School of Business

MBA

ETE - May 2023

Time : 3 Hours **Marks : 50**

Sem IV - MBFI6018 - Project Appraisal and Finance

Your answer should be specific to the question asked

Draw neat labeled diagrams wherever necessary

1.	How can the risks of diversification be reduced?	K2 CO1	(2)
2.	What can a firm do to stimulate the flow of project ideas?	K2 CO2	(2)
3.	What considerations should be borne in mind while estimating sales revenues?	K4 CO3	(2)
4.	A company is evaluating a new project that requires an initial investment of $500,000. The project is expected to generate cash flows of $200,000 per year for the next 3 years. The payback period for the project is calculated to be 2.5 years. Should the company invest in this project?	K4 CO4	(2)
5.	What is Monte Carlo simulation, and how can it be used to assess risk in project appraisal?	K4 CO5	(2)
6.	Discuss the following generic strategies that can be adopted at the business unit level: cost leadership, differentiation, focus, and network effect strategy.	K4 CO1	(5)
7.	How can the results of a technical feasibility study be used to make decisions about a project's viability?	K4 CO2	(5)
8.	Critically evaluate the integer linear programming model as a tool for capital budgeting.	K5 CO5	(6)
9.	How do you determine the financial feasibility of a project in the context of a specific industry or market? Discuss the role of market analysis, demand forecasting, and competitive analysis in assessing the financial potential of a project.	K5 CO3	(8)
10.	Discuss the following in the context of a goal programming model: objective function, economic constraints, and goal constraints.	K5 CO4	(8)

11. Consider the following situations. K6 CO5 (8)

A. Vikram, Naresh, and Ravi worked in the R&D centre of a multinational company in Bangalore for about five years. Bitten by the entrepreneurial bug, they quit their jobs recently and set up a company called VNR Informatics Private Limited with the immediate object of developing a software product for the telecom sector. At present the company has an equity capital of Rs.1.5 crore contributed equally by the three promoters. According to the business plan for the proposed software product, the company needs additional financing of Rs.1.5 crore.

B. Manas Textiles, a leading producer of cotton fabrics, is based in Ahmedabad. Nearly three-fourths of its production is exported to customers in the U.S. the company's plant and equipment have been financed to the extent of SO percent by a consortium of lenders, who are not inclined as of now to increase their exposure to the company as the company went through debt restructuring sometime back. The company buys its inputs in cash but offers 90 days credit to its customers in the U.S. Thanks to a recent spurt in export sales, the company needs Rs. 50 crore of additional financing.

C. Bharat Oil Company needs Rs.150 crore for doing test drilling in a certain block awarded to it by the Government of India. If the outcome of the test drilling is favourable, Bharat Oil Company will require Rs. 350 crore for developing the site. As per the latest balance sheet, the total assets of Bharat Oil Company are Rs.2500 crore. The market price per share of the company is Rs.270 and the earnings per share are Rs. 30. Other firms in the oil industry sell at an earnings multiple between 11 and 13. Bharat Oil Company's debt-equity ratio is 30 percent, compared to the industry's average of 40 percent.

D. ADCL is a movie production company set up by three persons with experience in the movie industry about six years ago. One of them is a leading star and he owns 50 percent equity of ADCL; the other two own 25 percent each. ADCL's recent movie, The Indian Dream turned out to be a blockbuster at the box office. Enthused by this success, the promoters want to double the number of movies produced by the company. To achieve this goal the company plans to raise Rs.50 crore from external sources.

E. Tasty Foods Private Limited runs a chain of food stores in western India. It is owned by three Patil brothers each of whom holds one-third equity in the company. Though profitable, the company is experiencing financial strain due to its rapid growth rate. Its real estate is mortgaged, its inventories are hypothecated, and its debtors are largely factored. Presently the company has Rs. 20 crore of total assets. It needs equipment costing Rs.2 crore for its shipping department.

Required

Suggest the financing method that seems most appropriate for each situation and give your reasons for the same.