



R20 Regulation

Subject code:C144EF3

TKR COLLEGE OF ENGINEERING AND TECHNOLOGY

(Autonomous, Accredited by NAAC with 'A' Grade)

M.B.A IV Semester Regular Examinations, August 2022

STRATEGIC INVESTMENT AND FINANCING DECISIONS

Maximum Marks: 70

Date:29.08.2022 Duration: 3 hours

- Note:
1. This question paper contains two parts A and B.
  2. Part A is compulsory which carries 20 marks. Answer all questions in Part A.
  3. Part B consists of 5 Units. Answer any one full question from each unit.
  4. Each question carries 10 marks and may have a, b, c, d as sub questions.

Part-A

All the following questions carry equal marks

(5x4M=20 Marks)

- 1 Write a short note on bailout payback period.
- 2 What is risk adjusted NPV?
- 3 Explain about single period and multi period constrains.
- 4 What are the advantages of leasing.
- 5 Why mergers are necessitated?

Part-B

Answer All the following questions.

(10M X 5=50Marks)

- 6 Explain Monte Carlo approach to simulation. [10]

OR

- 7 Rahul Company Ltd. considers the purchase of a new investment. For which two alternatives investments are available (X and Y) each costing Rs. 1,00,000. Cash inflows are as follows,

Year	Cash Inflows	
	Investment 'X' (Rs.)	Investment 'Y' (Rs.)
1	50,000	45,000
2	45,000	25,000
3	35,000	20,000
4	25,000	40,000

The company has a target return on capital of 12%. Risk premium rates are 4% and 10% respectively for investments X and Y. Suggest which investment should be preferred. [10]

- 8 Explain the impact of inflation on capital budgeting decisions. [10]

OR

- 9 A plastic manufacturer has under consideration the proposal of production of high quality plastic glasses. The necessary equipment to manufacture the glasses would cost Rs1 lakh and would last 5 years. The tax relevant rate of depreciation is 25 per cent on written down value. There is no other asset in this block. The expected salvage value is Rs10,000. The glasses can be sold at Rs 4 each. Regardless of the level of production, the manufacturer will incur cash cost of Rs 25,000 each year if the project is undertaken. The overhead costs allocated to this new line would be Rs 5,000. The variable costs are estimated at Rs2 per glass. The manufacturer estimates it will sell about 75,000 glasses per year; the tax rate is 35 per cent. Should the proposed equipment be purchased? Assume 20 per cent cost of capital and additional working requirement, Rs 50,000. [10]

10 Briefly discuss the Hillier approach and Hertz Simulation. [10]

OR

11 Explain briefly about:

- (i) Post Payback period [5]
- (ii) Surplus Payback period [5]

12 Differentiate leasing and hire purchasing. [10]

OR

13 XYZ Limited is faced with a decision to purchase or acquire on lease a mini car. The cost of the mini car is Rs.1,26,965. It has a life of 5 years. The mini car can be obtained on lease by paying in advance equal lease rentals annually. The leasing company desires a return of 10 per cent on the gross value of the asset. XYZ Limited can also obtain 100 per cent finance from its regular banking channel. The annual rate of interest will be 15 percent and the loan will be paid in 5 annual equal installments, inclusive of interest, each installment becoming due at the beginning of the year. The effective tax rate of the company is 40 percent. For the purpose of taxation, it is to be assumed that the asset will be written off over a period of 5 years on a straight-line basis.

(a) Advise XYZ Limited about the method of acquiring the car.

(b) What should be the annual lease rental to be charged by the leasing company to match the loan option? [5+5]

14 Distinguish mergers for acquisition. [10]

OR

15 Define takeover. What are the government guidelines for takeover. [10]