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10MBAFM425

Fourth Semester MBA Degree Examination, June/July 2013

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 do you mean by project feasibility study? **(03 Marks)**
b. Explain different sources of financing a project. **(07 Marks)**
c. Explain any five demand forecasting techniques in detail. Which technique of you suggest for the following demand forecasting: i) New innovative product; ii) Automobile products. **(10 Marks)**

2 a. What do you mean by capital rationing? **(03 Marks)**
b. What are the different human aspects you consider in project implementation? **(07 Marks)**
c. Explain the different key issues in project analysis with a suitable example of your choice. **(10 Marks)**

3 a. What do you mean by crashing of a project? **(03 Marks)**
b. Explain UNIDO approach for project appraisal. **(07 Marks)**
c. A project has the following activities and characteristics:

	Estimated duration in days		
Activity	Optimistic	Most likely	Pessimistic
1-2	3	6	9
1-3	5	10	15
1-4	1	7	13
2-5	5	8	11
3-5	2	6	10
4-6	6	6	6
5-6	8	10	12

i) Draw the network and calculate expected duration of the project and identify critical path.
ii) Calculate standard deviation of critical path. **(10 Marks)**

4 a. What do you mean by benefit cost ratio? How do you calculate it? **(03 Marks)**
b. Explain the BCG product portfolio matrix in detail. **(07 Marks)**
c. Explain the pre requisites for successful project implementation. **(10 Marks)**

5 a. What do you mean by shadow pricing? **(03 Marks)**
b. Explain the different steps in simulation process. **(07 Marks)**
c. A company is considering an investment proposal to install new machine at a costs of Rs.50,000. The facility has a life expectancy of 5 years and no salvage value. The tax rate is 35 percent. Assume the firm uses straight line depreciation and the same is allowed for tax purpose. The estimated cash flows before depreciation and tax from the investment proposal are as follows:

Year	1	2	3	4	5
CFBT	10000	10692	12769	13462	20385

Compute the following: i) Payback period; ii) ARR; iii) NPV
Assume cost of capital as 10%. **(10 Marks)**

6 a. What do you mean by cost of capital? **(03 Marks)**
b. Explain different factors do you consider in environmental appraisal. **(07 Marks)**
c. Explain the phases of capital budgeting. **(10 Marks)**

7 a. What do you mean by IRR? **(03 Marks)**
b. What are the steps involved in project appraisal by financial institutions? **(07 Marks)**
c. The table below provides costs and estimates for a 7 activity project.

Activity	Time estimate		Direct cost ('000)	
	Normal time	Crash time	Normal	Crash
1-2	2	1	10	15
1-3	8	5	15	21
2-4	4	3	20	24
3-4	1	1	7	7
3-5	2	1	8	15
4-6	5	3	10	16
5-6	6	2	12	36

i) Draw the project network corresponding to normal time.
ii) Determine the critical path, normal duration and cost of the project.
iii) Crash the activities so that the project completion time reduces to 9 weeks. **(10 Marks)**

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CASE STUDY

Teja Sai Ltd is always discarding old lines and introducing new lines of products and is at present considering three alternative promotional plans for ushering in new products. Various combination of prices, development expenditure and promotional outlays are involved in these plans. High, medium and low forecast of revenues under each plan have been formulated and their respective probabilities of occurance have been estimated. These budgeded revenues and probabilities along with other relevant data are summarized as under

(Rs in lakhs)

Particulars	Plan I	Plan II	Plan III
Budgeted revenue with probabilities			
High	30 (0.3)	24 (0.2)	50 (0.2)
Medium	20 (0.3)	20 (0.7)	25 (0.5)
Low	5 (0.4)	15 (0.1)	0 (0.3)
Variable cost as % of revenue	60%	75%	70%
Initial investment	25	20	24
Life in years	8	8	8

The company's cost of capital is 12% and income tax rate is 40%. Investment in promotional programme will be amortized by the straight line method. $PVIFA_{12\%8} = 4.967$.

a. Substantiating with figures, make a detailed analysis and find out which of the promotional plans is expected to be the most profitable?
b. In the worst event happened, which of the plans would result in maximizing the profits. (Use both NPV and PI for solving). **(20 Marks)**

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