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by T T

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FINANCIAL MANAGEMENT ANSWERS

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Based on the scenario and sensitivity analysis you performed, comment on the overall riskiness of the project.

3

The energy cost situation is an incentive for the demand for electric cars in the market. A combination of low gas and high electricity prices does not incentivize the market to demand electric cars and manufacturers to offer to the market 100% electric cars or conversion kits from gas cars to electric cars. A blend of high gas and average electricity prices is the best combination to deliver the economic interest to consumers to purchase an electric car and substitute the endothermic engine cars. The subsidies and policies by governments may influence prices, but it is not sustainable in time, because the cost is transferred to clients at the cost of the new cars.

The project cost of equity calculation must be done similarly to calculating the cost of equity of a company. In this, the Capital Asset Pricing Model is the best procedure to calculate the cost of equity, using a risk-free rate (3%), a beta of 1.52 and a market risk premium of 6.5%. With the previous values, the project cost of equity will be 12.88%. The appropriate discount factor for the project is the Weighted Average Cost of Capital of the company, which must be applied to all the company projects, including new products, plant, and equipment investments. For the WACC calculation, besides to use the previous cost of equity; it is necessary to consider the debt/assets ratio (33%), the tax rate (35%), and the cost of debt (interest rates paid for debts or to banks of 5.5%). With the previous data, the WACC value will be 9.78%, the appropriate discount factor must be 9.78%.

1
Which of the two controllers would you recommend that Electrics accept or reject and why?

Of the two controllers, the CTX-13 should be used in the conversion since it is cheaper to maintain though expensive on first time purchase.

1
Would you recommend that Electrics accepts or reject the project? What is the basis for your recommendations?

With the Electrics plan to satisfy the increasing population of California, it would need a generator controller that is price friendly in both initial price purchase and maintenance cost and this could only be made possible by the use of CTX-13 Controller in their generators and therefore, a recommendation that Electrics accept this controller project to keep them in the forefront of their business field. Similarly, with the recent increase in fuel consumption costs, CTX-13 controller kit would come in handy to save this costs.

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