**NMIMS Global Access**

**School for Continuing Education (NGA-SCE)**

**Course: Strategic Financial Management**

**Internal Assignment Applicable for September 2020 Examination**

**1. A Project costs Rs 1,00,000 and is expected to generate cash inflows as:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  **Year**  | **1**  | **2**  | **3**  | **4**  | **5**  | **6**  |
| **Cash Inflows(Rs)**  | 20,000  | 25,000  | 28,000  | 31,000  | 35,000  | 40,000  |

**Calculate Net Present Value and Profitability Index. Comment whether project should be accepted or not. Assume cost of capital is 12%. Enumerate the steps of calculation of NPV.**

**Ans:**

**INTRODUCTION:**

Net present value and the profitability index are helpful tools that allow investors and companies make decisions about where to allocate their money for the best return. Net present value tells us what a stream of cash flows is worth based on a discount rate, or the rate of return needed to justify an investment. The profitability index helps make it possible to directly compare the NPV of one project to the NPV of another to find the project that offers the best rate of return.A positive net present value indicates that the projected earnings generated by Its sample only

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**2. Calculate EVA if the Earnings before interest and tax is Rs 15,00,000 and applicable tax rate is 30%. The capital structure of the firm consists of 75% Equity and 25% debt capital. After tax cost of debt is 7% and cost of equity is 12%. Total borrowed capital of the firm is Rs 25,00,000. Explain EVA and comment on the value of EVA(calculated).**

**Ans:**

**INTRO0DUCTION:**

Economic value added (EVA) is a measure of a company's financial performance based on the residual wealth calculated by deducting its cost of capital from its operating profit, adjusted for taxes on a cash basis. EVA can also be referred to as economic profit, as it attempts to capture the true economic profit of a company.Economic Value Added (EVA) is important because it is used as

**3a. A firm wanted to understand what is the importance of debt in the capital structure on the value of the firm. Company’s current operating income is ₹7 lakhs and cost of equity capital is estimated to be 12%. Assume tax rate as 30%. If you are the Finance Manager of the company determine the value of the firm using Net Income Approach and comment on the results:**

**a. if the firm has ₹5 lakhs of 10 percent debt outstanding**

**Ans:**

**INTRODUCTION:**

The net income approach makes the simplest assumptions, that neither creditors nor investors increase their required rates of return as a company takes on debt. The cost of capital declines as higher-cost equity is replaced with lower-cost debt. This approach concludes that the optimal financing mix is all debt.Net income approach (NI) Net Income Approach was presented by Durand. The theory suggests increasing value of the firm by decreasing Its sample only

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