**Strategic Financial Management**

1. **Compute Discounted Payback Period, Net Present Value and Profitability Index of a project which costs Rs 50,000, cost of capital is 8% and is expected to generate following cash inflows:**

**Year Cash inflows(Rs)**

**1 12,000**

**2 15,000**

**3 25,000**

**4 28,000**

**5 20,000**

**6 22,000**

**On the basis of Net Present Value and Profitability Index, suggest if the project is to be accepted or not.**

**Answer 1.**

**Introduction**:

When a project needs to have a good start, the net present value along with its profitability index is chosen. It shows us the value that a particular project will yield in the long run. Every project has its own viability. The net present value will explain the profitability of the project for a firm. It is calculated with the aim to invest in an efficient project. The current value of the future cash flows will accurately tell us how the project will perform in the future. The discount rate tells us how much the capital is going to be depreciated in the market. Moreover, it also tells us how much return is going to be received. Generally, there are two projects that we have to work upon, but here it is given one project and its Its Half solved only

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**2. Crown Ltd has the following book value capital structure. Equity capital (shares of Rs 10 par value each) Rs 15 crore, 12% Preference capital (Rs 100 par value each) Rs 1 crore. Retained earnings Rs 20 crore, 11.5% Debentures (Rs 100 par value each) 10 crore and 11% Term loan Rs 12.5 crore. The next year expected dividend on equity is Rs 3.6 per share and has an expected growth rate of 7%. The market value is Rs 40/share. Preference stock, redeemable after 10 years is currently trading at Rs 75 per share. Debentures, trading at Rs 80 are redeemable after 6 years. Corporate tax rate is 40%. Calculate the WACC as per book value weights. Comment on the relevance of calculation of WACC.**

**Answer 2.**

**Introduction:**

A company has various methods to raise capital in the market to allow funding for their projects. It realizes that its audience has the authenticity to prove that its services are going to prove productive in the long run. Keeping the trust intact, it releases various forms of capital budgeting methods in the market to offer dividends and returns for the same. How does a company measure the weight of every capital acquired from numerous sources? WACC is the most popular method by which the company decides the value

**3. Walter and Gordon model analyse the impact of distribution of dividends on the valuation of the firm but the formula used in both the cases are different. Company ABC Ltd wanted to evaluate the price of the share in both cases. The company earns ₹**

**50 per share and expects the same for the next year. The cost of capital to the firm is**

**11%. The company earns return on investment of 15% and the firm is planning dividend payout ratio of 60%. Calculate:**

**a. Price of the share using Walter Model. Comment on the relationship between return on investment and cost of capital in the case above and decision of the firm whether dividend is to be declared or not. (5 Marks)**

**b. Price of the share using Gordon model. Comment on the relationship between return on investment and cost of capital in the case above and decision of the firm whether dividend is to be declared or not.**

**Answer 3. A.**

**Introduction:**

Shares and bonds are the daily consumption of the audience and the managers of the company. One cannot ignore how important it is to measure the value of a share using different models. Above all, if the company wants to calculate the impact of dividends on the firm's output, there are different methods to calculate the price of share for the same firm in the given period. By the impact of distribution of dividends on the valuation of the firm, the team wants to measure how much profitable the capital is acting at present. One of the major goals for the company is profit and for the investors - it is the