



# M2i Consulting

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- 1. Introduction to Financial management.**
- 2. Investment Decision.**
- 3. Financing Decision.**
- 4. Time Value of Money.**



# **1. Introduction to Financial management.**

# What is financial management?



**It deals with the Financial Decisions such as when to introduce a new product, when to invest in new assets, when to replace existing assets, when to borrow from bank, when to extend credit to a customer, and how much cash to maintain.**

- 1. Investment Decision.**
- 2. Financing decision.**



## **2. Investment Decision.**

# The following are the features of investment decision:



- **The exchange of current funds for the future benefits.**
- **The funds are invested in long term assets.**
- **The future benefits will occur to the firm over a series of years.**

# Importance of investment decision:



- **They influence firms growth in long run.**
- **They effect the risk of the firm.**
- **They involve commitment of large amount of funds.**
- **They are among the most difficult decisions to make.**

# Types of investment:



- **Expansion of existing business.**
- **Expansion of new business.**
- **Replacement and modernization.**



## **Pay Back:**

**It is one of the most popular and widely recognized traditional method.**

**5. Constant annual cash flow.**

**6. Unequal cash flow.**

# Constant annual cash flow:



## Example:

**A project requires an investment of Rs 50,000 and gives annual cash flow of Rs 12,500 for 7 years. The payback period for the project is:**

**PB= initial investment/ annual cash flow**

**PB= Rs(50000/ 12500)= 4 years**

## 2. Unequal cash flow.



- **In case of unequal cash flows, the payback period can be calculated by adding up cash inflows until total is equal to the initial investment.**

# Unequal cash flow: Example



- A project requires a cash outlay of Rs 20,000, and generates cash outflow of Rs 8000, Rs 7000, Rs 4000 and Rs 3000 during the next 4 years.
- What is the projects payback?
- Answer: 3 years +  $(1000/3000) \times 12$  months  
= 3 years and 4 months.

# Practice exercise:



- 1. A project requires an investment of Rs 75,000 and gives annual cash flow of Rs 15,000 for 10 years. Calculate the payback period.**
- 2. A project requires a cash outlay of Rs 50,000, and generates cash outflow of Rs 8000, Rs 12000, Rs 16000, Rs 15000 and Rs 17000 during the next 4 years. Calculate the payback period.**

# Practice exercise: Answers



**1.  $PB = \text{initial investment} / \text{annual cash flow}$**

$$PB = Rs(75000 / 15000) = 5 \text{ years.}$$

**2. Answer: 3 years +  $(14000 / 15000) * 12$  months  
= 3 years and 11.2 months.**

# 3. Financing decision



**Few questions that must be asked in financing decision-**

- 3. What is the type of financing?**
- 4. What is the best financing mix (% of **debt & equity**)?**
- 5. If debt then what is the structure of received and payment?**
- 6. How and when to approach?**
- 7. How the funds be physically acquired?**

## 4. Time value of money



**Rupee received today is worth more than a Rupee received in the future.**

**Three reasons may be attributed to individuals time preference to money;**

**7. Risk.**

**8. Preference of consumption.**

**9. Investment opportunity.**