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Corporate Finance - FIN 436

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Answer to the question no-1

The basic characteristics of MNC and local company there are given below The following are the common characteristics of multinational corporations:-

(i) very high assets and turnover :- To become a multinational corporation, the business must be large and must own a huge amount of assets. both Physical and financial. The company's targets are high, and they are able to generate substantial Profits.

(ii) Network of branches :- multinational companies maintain Production and marketing operations in different countries. In each Country, the business may oversee multiple offices that function through several branches and subsidiaries.

(iii) Control :- In relation to the Previous Point, the management of offices in other countries is controlled by one head office located in the home Country. Therefore the source of Command is found in the home country.

(iv) continued growth :- multinational corporations keep growing. Even as they operate in other countries, They strive to grow their economic size by constantly upgrading and by conducting mergers and acquisitions.

(v) Sophisticated technology :- When a company goes global, they need to make sure that their investment will grow substantially. In order to achieve substantial growth, they need to make use of capital-intensive technology, especially in their production and marketing activities.

(vi) Right Skills :- Multinational companies aim to employ only the best managers, those who are capable of handling large amount of funds, using advanced technology, managing workers, and running a huge business entity.

(vii) Forceful marketing and advertising :- one of the most effective survival strategies of multinational corporations is spending a great deal of money on marketing and advertising. This is how they are able to sell every product or brand they make.

(viii) Good quality products :- Because they use capital-intensive technology, they are able to produce top-of-the-line products.

There are four main better to make an investment decision for the MNC there are given below:-

(i) Agreement with local firms for sale of MNCs Products:- A multinational firm can enter into an agreement with local firms for exporting the product produced by it in the home countries. In this case, a multinational firms allows the foreign firms in the foreign market to ~~sell~~ sell its products in the foreign market.

(ii) Setting up of subsidiaries:- The second mode of investment abroad by a multinational firm is to set up a wholly owned subsidiary to operate in the foreign country. In this case a multinational firms has complete control over it's business operations ranging from the production of it's product or service to it's sale to the ultimate use or consumers. A subsidiary of multinational of corporation in a particular country is set up under the company act of that country. Such subsidiary firm benefits from the managerial skills, financial resources, and international reputation of their parent company. However, it enjoys some independence from the parent company.

(iii) Branches of multinational corporation:- Instead of establishing it's subsidiaries, multinational corporation can set up their branches in other countries. Being branches they are not legally independent business unit but are linked with their parent company.

(iv) Foreign collaboration or Joint ventures :-

Thirdly the multinational corporations set up Joint ventures with foreign firms to either produce its product jointly with local companies of foreign countries for sale of the product in the foreign markets. A multinational firm may set up it's business operation in collaboration with foreign local firms to obtain raw materials not available in the home country.

More often, to reduce it's overall production costs multinational companies set up Joint ventures with local foreign firms to manufacture inputs or sub-components in foreign markets to produce the final product in the home country.

Those all are the better to make an investment decision. because If you follow this rules and you get a good business of MNC and local company. and the best investment decision for the company.

Answer to the question no-2

Clarify the Concept of TVM there are given below:- The time value of money (TVM) is the concept that a sum of money is worth more now then the same sum will be at a future date due to it's earnings Potential in the interim. The time value of money is a core principle of finance. A sum of money in the hand has greater value than the same sum to be paid in the future. The time value of money is also referred to as the present discounted value.

Describe classification of Computing TVM there are given below:- There are essentially two different types of computing for Processing. Each is made possible by a different kind of circuitry, and each is suitable for different Purposes.

① Analog Computers :- The name analog comes from the word analogous meaning similar. analog computers are used for scientific, engineering, and process control purposes. Because they deal with quantities that are continuously variable. They give only approximate results. This types of computer

Provide an analog or simulation of the object or system it represents. it is especially useful for solving problems the involve relationships between variable quantities in systems that change with time. The analog compute may express changing relationships in output in the form of graphs. it is able to create such pictures because it responds to changes in electrical voltages that match changes in variable quantities.

(ii) Digital Computers:- Is a machine the specializes in counting. It operates by counting values that are discrete, or separate and distinct, unlike the continuous quantities that can be measured by the analog computer. The Digital Computers are used for both business data processing and accuracy. The basic operation performed by a digital computer is addition. It can store the sums of addition problems as they accumulate and can the complete a single calculation in a fraction of a nanosecond. The digital computer is capable of storing data as long as needed, performing logical operations, editing input data, and printing out the results of its processing at height speed.

