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10MBAFM425

Fourth Semester MBA Degree Examination, Dec.2013/Jan.2014

Project Appraisal Planning and Control

Time: 3 hrs. Max. Marks: 100

Note: ***1. Answer any FOUR full questions from Q.No.1 to 7.***
2. Q.No. 8 is compulsory.

1 a. What is project rating index? **(03 Marks)**
b. Describe porter model for estimation of profit potential of industries. **(07 Marks)**
c. Explain strategic position and action evaluation. **(10 Marks)**

2 a. What are principles of cashflow estimation? **(03 Marks)**
b. Find IRR of the project and comment on IRR. **(07 Marks)**

Cash flow (Rs.)	C_0	C_1	C_2
	(1,60,000)	1,000,000	-1,000,000

c. Describe briefly technical issues to be considered in technical analysis of a project. **(10 Marks)**

3 a. What is capital rationing? **(03 Marks)**
b. A firm is considering two machines A and B. Machine A costs Rs.75,000 and lasts 5 years with running cost of Rs.12,000 per year. Machine B costs Rs.50,000 but lasts only 3 years with running cost of Rs.18,000 per year. Advice, which machine to be choosen (Assume 12% discountrate). **(07 Marks)**
c. Naveen Co is considering capital project. Data is given below. Investment outley is Rs.80 million on plant machinery and Rs.20 million on working capital. All incurred in beginning of the year. Life of project is 5 years. At end of 5 years salvage value fetches Rs.30 million. The sales revenue will increase by Rs.120 million per year and costs (other than deprecition interest and tax) will increase by Rs.80 million. Tax rate is 30% and depreciation charges from year 1 to 5 are Rs.20, Rs.15, Rs.11.25, Rs.8.44 and Rs.6.33 million respectively. Find cash flows per year. **(10 Marks)**

4 a. What is shadow pricing in social cost benefit? **(03 Marks)**
b. How is LM approach similar to UNIDO approach? **(07 Marks)**
c. What is PIB? What are guidelines followed by PIB in approaching investment proposals? **(10 Marks)**

5 a. What is product cannibalization? **(03 Marks)**
b. How do you determine economic life of project? **(07 Marks)**
c. A firm is considering initial investment of Rs.20 million for a project. Variable cost is 2/3 of sales. Fixed cost is Rs.1 million, depreciation charge is Rs.2 million per year. Tax rate is 1/3. Cash flows last 10 years. PVIFA (10, 12%) is 5.65. Find B.E.P. from financial BEP view point. **(10 Marks)**

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

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6 a. What is project indivisibility? **(03 Marks)**

b. What are different sources of finance for investment? **(07 Marks)**

c. Find the initial path and project duration: **(10 Marks)**

Job	1-2	1-6	2-3	2-4	3-5	4-5	6-7	5-8	7-8
t_o	3	2	6	2	5	3	3	1	4
t_m	6	5	12	5	11	6	9	4	19
t_p	15	14	30	8	17	15	27	7	28

7 a. What is abandonment analysis? **(03 Marks)**

b. What are agency problem? **(07 Marks)**

c. Consider the following projects (All in Rs.)

Project	1	2	3	4	5	6	7	8	9
Cash out flow in year 1	50	40	10	36	25	43	40	30	75
Cash out flow in year 2	48	22	40	5	60	15	0	14	18
NPV	44	30	20	25	35	24	42	28	60

Funds constraints for the two years are Rs.150 and 180 respectively and

i) Project 1 and 2 are mutually exclusive.

ii) Out of projects 4, 5 and 6 at least two must be accepted.

iii) Project 9 can't be accepted unless 4 and 6 are accepted.

iv) Project 7 can be delayed by one year, such a delay doesn't change cash flow but reduces NPV to 35.

v) Project 8 and 9 are complementary. If the two are accepted the outflow is less by 8% and NPV is more by 10%.

Formulate LPP. **(10 Marks)**

8 a. What are different project appraisal criteria? **(05 Marks)**

b. The balancesheet of Swaraj Ltd at end of year 'n' is as follows:

Liabilities	Rs. in million	Assets	Rs. in million
Share capital	5	Fixed assets	11
Reserve surplus	4	Investment	0.5
Secured loan	4	<u>Current assets</u>:	11.5
Unsecured loan	3	Cash 1	
Current liabilities	6	Receivables 4	
Provisions	1	Inventory 6.5	
Total	23	Total	23

The projected income and distribution statement is

	Rs. (million)
Sales	25
Cost of goods sold	19
Depreciation	1.5
PBIT	4.5
Interest	1.2
PBT	3.3
Tax	1.8
PAT	1.5
Dividend	1.0

During year n + 1 firms wants to raise secured loan of Rs.1 million and repay previous loan of 0.5 million. Current and provisions will increase by 5%. Further firm wants to acquire fixed assets worth Rs.1.5 million and raise inventory by 0.5 million. Receivables will increase by 5%. Level of cash would be balancing figure. Prepare projected cash flow statement and projected balancesheet. **(15 Marks)**

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