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**Question Paper Code : J1124**

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2018.

Fourth Semester

General Management

DBA 7005 — STRATEGIC INVESTMENT AND FINANCING DECISIONS

(Common to Financial Services Management)

(Regulations 2013)

Time : Three hours

Maximum : 100 marks

(Present Value Table is permitted)

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is project management?
2. What is systematic risk?
3. Who are the internal users of financial information?
4. Explain the term diversification.
5. Differentiate between hire purchase and installment.
6. Give an example for conglomerate merger and explain it.
7. State the significance of an optimal capital structure.
8. What is Arbitrage?
9. What is financial distress?
10. What is capital rationing?

PART B — (5 × 13 = 65 marks)

11. (a) State the importance of project investment decision. Explain the steps involved in selecting profitable projects.

Or

- (b) Explain the various techniques of analysing risk in investment of a project.

12. (a) (i) How would you calculate Portfolio risk and returns? (7)  
 (ii) Do you think diversification will reduce Portfolio Risk? Comment.(6)

Or

- (b) A company is considering two mutually exclusive projects. Both require an initial investment of Rs. 50,000 each and have a life of 5 years. The cost of capital of the company is 10% and tax is rate is 50%. The depreciation is charged on straight line method. The estimated net cash inflows (before depreciation and tax) of the two projects are as follows :

Year	Project A	Project B
	Rs.	Rs.
1	20,000	30,000
2	22,000	27,000
3	28,000	22,000
4	25,000	25,000
5	30,000	20,000

Which project should be accepted as per NPV and IRR method?

13. (a) SVS ltd. is planning to install a captive generator set at its plant. The finance manager is asked to evaluate the alternatives either to purchase or acquire generator on lease basis.

Buying	Initial cost Rs. 5,00,000	Residual value Rs. 1,60,000
Leasing for 5 years	Annual lease rentals Rs. 1,50,000	Residual value Rs. 90,000 returned to Lessee in 5 years times

Depreciation @ 20%p .a. on written down value. Corporate tax rate 40%. After tax cost of debt is 14%. The time gap between the claiming of the tax allowance and receiving the benefit is one year. Evaluate the lease or buy decision based on the above information.

Or

- (b) Write an elaborate note on the recent SBI merger with its associate banks. Do you think it would provide all the advantages stated in the theories of merger? Discuss.
14. (a) A Company needs Rs. 10,00,000 for expansion. The expression is expected to yield an annual EBIT of Rs. 1,60,000. In choosing a financial plan, the company has an objective of maximizing earnings per share. It is considering the possibility of issuing equity share and raising debt of Rs. 1,00,000 or Rs. 4,00,000 or Rs. 6,00,000. The current market price per share is Rs. 25 and is expected to drop to Rs. 20 if the funds are borrowed in excess of Rs. 5,00,000. Funds can be borrowed at the rates indicated below :

- (i) Up to Rs. 1,00,000 at 8%  
 (ii) Over Rs. 1,00,000 up to Rs. 5,00,000 at 12%  
 (iii) Over Rs. 5,00,000 at 18%

Assume the tax rate of 50%. Determine the EPS for the three financing alternatives. Which is the best one?

Or

- (b) State the determinants of capital structure. Explain the role of indifference point in determining an optimal capital structure.

15. (a) What are the financial prediction models that help you to predict future financial distress? Explain any two models in detail.

Or

- (b) Write a note on the following:
- (i) Liquidation (4)
  - (ii) Reorganisation (4)
  - (iii) Bankruptcy. (5)

PART C — (1 × 15 = 15 marks)

16. (a) (i) From the following information calculate a stocks (1) Expected return, (2) Standard Deviation . (8)

Demand for Firm's product	Probability of the Demand	Rate of Return %
Strong	0.1	50
Above average	0.2	20
Average	0.4	15
Below average	0.2	-5
Weak	0.1	-40

- (ii) An Investor formed a portfolio, with M and N securities. The standard deviation of returns on securities M and N are 15, and 17 respectively. The coefficient of correlation between the returns on two securities is 0.55. Compute portfolio risk assuming 0.4 investment proportion in N security. (7)

Or

- (b) State the Assumptions of capital structure theories. Explain the Net Income Approach and Net Operating Income Approach and draw out the difference between them.

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12. (a) Describe the significance of Information and data bank in project selections.

Or

- (b) Explain the various techniques used to construct a good portfolio.

13. (a) Critically analyse the various types of investment decisions.

Or

- (b) Distinguish between leasing and Hire purchasing.

14. (a) Explain the various types of capital structure Theories.

Or

- (b) Discuss the optimal capital structure planning in practice.

15. (a) Explain in detail about Settlements, reorganization and Liquidation in bankruptcy.

Or

- (b) Discuss the Consequences of financial distress.

PART C — (1 × 15 = 15 marks)

16. (a) A Rapidly – Growing Distribution Company Struggling to Survive Due to An Array of Financial Issues.

The Client suffered from cash flow issues caused by rapid growth, undercapitalization and lack of financial management expertise and control processes. The client accumulated Excessive losses and struggled with liquidity issues that threatened the companys future Viability. They had grown too rapidly and lacked processes and working capital to fund their success .The client needed financial restructuring and a solid, experienced financial advisor if the company was to succeed. – Suggest suitable measures to overcome the financial issues.

