**Strategic Financial Management**

**September 2022 Examination**

**1. A realty major DFL Ltd. has planned an outlay of ₹48 crore towards launches of housing and commercial projects in the medium term. The following financial information is available for the project-**

**a. Depreciation would be on a straight-line basis over six years and salvage value is assumed to be nil.**

**b. Revenue in each of the years 1 to 6 from different projects are expected to be as follows:**

**i. ₹12 crore from premium luxury housing**

**ii. ₹5 crore from value homes in Gurugram, Chandigarh tri city and Chennai**

**iii. It also expects ₹7 crore from its office joint venture project with Hines**

**iv. ₹2.5 crore from an IT park in Noida**

**v. The remaining ₹2.5 crore will come up from commercial projects in Delhi and Gurugram**

**c. Variable costs are expected to be ₹10 crore per annum for all the projects and annual fixed costs ₹2 crore.**

**d. Corporate tax rate can be assumed at 25% and the appropriate discount rate at 15%.**

**You are required to determine the NPV of the project.**

**Answer 1.**

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**Question No. 2. A December 2021 news article in Economic Times stated that Serum Institute of India (SII) has topped the Burgundy Private Hurun India list for the biggest value creator. It has experienced a rapid upswing in its revenues due to producing more than a billion COVID-19 vaccines for distribution in India and abroad. Given its early foray into manufacturing critical COVID-19 vaccines, SII has seen its value soar 127 per cent in 2021 to ₹1.8 lakh crore. Valuation is an essential financial exercise that caters to a wide variety of financial objectives. Explain the discounted cash flow approach and the multiples approach of valuation.**

**Ans 2.**

**Introduction**

Commonly known as DCF is a model of valuation which takes into account the estimate of the expected future cash flows that an investment is going to generate in the future. It is an attempt to compare the future inflows of the investment with the current outflow of cash. The basic notion behind the valuation technique is to calculate the value of investment today based on the cash inflows that the person shall receive because of the investment.

**Concepts and Applications**

The discounted cash flow (DCF) technique and the multiples approach are the two most frequent

**Q3. Some analysts believe that a company's dividend policy is often seen as a testament to its confidence in future earnings growth and sustainability of the business. In the past, shareholders have lodged complaints about companies denying them dividends despite possessing spare cash balances. As a result, SEBI mandated top 500 listed companies (based on market capitalization) to formulate a dividend distribution policy. This mandate was recently revised and is now applicable to top 1,000 listed companies. In response to the revised mandate, many companies like Bajaj Auto have changed their dividend policy in January 2022. However, the Modigliani-Miller (MM) model states that the present value of the firm is independent and unaffected by future dividend payments.**

**a. State the MM dividend irrelevance theory. (5 Marks)**

**b. Do you feel that the above-mentioned belief is a limitation of the Model? Also, please elaborate on the other criticisms cited for the MM Model.**

1. **MM Dividend Irrelevance Theory**

**Ans 3a.**

**Introduction**

Modigliani and Miller have stated various theories and one of the famous among such in the capital market is the irrelevance theory. Although dividends have been deemed important for the decisions fo the investor, the irrelevance theory states the opposite.

**Ans 3b.**

**Introduction**

The MM theory has argued that the dividend is not relevant when determining which company to invest in or value of the company. In short there is no difference when the company retains the earnings or distributes them. But there are certain limitations which has been pointed out by