

XLRI JAMSHEDPUR – PMIR**Mid Term Examination, Time: 120 Minutes, Total Marks: 25****Date: February 19, 2010**

NAME: _____

ROLL # _____

INSTRUCTIONS

This is a close text book examination. You are not allowed to borrow calculators, etc. Answer all questions. Please read all footnotes (some of them might contain crucial information). Marks in brackets at the beginning of each section indicate the marks assigned for each question in that section. In case of multiple-choice questions, you are required to mark (tick) the appropriate choice in the question paper attached and also work the calculation out (or clearly discuss the reasons) in the space provided.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

Kaun Banegi Chambal Ki Rani?

Once upon a time, Chambal-Ka-Raja 'Mangal Singh' announced his Swayamvar (a.k.a. marriage match/selection process). Pujitha always wanted to spend time with a Raja (even if he were a Daku). Raja 'Mangal' was very weak in finance and thought that a core competence in Financial Analysis for his future partner was a must (applying the funda of having complementary competencies in case of mergers and acquisitions).

So, on New Year's Eve, after wishing everyone a Happy & Prosperous New Year with a glass of 'somras mixed with sambar' Mangal announced in his Durbar that the one who is successful in solving the case titled 'Lasting Impressions Company' in the Basic Financial Management material would be his partner.

Pujitha was present in the Durbar and she did not want to be Akeli (Single) lifelong – so she decided to participate in the test (she used a mobile and requested the help of all students in PMIR). This was also a day when Divya was feeling bad as her computer crashed for the nth time. But, listening to the swayamwar on the telephone Divya's eyes saw a ray of hope and she also decided to participate in the contest. Hence, she became a competitor to Pujitha (many others were potential competitors in the match including Niyati, Richa, Priti).

Both seek the help of high IQ *finman* studs in the class. Please help both of them in solving the case and finding the answers for the following queries from the case. Give your answers below with reasoning for the same (at least a sentence). Answers without supporting reasoning/logic will not be acceptable.

Date: Feb.-2010

1. Case: Lasting Impressions Company

Please look at Pages 1-3 of the case material and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable. Please solve this particular case completely in the space provided in the next two pages and then proceed to answer the objective questions thereon. We will not consider the solutions of the Students not providing their computations in the space provided.

[Total Marks: 12, Each Correct Answer: + 1 marks]

1. For proposed Press A, determine the initial investment.

(a) \$662,000

(b) \$870,000

(c) \$450,000

(d) \$410,000

2. For proposed Press B, determine the initial investment.

(a) \$220,000

(b) \$361,600

(c) \$442,500

(d) \$484,300

3. For proposed Press A, determine the terminal cash flow.

(Note: This is at the end of year 5.)

(a) \$228,400

(b) \$243,600

(c) \$259,900

(d) None of the above

(e) Cannot be computed

4. For proposed Press B, determine the terminal cash flow.

(Note: This is at the end of year 5.)

(a) \$90,000

- (b) \$211,400
- (c) \$121,400
- (d) None of the above**
- (e) Cannot be computed

5. For proposed Press A, find the payback period.

- (a) 4.09 years**
- (b) 4.06 years
- (c) 4.03 years
- (d) None of the above

6. Find the NPV for each of the two proposed replacement presses (closest approx. value).

- (a) Press A \$35,455; Press B \$24,565
- (b) Press A \$27,459; Press B \$24,565
- (c) Press A \$35,455; Press B \$29,953**
- (d) Press A \$27,459; Press B \$29,953

7. Find the IRR for each of the two proposed replacement presses.

- (a) Press A 15.8%; Press B 17.1%**
- (b) Press A 14.1%; Press B 16.5%
- (c) Press A 15.8%; Press B 16.5%
- (d) Press A 14.1%; Press B 17.1%

8. Find the PI for each of the two proposed replacement presses.

- (a) Press A 1.09 ; Press B 1.08
- (b) Press A 1.05 ; Press B 1.08**
- (c) Press A 1.09 ; Press B 1.02
- (d) Press A 1.05 ; Press B 1.02

9. Recommend which, if either, of the presses the firm should acquire if the firm has unlimited funds
- (a) **Press A**
 - (b) Press B
 - (c) Incomplete data
 - (d) One needs to use Monte Carlo Analysis for this answer using a computer (which is not possible now)
 - (e) None of the above
10. Recommend which, if either, of the presses the firm should acquire if the firm has capital rationing
- (a) Press A
 - (b) **Press B**
 - (c) One needs to use Monte Carlo Analysis for this answer using a computer (which is not possible now)
 - (d) Incomplete data
 - (e) None of the above
11. What is the incremental cash flow of press A when compared with old press for year 4?
- (a) \$159,453
 - (b) \$176,615
 - (c) \$195,417
 - (d) **\$167,760**
12. What is the impact on your recommendation of the fact that the operating cash inflows associated with Press A are characterized as very risky in contrast to the low risk operating cash inflows of Press B?

