**NMIMS**

**Strategic Financial Management**

**Internal Assignment for June 2020 Examination**

**1. From the following information of the two projects calculate the net present value and suggest which of the two projects should be accepted assuming a discount rate of 10%.**

**TABLE GIVEN BELOW**

|  |  |  |
| --- | --- | --- |
|  | **Project X** | **Project Y** |
| **Initial Investment** | **₹ 25,000** | **₹ 30,000** |
| **Estimated Life** | **5 years** | **5 years** |
| **Scrap Value** | **₹1,500** | **₹2,000** |

**The profits before depreciation and after taxes are as follows:**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Years** | **1** | **2** | **3** | **4** | **5** |
| **Project X(₹)** | **5000** | **10000** | **12000** | **7000** | **3000** |
| **Project Y(₹)** | **20000** | **10000** | **7000** | **5000** | **2000** |

**Answer**: **Calculation of NPV**

**2. Nisha has completed her MBA and has joined a company which was going to raise fund from long term sources such as Debt and Equity. Nisha was asked by her manager to prepare a report on which could be a better source of funding for the firm mentioning the advantages of each to be presented to the Management so that it is easy for them to take the decision. Help her to prepare the report.**

**Answer**: The business environment of a firm has a presence of various lenders and investors. However, the firm/business needs to make a choicebetween the lenders and investors. The possible sources of fund for acompany can be debt, equity or any combination thereof. The equityholders are the owners of the company while the debt holders are thecreditors of the firm to whom a fixed amount of payment (principaland interest) is made on a regular basis.In debt financing, a promise is made to pay back the borrowed amountalong with an interest. On the other hand, in equity finance, the

**3. The following information is given for Delta Ltd.**

**Earnings per share ₹ 15**

**Dividend per share ₹5**

**Cost of Capital 15%**

**Internal Rate of Return on Investment 20%**

**Retention Ratio 65%**

**Calculate the market price per share using**

**a. Gordon’s Dividend Model**

**b. Walter’s Dividend Model**

**Answer**: **Given**:

E = Earnings is ₹15 per share

k = Cost of capital to the firm is 15%

r = Return on investment of 20%

D = dividend = ₹5

b = retention

Its half solved sample only

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