(iii) Hybrid Computers:- Although both analog and digital computers are extremely used in widely accepted in various industries manufacturers have to ~~attempted~~ to designed a computer that combines the best features of both types. This special purpose machine called a hybrid computer, combines the measuring capabilities of the analog computer and the logical and control capabilities of the digital computer, it offers an efficient and economical method of working out to special types of problems in science and various areas of engineers. Some Hybrid machines contain special equipment to convert analog voltages into digital to voltages and vice-versa.

TVM can be used to identify the future Amount or to identify the present value of the future amount. Therefore, TVM plays a crucial role in not just investment decisions but also financial decisions.

For example, assume that an individual has the opportunity to receive $1,000 today or a year later. The excess amount lost by choosing to receive the same sum in the future is called the opportunity cost.

Answer to the question no-3

Explain the term WACC there are given below:- weighted average cost of capital (WACC) represent a firm's average after-tax cost of capital from all sources, including common stock, preferred stock, bonds, and other forms of debt. WACC is the average rate that a company expects to pay to finance it's assets. WACC is a common way to determine required rate of return. because it expresses, in a single number, the return that both bondholders and shareholders demand to provide the company with capital. A firm's WACC is likely to be higher if its stock is relatively volatile or if its debt is seen as risky because investors will require greater returns.

How does it help to make better decision for the firm on achieving ultimate goal there given below:-

(1) Cost of Equity:- The cost of equity is calculated using the capital asset pricing model which equates rates of return to volatility (risk vs reward). Below is the the formula for the cost of equity:

$Re = Rf + \beta \times (Rm - Rf)$

(i) <u>Risk-free Rate</u> :- The risk free rate is the return that can be earned by investing in a risk-free security, e.g. U.S treasury bounds. Typically, the yield of the 10 year. Treasury is used for the risk free rate.

(ii) <u>Equity Risk Premium</u> :- Equity Risk Premium is defined as the extra yield that can be earned over the risk free rate by the investing in the stock market.

(iii) <u>Levered Beta</u> :- Beta refers to the volatility or riskiness of a stock relative to all other stocks in the market. There are a couple of ways to estimate the beta of a stock. The first and simplest way is to calculate the company's historical beta or just pick up the company's regression beta from Bloomberg.

(iv) <u>Unlevered Beta = Levered Beta/{1+(1-tax rate) x (Debt/Equity)}</u> :- Levered beta includes both business risk and the risk that comes from taking on debt. However, since different firms have different capital structures, to unlevered beta is calculated to remove and additional risk from debt in order to view pure business risk. The average of the unlevered betas is then calculated and relevered based on the capital in structure of the company that is being valued.

(v) Levered Beta = unlevered Beta x {1+(1-tax rate) x (debt/Equity)}:- In most cases, the firm's current capital structure is used when beta is re-levered However, if there is information that the firm's capital structure might change in the future, then beta would be re-levered using the firm's target capital structure. After calculating the risk-free rate, equity risk premium and levered beta, the cost of equity = risk-free rate + equity risk premium x levered beta.

(2) Cost of Debt and Preferred stock:- The Determining the cost of debt and preferred stock is probably the easiest part of the WACC calculation. The cost of of the debt is the yield to maturity on the firms debt and similarly, the cost of the preferred stock is the yield on the company preferred stock.

Take the weighted average current yield to maturity of all outstanding debt then multiply it one minus the tax rate and you have the after-tax cost of debet to be used in the WACC formula.

Answer to the question no-4

Short note:-

CAPM

The Capital Asset Pricing model (CAPM) to describes the relationship between the systematic risk, or the general perils of investing, and expected return for assets, particularly stocks. CAPM evolved as a way to measure this systematic risk. it is widely used throughout finance for pricing risky securities and generating expected returns for assets, given the risk of those assets and cost of capital.

CML

Short note:- The capital market line (CML) represents portfolios that optimally combine risk and return. it is a theoretical to concept that return. it is represents all the portfolios that optimally combine the risk-free rate of return and the market portfolio of risky assets.

SML

Short notes:- The security market line (SML) is a line drawn on a chart to that serves as a graphical representation of the capital asset pricing model. which shows different levels of systematic or market risk, of various marketable securities, plotted against the expected return of the entire market at any given time.

RFR

Short note:- The risk-free rate of return is the theoretical rate of return (RFR) of an investment with zero risk. The risk free rate represents the interest an investor would expect from an absolutely risk-free investment over a specified period of time.

Beta

Short note:- Beta is a concept that the measures the expected move in a stock relative to movements in the overall market. A beta greater than 1.0 suggests that the stock is more volatile than the broader market, and a beta less than 1.0 indicates a stock with lower volatility.