SES'S L.S.RAHEJA COLLEGE OF ARTS AND COMMERCE		
Course: International Finance	Unit: 4 sem 6	Prepared by: Asst. Prof. Mehul Barai

Meaning of project appraisal:

It is a process of assessing, in a structure way, the case for proceeding with a project or proposal. or the project's viability.

Process of Project Appraisal:

1. Initial assessment
2. Defining problem
3. Consulting and short -list
4. Developing options, and comparing and
5. Selecting project.

Methods of Project Appraisal:

1. Economic analysis
2. Financial analysis
3. Market analysis
4. Technical feasibility
5. Management competence

Net Present Value (NPV) is the present value of an investment's expected cash flow minus the costs of acquiring the investment.

A real option itself, is the right – but not the obligation – to undertake certain business initiatives, such as deferring, abandoning, expanding, staging or contracting a capital investment project.

Types of options:

1. Options relating to project size
2. Options relating to project life and timing
3. Options relating to project operation

Steps in international project appraisal:

1. Identifying strategic factors
2. Determining the importance of factors
3. Determining strengths and weaknesses
4. Constructing strategic advantage profile of a firm

Investments appraisal has the following features:

1. Assessment of the level of expected returns earned for the level of expenditure made.
2. Estimates of future costs and benefits over the project's life.

Return on capital employed

A project requires an initial investment of $800000 and then earns net cash inflows as follows:

Year	1	2	3	4	5	6	7
Cash inflows($000)	100	200	400	400	300	200	150

In addition, at the end of the seven- year project the assets initially purchased will be sold for $100000.

Average annual inflows = 1750000/7 = 250000

Average annual depreciation = (800000-100000)/7=100000

Average annual profit = 250000-100000 = 150000

ROCE = Average annual profit/initial capital cost *100

= (150000/800000) *100 = 18.17%

ROCE = (Average annual profit /average capital investment) *100

= (150000/450000) *100 = 33.33%

Net present value

Planning to buy a machine which would generate cash flow in USD as follows:

Year	0	1	2	3	4
Cash flow in USD	(25000)	6000	8000	15000	8000

If discount rate is 10% is it worth to invest in machine?

Calculation of Net Present Value:

Year	CFAT	D.F.	PVCI
1	6000	0.0909	5454
2	8000	0.826	6608
3	15000	0.751	11265
4	8000	0.683	5464
Total inflow			28791

NPV = Total Inflow – Total outflow

= 28791 – 25000

= USD 3791

It is worth investing in the project since the NPV is positive.