows W.D. V. method of depreciation at the rate of 25%. The salvage value of the machine is Rs. 1,00,000. Tax rate is 35% .

Advice the company whether the proposed machine should be purchased.



10. Case Study

A company is considering an investment in a project that requires an initial investment of Rs. 3,000 with an expected cash flow (CFAT) generated over three years as follows.

Year - 1		Year - 2		Year - 3	
CFAT (Rs.)	Probability	CFAT (Rs.)	Probability	CFAT (Rs.)	Probability
800	0.1	800	0.1	800	0.2
1000	0.2	1000	0.3	1000	0.5
1500	0.4	1500	0.4	1500	0.2
2000	0.3	2000	0.2	2000	0.1

- 1) What is the expected N.P.V. of this project ?
(Assume probability distribution are independent and risk free rate of Interest is 7%)
- 2) Calculate the standard deviation about expected about expected mean.
- 3) Find the probability that N.P.V. will be less than 'zero'.
- 4) What is the probability that N.P.V. will be more than 'zero' ?