SL No of QP : 9862

Unique Paper Code	**:**	**2923062005**
Name of the Paper	**:**	**Project Appraisal, Financing and Control**
Name of the Course	**:**	**BMS UGCF-2022**
Semester	**:**	**VIIth**
Duration	**:**	**3 Hours**
Maximum Marks	**:**	**90**

Instructions for candidates

- Write your Roll. No. on the top immediately on receipt of this question paper.
- Attempt any 5 questions and answer all parts of each question together.
- All questions carry equal marks
- Use of non-scientific calculator is allowed.

Ques 1

a) A firm is considering an investment project with an initial outlay of ₹15,00,000 and an economic life of 5 years. The project will be depreciated on a straight-line basis over its life with no salvage value. The applicable tax rate is 30% and the firm's cost of capital is 12%. Based on market assessment, management has identified three possible demand scenarios with the following expected annual revenues and operating costs (excluding depreciation):

Scenario	**Probability**	**Annual Revenue (₹)**	**Annual Operating Cost (₹)**
Optimistic	0.30	10,00,000	4,00,000
Most Likely	0.50	8,00,000	4,50,000
Pessimistic	0.20	6,00,000	5,00,000

Calculate:

i) Compute the expected annual after-tax cash flow using scenario analysis.

ii) Calculate the Expected Net Present Value (ENPV) of the project.

iii) Based on the ENPV and variability of outcomes, comment on the risk of the project and state whether the project should be accepted.

(5+4+3=12 Marks)

b) In the context of project appraisal, critically compare the different investment evaluation techniques. Discuss how these techniques are applied in practice.

(6 Marks)

Ques 2.

a) A company is considering the implementation of a new project that requires an initial investment of ₹18,00,000. The project is expected to generate the following after-tax cash inflows over its life of 5 years:

Year	Cash Inflows (₹)
1	4,00,000
2	4,50,000
3	5,00,000
4	5,50,000
5	6,00,000

Additional information:

- Cost of capital (discount rate) = 12%

- Reinvestment rate for MIRR = 12%
- Assume cash inflows occur at the end of each year. Ignore salvage value

Calculate:

i) The Net Present Value (NPV) of the project
ii) The Modified Internal Rate of Return (MIRR)
iii) The Profitability Index (PI)
iv) Based on the above results, comment on the acceptability of the project.

(12 Marks)

b) A manufacturing firm plans to set up a new automated production unit to improve efficiency and reduce costs. The proposed project involves selection of technology, determination of plant capacity, choice of location, availability of skilled manpower, and reliability of power and raw material supply. Management must assess whether the technical aspects of the project are suitable before proceeding further. Discuss the key elements of technical appraisal that should be evaluated for this project and explain their importance in ensuring project feasibility.

(6 Marks)

Ques 3

A state government plans to implement a large-scale urban solid waste management project through a public–private partnership. The project aims to reduce landfill usage, generate energy from waste, and improve public health outcomes. While the financial returns appear modest, the project is expected to create employment, reduce pollution, and improve living conditions in surrounding communities. Concerns have been raised regarding the displacement of informal waste pickers and long-term environmental impacts.

i) Explain the rationale for using Social Cost Benefit Analysis (SCBA) for evaluating this project instead of relying solely on financial appraisal.
ii) Briefly discuss how the UNIDO and Little–Mirrlees approaches would differ in evaluating the social costs and benefits of this project.

(12 Marks)

b) A company has recently approved a new infrastructure project after detailed appraisal. However, similar projects undertaken earlier faced delays and cost overruns due to inadequate planning, poor coordination, and weak documentation. The management now wants to ensure that the current project is implemented smoothly and monitored effectively throughout its life cycle. In the context of the above case, discuss the key pre-requisites for successful project implementation and explain how a well-prepared project report can help in addressing implementation challenges

(6 Marks)

Ques 4.

a) A municipal corporation is planning a smart water supply project to address increasing urban water demand and improve service efficiency. The project is expected to involve changes in physical infrastructure, use of digital technologies, and the expansion of service coverage across different parts of the city. The initiative is also likely to affect several groups, including residents, municipal authorities, and service providers. Explain, how the project can be systematically identified and how its scope can be clearly defined. Also, analyze the key stakeholders involved and discuss how their interests may influence the successful implementation of the project.

(12 Marks)

b) Explain how PERT and CPM are used to identify the critical path and manage the project schedule. Illustrate your answer with a suitable case, highlighting the key steps involved in developing a project network.

Ques 5. (6 Marks)

A mid-sized manufacturing firm operating in the consumer durables sector plans to set up a new production facility to meet rising domestic demand and reduce dependence on imports. The project involves a large capital outlay, long gestation period, and exposure to market and operational risks. The promoters hold a majority stake and are keen to retain managerial control. They prefer to limit fixed repayment obligations during the initial years due to uncertain cash flows and wish to maintain a flexible capital structure to accommodate future capacity expansion and technology upgrades.

The total funding requirement exceeds the exposure norms of individual financial institutions, and lenders have expressed concerns about concentration risk. At the same time, the firm is exploring the possibility of bringing in external investors to support growth without excessively diluting ownership.

Based on the above case, answer the following:

i) Critically evaluate the suitability of traditional sources of financing for this project. Examine their implications for managerial control, risk-bearing, cost of capital, and financial flexibility.

ii) Analyze the role of venture capital and private equity as alternative financing options for the project. Clearly distinguish between venture capital and private equity with reference to stage of investment, involvement in management, and exit expectations.

iii) Justify the use of loan syndication for financing this project. Explain the structure of a syndicated loan, the process involved, and the role of key participants in the syndication arrangement.

(8+5+5 =18 Marks)

Q6. Write short notes on **any three** of the following:

(i) Project Life Cycle
(ii) Investment Evaluation Techniques
(iii) Measures of Risk in Project Risk Analysis
(iv) Essentials of a Project Report.

(6 X 3 = 18 Marks)