2. Case: Financial Analysis and Planning of a Dairy Player

Please look at Pages 4-5 of the case material and answer the following, from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 4, Each Correct Answer: + 1 mark; each wrong: -1 mark]

13. The net profit margin trend for the years 2002-2004 for Hatsun Agro Products Ltd. conveys:
- (a) **a consistently improving position**
 - (b) a consistently worsening trend

- (c) a fluctuating indication with no clear trend
- (d) can't say

14. The equity multiplier for the years 2004 and 2006 are:

- (a) 5.8 and 6.5**
- (b) 5.8 and 6.1
- (c) 5.6 and 6.1
- (d) 5.6 and 6.5

15. Among the turnover ratios, which of the following ratio would be highest for the company in the recent years from the table?

- (a) debtors turnover**
- (b) creditors turnover
- (c) inventory turnover
- (d) fixed assets turnover

16. Seeing the financial statement of Hatsun Agro Products Ltd, comment whether it is volume based or margin based industry? Justify your statement.

3. Case: Stock Valuation of Graphite India

Please look at Pages 6-7 of the case material and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 4, Each Correct Answer: + 1 mark; Each No Attempt/ Each Wrong Answer: - 1 mark]

17. For Question 2 in Page 7, the following would be a response:

- (a) Geetha should sell these shares in large lots
- (b) Geetha should sell these shares in small lots**
- (c) Geetha should buy these shares in large lots
- (d) Geetha should buy these shares in small lots

18. For Question 3 in Page 7, the following would be a response:

- (a) Decrease in dividend payout ratio would not affect the share price
- (b) Decrease in dividend payout ratio would increase the share price
- (c) Both (a) and (b) (i.e., either of the scenarios would happen)
- (d) None of the above**

19. For Questions 4 and 5 in Page 7; one can state that:

- (a) GIL would be a good buy in Q4 valuation but a good sell in Q5 valuation
- (b) GIL would be a good sell in both Q4 and Q5 valuations
- (c) GIL would be a good hold in both Q4 and Q5 valuations
- (d) None of the above**

20. For Question 6 in Page 7; one can state that:

- (a) Sundu should give a report asking for the firm to be sold as a going concern
- (b) Sundu should give a report asking for the firm to be expanded
- (c) Sundu should give a report asking for the firm to be liquidated**
- (d) None of the above

4. Case: Dhirubhai Ambani Pioneer Offer

Please look at Page 8 of the case material and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 2, Each Correct Answer: + 1 mark; Each No Attempt: -1 mark]

(Note: The company has a practice of encashing the cheques on the first day of every quarter.)

21. Compared to the second option, Reliance Infocomm is offering you financing at what cost in the first option?

- (a) 12.8% approx.
- (b) 13.8% approx.
- (c) 14.8% approx.**
- (d) 15.8% approx.

22. Suppose you were working in a firm wherein your firm had decided to give one Reliance phone to all managers (as detailed above), which offer you would prefer? What other factors would you take into account while making the final decision?

5. Case: Dilemma of a Sevashram

Please look at Page 7 of the case material and answer the following from the case. Give your answer below with reasoning/ computation for the same (at least a sentence). Answers without supporting reasoning/ logic will not be acceptable.

[Total Marks: 3, Each Correct Answer: + 1 mark; Each No Attempt: -1 mark]

23. The expected value of the Sevashram investment using the RBI Fixed Deposit scheme is :

- (a) Below Rs.18 Lakhs**
- (b) Between Rs.18 Lakhs and Rs. 28 Lakhs
- (c) Between Rs. 28 Lakhs and Rs. 37 Lakhs
- (d) Above Rs.37 Lakhs

24. The expected value of the Sevashram investment using the Bank of Champaran scheme is:

- (a) Around Rs.16 Lakhs
- (b) Around Rs.17 Lakhs
- (c) Around Rs.18 Lakhs
- (d) None of the above**

25. Which option would you recommend to Mr. Anjul Pratyush and why?