CBCS SCHEME
Sahyadri College of Engineering & Management CENTRAL LIBRARY * Adyar, Mangalore-7 *

USN | | | | | | | | | | |

18MBAFM306

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.

Third Semester MBA Degree Examination, July/August 2021
Project Appraisal Planning and Control

Time: 3 hrs. Max. Marks:100

Note : 1. ***Answer any Five full questions.***
2. ***P.V. Table can be provided.***

1 a. What is Capital Budgeting? **(03 Marks)**

b. Explain the various level of decision making. **(07 Marks)**

c. India Pharma Ltd an India based Multinational Company is evaluating on overseas investment proposal. India Pharma's exports of pharmaceutical products have increased to such an extent that it is considering a project to build a plant in the U.S. The project will entail an initial outlay of $100 million and is expected to generate the following cash flows over its 4 year life.

Year	1	2	3	4
Cash flow (in millions $)	30	40	50	60

The current spot exchange rate is Rs 45 per U.S dollar. The risk free rate in India is 11% and the risk free rate in the U.S is 6%. These are rates observed in financial markets.
India Pharma required rupee return on a project of this kind is 15%. Should the Co., undertake this project? The answer of course depends on the NPV of the project by using Home currency approach. **(10 Marks)**

2 a. What is Financial Appraisal? **(03 Marks)**

b. Briefly out the phases of Capital Budgeting. **(07 Marks)**

c. Girish Ltd is evaluating a invest proposal where NPV is model as under :

$\sum_{t=1} = \frac{ACF}{(1+r)t}$ - I I. Given value of selected extra genius variables that is cash outflow Rs 13,000/- and R_f 10% and value of cash flow after tax and life as under.

Cash flow	After tax	Life in years	
CFAT	Prob	Life	Prob
1000	0.02	3	0.05
1500	0.03	4	0.10
2000	0.15	5	0.30
3000	0.30	6	0.25
3500	0.20	7	0.15
4000	0.15	8	0.10
		9	0.03
		10	0.02

Using following random numbers simulate 10 trails and decide wheather the project can be acceptable or not.
Random No. for CF : 53 , 66, 13, 19, 31, 81, 38, 48, 90, 58.
R. for Life : 97, 99. 81, 09, 67, 70, 75, 83, 33, 52. **(10 Marks)**

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3 a. What is Risk? **(03 Marks)**

b. Explain the key criteria for allocation of Resources. **(07 Marks)**

c. You're a Finance Manager of HP Ltd. HP Ltd is planning to set a plant at Indoor your project staffs has developed the following cash flow forecast for the project.

Cash flow Forecast for HP's

Extrusion Plant Rs in Millions

	Year 0	Year (1-10)
Investment	(250)	
Sales		200
V. Cost (60% of sales)		120
Fixed cost		20
Depreciation		25
Pre – tax Profit		35
Taxes		10
Profit after taxes		25
Cash flow from operation		50
Net cash flows		50

What is the NPV of the Project? Assume that cost of capital is 13%. The range of variable that the underlying variables can take is shown below :

Underlying variable	Pessimistic	Expected	Optimistic
Investment (Rs in million)	300	250	200
Sales	150	200	275
V. C as % of sales	65	60	56
F Cost	30	20	15
Cost of capital	14%	13%	12%

Calculate the effect of variations in the values of the underlying variables on NPV. **(10 Marks)**

4 a. What is Project Appraisal? **(03 Marks)**

b. Explain steps involved in Project Rating. **(07 Marks)**

c. Company 'A' has to select one of two alternative projects for which following information are available.

Year	0	1	2	3	4
Project A	1,18,720	1,00,000	20,000	10,000	10,000
Project B	1,00,760	10,000	10,000	20,000	1,00,000

Compute Discounted Pay back period and suggest if company can arrange necessary fund @ 8%. **(10 Marks)**

5 a. What are the components of cost of project? **(03 Marks)**

b. What are the Qualities and traits required to be a successful entrepreneur? **(07 Marks)**

c. XYZ Company is considering a capital project about which following information is available :

The investment outlay of the project is Rs 150 million on fixed assets and 50 million on working capital.

The life of the project is expected to be 7 year with solvage value of 48 @ the end of 7th year and net working capital will be liquidated at the book value. The project expected to generate a revenue of Rs 250 million / year and cost of Rs 100/year other than depreciation, Interest and tax. Tax rate is 30% , the rate of depreciation is 25% per year as per WDV method. Prepare the projected cash flow. **(10 Marks)**

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6 a. List out the facts of Project Analysis. **(03 Marks)**

b. Udyog Ltd., is evaluating different dates for investing in a project. The net future value for various dates are as follows :

Time	0	1	2	3	4
Net future value	10	15	19	23	26

The discount rate applicable for a period is 12%. Calculate current value and optimum timing. **(07 Marks)**

c. Illustrate the concept of SCBA. **(10 Marks)**

7 a. Explain any two Project Appraisal criteria. **(03 Marks)**

b. Discuss the steps involved in simulation analysis. **(07 Marks)**

c. Explain the steps in analyzing the Market demand. **(10 Marks)**

8 **CASE STUDY** :

The Balance sheet of Swaraj Ltd at the end of year n (the year which in just over) is as follows :

Liabilities	Rs	Assets	Rs
Share capital	5	Fixed Assets	11
Reserves & Surplus	4	Investments	0.5
Secured loans	4	Current Assets	11.5
Unsecured loans	3	Cash	1
Current liabilities	6	Receivables	4
Provisions	1	Inventories	6.5
	23		23

The projected Income statement and the distribution of earnings is given below :

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
Dividends	1.0
Retained Earnings	0.5

During the year n + 1, the firm plans to raise a secured term loan of Rs 1 million , repay a previous term loan to the extent of Rs 0.5 million. Current liabilities and provisions would increase by 5% further, the firm plans to acquire (fixed assets with Rs 1.5 million) and raise its inventories by Rs 0.5 million. Receivables are expected to increase by 5%. The level of cash would be the balancing amount in the projected balance sheet. Make the Project cash flow and Projected balance sheet. **(20 Marks)**

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