**Corporate Finance**

**NMIMS Centre for Distance and Online Education (NCDOE)**

**Internal Assignment Applicable for 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.**

**Answer:**

**Introduction:**

XYZ Ltd. is evaluating a capital investment decision to install a new machine that requires an initial investment of ₹25,00,000. The project is expected to generate cash inflows over the next four years but has no salvage value at the end of its useful life. Capital budgeting techniques such as Net Present Value (NPV), Present Value (PV) of Cash Inflows, and Profitability Index (PI) will be used to assess the project's feasibility. The NPV method discounts future cash flows at an 8% rate to determine the project's profitability in present terms. The Profitability Index helps in assessing the return per rupee invested. A positive NPV and a PI greater than 1 indicate a viable investment. The analysis will assist XYZ Ltd. in making an informed investment decision.

**This is partially solved sample answer**

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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.** |

**Answer:**

**Introduction:**

Investment decisions play a crucial role in financial planning, and capital budgeting techniques help evaluate project feasibility. XYZ Ltd. is analyzing three investment proposals—Project A, Project B, and Project C—to determine which offers the best financial return. The assessment will be based on Net Present Value (NPV) and Profitability Index (PI), considering an 8% discount rate.

NPV measures the difference between present value (PV) of future cash flows and initial investment, indicating absolute profitability. PI, on the other hand, evaluates return per rupee invested. Projects with a higher NPV and PI (greater than 1) are preferable. This analysis will help rank the projects based on financial viability, assisting XYZ Ltd. in making an informed investment decision.

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**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.**

**Answer:**

**Introduction:**

Working capital is essential for managing daily operations and ensuring smooth business functioning. In the FMCG sector, determining the working capital requirement involves assessing inventory needs, receivables, payables, and cash reserves. Since FMCG businesses deal with high sales volume, fast inventory turnover, and credit sales, they require substantial working capital. On the other hand, the service industry needs less working capital due to minimal inventory and upfront customer payments. Understanding these factors helps in optimizing financial planning and ensuring business sustainability.

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**b. Why service industry requires less working capital as compare to manufacturing industry.**

**Answer:**

**Introduction:**

Working capital is the lifeline of any business, ensuring smooth day-to-day operations. The service industry requires less working capital compared to the manufacturing industry due to its low inventory requirements, minimal raw material costs, and faster cash inflows. Unlike manufacturing, which involves procurement, production, and storage, services are often delivered directly to customers, reducing the need for heavy investment in stock and equipment. Additionally, service businesses usually receive immediate or advance payments, improving cash flow and reducing reliance on external financing.

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