**Strategic Financial Management**

**NMIMS Solved Assignments for December 2024**

**Q1. Gadgets Limited, a mid-sized manufacturing firm, has consistently paid dividends to its shareholders for the past decade. However, the company faced a substantial drop in sales in the last fiscal year due to market saturation and heightened competition. The board of directors is now debating whether to maintain the current dividend payout, reduce it, or reinvest the earnings back into the business to explore new product lines and markets.**

**As a financial analyst, you are tasked with analyzing the implications of maintaining, reducing, or eliminating the dividend payout for Gadgets Limited. Consider the potential impact on shareholder perception, company growth, and financial health.**

**Answer:**

**Introduction:**

Gadgets Limited, a mid-sized manufacturing firm, has a strong history of rewarding shareholders with consistent dividends over the past decade. However, recent financial challenges due to declining sales, attributed to market saturation and increased competition, have raised concerns about the sustainability of this payout. The board is now contemplating three options: maintaining the current dividend, reducing it, or eliminating it altogether to reinvest in growth initiatives. As a financial analyst, your role is to assess these options and analyze their potential impact on shareholder sentiment, the company’s growth prospects, and overall financial stability. The decision involves balancing immediate shareholder returns with the firm’s long-term objectives, including diversifying its product lines and exploring new markets to ensure continued success and competitiveness in a challenging business environment.

**This is partially solved sample answer**

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**Q2. What are the primary challenges Indian companies face in cross-border mergers and acquisitions (M&A), and what strategies can these firms’ device to mitigate these challenges?**

**Answer:**

**Introduction:**

Cross-border mergers and acquisitions (M&A) present unique challenges for Indian companies seeking to expand their global footprint. These challenges stem from various factors, including cultural differences, regulatory complexities, and unfamiliar market dynamics. Cultural misalignment can lead to misunderstandings and operational inefficiencies, while navigating diverse regulatory environments often requires extensive legal and financial expertise. Additionally, companies may encounter challenges related to integration processes, such as aligning corporate structures and management styles. Understanding these challenges is essential for Indian firms to develop effective strategies that enhance their M&A success. By employing targeted approaches—such as conducting thorough due diligence, establishing cross-cultural training programs, and leveraging local partnerships—Indian companies can mitigate potential risks and maximize the benefits of their cross-border acquisitions.

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**Q3a. An investor purchases a European put option on Quick Limited’s stock with the Strike Price (K) of INR 50. The put option premium is INR 5, and the stock price on the expiration date is INR 40. What is the payoff from the put option at expiration? What is the profit or loss from the put option for the investor?**

**Answer:**

**Introduction:**

This question involves calculating the payoff and profit or loss for an investor who purchases a European put option on Quick Limited’s stock. A put option provides the right, but not the obligation, to sell the underlying asset at a predetermined strike price. The investor pays a premium for this option, which is INR 5 in this case, and the expiration stock price affects the final payoff and overall profitability. Here, we determine both the payoff and profit or loss at expiration.

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**Q3b. Gamma Ltd. is contemplating an investment of INR 1,00,000 in a new project. The company has projected the cash flows for the next three years and their corresponding probabilities as follows.**

**The company estimates the following cash flows over the next three years along with their associated probabilities:**

|  |  |  |
| --- | --- | --- |
| **Year** | **Cash Flow (₹)** | **Probability** |
| **1** | **30,000** | **0.2** |
| **2** | **50,000** | **0.5** |
| **3** | **80,000** | **0.3** |

**a. Calculate the expected cash flow for the project over the three years.**

**b. Determine the project’s Net Present Value if the discount rate is 10%.**

**Answer:**

**Introduction:**

Gamma Ltd. is considering a potential investment of INR 1,00,000 in a new project. To assess the viability of this investment, the company has projected cash flows for the next three years, accompanied by their respective probabilities. This analysis aims to calculate the expected cash flows and determine the Net Present Value (NPV) of the project, using a discount rate of 10%. The results will help in making informed investment decisions by evaluating potential returns against the initial investment.

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