Or

- (b) “Adwitiya” is a company enjoying market leadership in the food brands segment. It’s Portfolio includes three categories in the foods business namely snack foods, juices and Confectionery. Keeping in the with the growing demand for packaged food it now plans to introduce ready – to – eat foods. Therefore, the company has planned to undertake investments of nearly Rs. 450 crores for its new line of business As per the current financial report, the interest coverage ratio of the company and return on investment is higher. Moreover the corporate lax is high.

Questions:

- (i) As a financial manager of the company, which source of finance will you opt for debt or equity, to raise the required amount of capital? Explain by giving any two suitable reasons in support of your answer.
- (ii) Why the shareholder’s of the company like to gain from the issue of debt by the company?

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**Question Paper Code : KJ1124**

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2017.

Fourth Semester

General Management

DBA 7005 — STRATEGIC INVESTMENT AND FINANCING DECISIONS

(Common to Financial Services Management)

(Regulations 2013)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What is investment decisions?
2. Define project management.
3. What is capital rationing?
4. What do you mean by portfolio risk?
5. What is merger?
6. Write short notes on buying decision.
7. What is capital structure?
8. What do you understand by EBIT?
9. What is Bankruptcy?
10. What is financial distress?

PART B — (5 × 16 = 80 marks)

11. (a) Differentiate between project investment management and project management.

Or

- (b) Explain the different types of investments and disinvestments.

12. (a) Elucidate the various techniques available for incorporating risk factor in capital investment proposals with practical examples.

Or

- (b) ABC Ltd is considering the purchase of a new plant requiring a cash outlay of Rs. 20,000. The life of the plant is 2 years. Following are the details of estimated cash inflows :

I Year		
Event	Cash inflows (Rs.)	Probability
(i)	12,500	0.4
(ii)	15,000	0.6

II Year

If the cash inflows in the first year is Rs. 12,500		Rs. 15,000	
Cash inflows (Rs.)	Probability	Cash inflows (Rs.)	Probability
6,000	0.2	10,000	0.2
8,000	0.6	12,500	0.5
11,000	0.2	15,000	0.3

Using 10% as the cost of capital, construct a decision tree for the proposed investment and give your recommendation regarding the acceptability of the proposal.

13. (a) Distinguish between leasing and hire purchase.

Or

- (b) Elucidate the different types of merger. Also explain important reasons for mergers.

14. (a) Explain the different types of capital structure theories.

Or

- (b) Describe the various factors influencing capital structure decisions.

15. (a) What are the consequences of financial distress of a firm? How can a firm respond to its financial distress?

Or

- (b) Write short notes on :
- (i) Financial issues
  - (ii) Settlements
  - (iii) Reorganization
  - (iv) Liquidation in bankruptcy.

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**Question Paper Code : S1124**

M.B.A. DEGREE EXAMINATION, FEBRUARY/MARCH 2016.

Fourth Semester

General Management

DBA 7005 – STRATEGIC INVESTMENT AND FINANCING DECISIONS

(Common to Financial Services Management)

(Regulations 2013)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define project management.
2. What is disinvestment?
3. What is capital rationing?
4. What do you mean by portfolio risk?
5. Define leasing.
6. What do you mean by acquisition?
7. Define capital structure.
8. What is EBIT-EPS analysis?
9. What is financial distress?
10. List out reasons for bankruptcy.

PART B — (5 × 16 = 80 marks)

11. (a) What key issues are examined while making a major investment decision?

Or

- (b) Discuss the different types of investments and disinvestments.

12. (a) Explain the significance of information and data bank in project selections.

Or

- (b) X Ltd., has the five projects. Details are given below

Project	Investment Outlay (Rs.)	Expected Annual Cash Inflow (Rs.)	Project Life (Years)
M	50,000	18,000	10
N	1,00,000	50,000	4
O	1,20,000	30,000	8
P	1,50,000	40,000	16
Q	2,00,000	30,000	25

Rank the five projects based on NPV and IRR. The discount rate is 10%.

13. (a) What are the salient features of a leasing arrangement? How would you choose between leasing and hire - purchase?

Or

- (b) Discuss the various steps involved in a merger.

14. (a) Explain the various types of capital structure theories.

Or

- (b) Discuss the optimal capital structure planning in practice.

15. (a) Explain the consequences of financial distress.

Or

- (b) Discuss the settlements and liquidation in bankruptcy.

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**Question Paper Code : 80124**

M.B.A. DEGREE EXAMINATION, AUGUST 2015.

Fourth Semester

General Management

DBA 7005 – STRATEGIC INVESTMENT AND FINANCING DECISIONS

(Common to Financial Services Management)

(Regulations 2013)

Time : Three hours

Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. What are the types of Investments?
2. What do you mean by Disinvestment?
3. What do you mean by Portfolio Risk?
4. Write a short note on diversification.
5. Define Lease.
6. What do you mean by Hire Purchase?
7. What are the components of Capital Structure?
8. Define Equity.
9. What do you mean by Bankruptcy?
10. Briefly explain the term Financial Distress.

PART B — (5 × 16 = 80 marks)

11. (a) What type of investment strategies would you adopt under conditions of uncertainty?

Or

- (b) Explain the different types of investments and its features.

12. (a) Explain the significance of information while selecting the project.

Or

(b) What are various techniques available for constructing a good portfolio?

13. (a) Critically analyse the various types of investment decisions.

Or

(b) Explain in detail Mergers and Acquisitions.

14. (a) What are the various Capital Structure Theories?

Or

(b) What do you mean by capital structure planning and explain the practices of capital structure planning with examples.

15. (a) Explain the causes of Bankruptcy.

Or

(b) Discuss in detail reorganisation and liquidation in bankruptcy.

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