

Code No: 764AF

JAWAHARLAL NEHRU TECHNOLOGICAL UNIVERSITY HYDERABAD

MBA IV Semester Examinations, September - 2023

STRATEGIC INVESTMENT AND FINANCING DECISIONS

Time: 3 Hours

Max Marks:75

Note: i). Question paper consists of Part A, Part B.

ii) Part A is compulsory, which carries 25 marks. In Part A, Answer all questions.

iii) In Part B, Answer any one question from each unit. Each question carries 10 marks and may have a, b as sub questions.

PART – A**(25 Marks)**

- 1.a) Examine the importance of discounted Cash Flow Method. [5]
 b) Summarize the concept of Capital Budgeting. [5]
 c) Discuss the importance of data bank in Project Selection. [5]
 d) Identify the features of Lease financing. [5]
 e) What is meant by reverse Merger & Acquisition? [5]

PART – B**(50 Marks)**

- 2.a) Interpret Sensitivity analysis method of investment analysis with an example.
 b) Discuss the investment decisions under capital constraints. [5+5]

OR

3. An investment of \$40,000 today is expected to give rise to annual contribution of \$25,000. This is based on selling one product, with a sales volume of 10,000 units, selling price of \$12.50 and variable costs per unit of \$10. Annual fixed cost of \$10,000 will be incurred for the next four years; the discount rate is 10%.
 a) Calculate the NPV of this investment.
 b) Calculate the sensitivity of your calculation to the following:
 i) Initial Investment.
 ii) Selling price per unit.
 iii) Sales volume.
 iv) Fixed costs.
 v) Discount rate. [10]

- 4.a) Discuss the disinvestment methods available for corporates.
 b) Describe the project abandonment decisions. [5+5]

OR

5. X company is considering two projects M&N, each of which require an initial outlay of Rs.50 lakhs. The expected cash inflows from these projects are:

Year	Project M	Project N
1	12	37
2	18	24
3	33	19
4	36	12

- a) What is the PBP for each of the project?
 b) If the two projects are mutually exclusive and the cost of capital is 15%. Which project should the firm invest in?
 c) If cost of capital is 14%, What is the modified IRR of each project? [10]

6. Discuss about examination of the secondary information for reliability and relevance for the consideration purpose. [10]

OR

- 7.a) Explain in detail about Hertz Simulation and Hillier approaches?
 b) Describe the terms surplus life and surplus playback. [6+4]

- 8.a) Identify the steps considered while making investment decision of leasing or buying.
 b) Discuss the role of operating risk in security analysis. [5+5]

OR

9. A company is considering the lease of an equipment which has a purchase price of Rs.3,50,000. The equipment has an estimated economic life of 5 years. As per the Income Tax Rule, a written down depreciation at 25 per cent is allowed. The lease rentals per year are Rs.1,20,000. Assume that the company's marginal corporate tax rate is 50 per cent. If the before-tax borrowing rate for the company is 16 per cent, should the company lease the equipment? Ignore tax shield on depreciation after 5 years. [10]

- 10.a) Evaluate the payment methods in M&A.
 b) What are the benefits of stock payment merger? [5+5]

OR

11. Gama Fertilizers Company is taking over Theta Petrochemical Company. The shareholders of Theta would receive 0.8 shares of Gama for each share held by them. The merger is not expected to yield ineconomies of scale & operating synergy. The relevant data for the two companies is as follow:

Particulars	Gama	Theta
Net Sales (Rs Crore)	335	118
Profit after tax (Rs Crore)	58	12
Number of share (Crore)	12	3
Earnings per share (Rs)	4.83	4
Market value per share (Rs)	30	20
Price-earnings ratio	6.21	5

QA

For the combined company (after merger), you are required to calculate:

- a) EPS.
- b) P/E Ratio.
- c) Market value per share.
- d) Number of shares.
- e) Total market capitalization.

[10]

QA

QA

QA

QA

QA

QA

QA

---ooOoo---

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA

QA