**Corporate Finance**

**April 2025 Examination**

**Q1. XYZ Ltd. is considering a proposal of installing a Machine. The equipment would involve a Cash outlay of Rs. 25,00,000. The expected life of the project is 5 years without any salvage value. Below cashflow will be achieved by the organization:**

|  |  |
| --- | --- |
| **Year** | **Cash Inflows** |
| **1** | **600000** |
| **2** | **700000** |
| **3** | **750000** |
| **4** | **800000** |

**Discounting rate is 8%**

**Find out the PV of Cash Inflows, NPV, and Profitability Index (10 Marks)**

**Ans 1.**

**Introduction**

Corporate finance plays a pivotal role in the strategic decision-making of organizations, enabling them to maximize shareholder value through prudent investment and financing choices. One of the critical aspects of corporate finance is the evaluation of capital investment decisions, such as acquiring new machinery or expanding production capabilities. Companies frequently face the challenge of assessing the profitability and financial viability of potential projects. In this context, tools like Net Present Value (NPV), Present Value (PV) of Cash Inflows, and Profitability Index (PI) are indispensable. These financial metrics help organizations

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**Q2. The following particulars are available in respect of three investment proposals**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Project A** | **Project B** | **Project C** |
| **Cost (in Rs.)** | **1,00,000** | **1,20,000** | **1,40,000** |
| **Annual savings (in Rs.)** | **30,000** | **32,000** | **34,000** |
| **Estimated scrap (in Rs.)** | **16,000** | **20,000** | **30,000** |
| **Life (in years)** | **12** | **10** | **9** |
| **Taking interest rate to be 8% p.a. rank these proposals by using** | | | |
| **Net present value method and Profitability index method.** | | | |

**Ans 2.**

**Introduction**

Investment decisions are pivotal to the financial health and growth of any organization. In corporate finance, the evaluation of investment proposals is crucial for ensuring that resources are allocated efficiently to maximize profitability and shareholder value. Companies are often faced with multiple investment opportunities, each with varying costs, returns, and risks. To make informed decisions, financial managers utilize capital budgeting techniques such as Net Present Value (NPV) and Profitability Index (PI). These tools help in assessing the viability and profitability of investment projects by considering the time value of money. This case study explores three

**Q3. Being Working Capital Consultant, your client is planning to start a business related to FMCG sector and he is confused that how much working capital will be required to start his business and also, he wants to know that why service industry requires less working capital, find out:**

**a. How to determine the working capital requirement of FMCG business. (5 Marks)**

**Ans 3a.**

**Introduction**

Working capital is the lifeblood of any business, especially in the Fast-Moving Consumer Goods (FMCG) sector, where high inventory turnover and rapid sales cycles are common. Adequate working capital ensures smooth day-to-day operations, timely payments to suppliers, and uninterrupted sales

**b. Why service industry requires less working capital as compare to manufacturing industry. (5 Marks)**

**Ans 3b.**

**Introduction**

Working capital is essential for any business to maintain operational liquidity and ensure smooth day-to-day activities. However, the working capital requirements differ significantly between service and manufacturing industries. Due to its low inventory and short cash conversion cycles, the service business needs less working capital. This section explains why service-oriented enterprises require less working capital than industrial firms and highlights their financial