Online PGDM

Second, Trimester V, Sept 2024

Course Name: Project Finance and Financial Appraisal **Max Marks: 70**

Course Code: 5105 **Max Time: 2 hrs**

Instructions for Students :

Section A ***(1 mark each: 20 marks)***

Mark a tick on right answer

1. Preference shareholders are entitled to receive dividend.
a) even if business runs into loss
b) after equity shareholders dividend is announced
c) at fixed rate
d) with tax advantage to firm

2. Cost of Capital for Bonds and loans is considered on
a. Before Tax basis
b. After Tax basis
c. Risk-free Rate of Interest basis
d. None of the above.

3. Firm's overall Cost of Capital is the weighted average cost of:
a. All Long-Term sources
b. All borrowings
c. Share capital
d. Share, Bonds & Debentures.

4. Special Purpose Vehicle (SPV) is an entity
a. as a special type of automobile
b. used for project management under Public Private Partnership (PPP)
c. as a proprietorship firm
d. with unlimited liability.

5. An annuity is a fixed amount payable
a. on maturity of fixed deposit

b. at each period for a specified number of periods
c. by a buyer to the seller
d. as salary.

6. Sinking Fund is created for
a. payment of a target amount in future
b. keeping surplus of business as reserve
c. repayment of an instalment loan
d. paying dividends

7. Loan Repayment Schedule can be drawn using the concept of
a. future value of loan
b. security in borrowing
c. weighted average cost
d. present value of annuity

8. For internal rate of return
a. PV of cash inflow is equal to PV of cash outflow
b. a project has surplus profit at the end
c. discount rate for PV needs to be known for computing
d. timing of payments don't matter.

9. An investment project is riskier if
a. its return is known in advance
b. its return is independent of time to maturity
c. it is non speculative on return
d. its one period rate of return fluctuates over a wide range

10. Which of the following describe(s) variable costs?
I. costs that can be forecasted with a high degree of accuracy
II. costs that are equal to zero when production is zero
III. costs that change with the quantity of output

a. II only
b. I and II only
c. I and III only
d. II and III only
e. I, II, and III only

11. Which one of the following is true?
a. The inventory period is not counted in operating cycle
b. The length of the operating cycle is usually greater than or equal to the length of the cash cycle
c. Accounts receivable period is always greater than or equal to length of the cash cycle.
d. Inventory period plus accounts receivable period is equal to operating cycle plus cash cycle.
e. The accounts payable period is part of operating cycle

12. Which of the following activities increase cash, all else equal?

I. reducing long-term debt
II. acquiring inventory
III. selling fixed assets
IV. realization of accounts receivable

a. I only
b. II only
c. I and IV only
d. I, II, and III only
e. III and IV only

13. Total inventory period for Ajay Electricals is 50 days, the accounts receivable period is 40 days and the accounts payable period is 35 days. What is the cash cycle for Ajay electricals?

a. 25 days
b. 45 days
c. 55 days
d. 90 days
e. 135 days

14. Who among the following typically expect the highest rate of return?

a. Secured debtors
b Unsecured debtors
c. Preference shareholders
d. Equity shareholders

15. Working capital needs of a firm are not influenced by:

a. Nature of business
b. Seasonality of operations
c. Production policy
d. Capital Structure

16. Capital Budgeting decisions are:

a. Reversible
b. Irreversible
c. Unimportant
d. All of the above.

17. Which of the following is not considered in project analysis?

a. Cashflows
b. Time Value of Money
c. Required Rate of Return
d. Market price of share

18. Which of the following is not a capital budgeting decision?

a. Expansion

b. Merger
c. Replacement of an Asset
d. Inventory Level.

19. A sound project analysis is based on:
a. Future Cash Flows
b. Past Profit
c. Historical interest Rate on Borrowings
d. Last Dividend Paid.

20. An optimal project finance structure is one that
a. maximizes EBIT
b. minimizes interest cost
c. maximizes EPS
d. is impossible to achieve

Section B

Short and to the point, relevant answers required
marks each : 30 marks)

B 1. Discuss major components of Cost of Production.
B 2. Describe the advantages and disadvantages of using Debt as source of finance.
B 3. Discuss methods used for capital budgeting decision based on time value of money.

Section C

C 1. Your company is considering two projects, Project Mayura and Project Naina, each of which requires an initial outlay of ₹50 million. The expected cash inflows from these projects are:

Year	Project Mayura	Project Naina
1	₹11 Million	₹38 Million
2	19	22
3	32	18
4	37	10

What is the discounted payback period for each of the projects if the cost of capital is 12 percent?
If the two projects are independent and the cost of capital is 12 percent, which project(s) should the firm invest in based on NPV method?
If the two projects are mutually exclusive and the cost of capital is 10 percent, which project should the firm invest in based on Profitability Index method? *(30 marks)*

C 2. Ankush Corporation is currently at its target debt equity ratio of 0.5:1. It is considering a proposal to expand capacity expected to cost Rs500 million and generate an after tax

cashflows of Rs 130 million per year for the next 8 years. The tax rate for the firm is 25%.
Aashvi, the CFO of the company, has collected information on raising funds as:
Equity: The required return of the company's new equity is 20% and the issuance cost will be 12%.
Issue of debentures as debt at a yield of 13% p.a. The issuance cost will be 3%.
Maintaining the existing debt equity ratio to raise the required fund,
What is the Weighted Average Cost of Capital for the co.?
What is the co's weighted average floatation cost? *(20 marks)*