

Som-Lalit Institute of Management Studies (SLIMS)

Subject Code: 4529202, Subject Name: Corporate Finance, Sem II

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Topic : Time value of money

Saniya Shroff is a make-up artist by profession and she is the owner of a niche beauty salon named SS Studio Salon. Her salon is in a posh locality of Ahmedabad having two separate sections of hair and salon providing services to ladies. The salon is spread over the area of 500 square feet. She has a staff of 6 members, 2 of them specialises in hair and the remaining in other salon services. The salon has a customer base of almost 50% regular and repeat customers.

Be it a working woman or a homemaker, grooming has always been an important factor in every woman's life. With the era of growing consciousness towards self-love, the requirement towards self-grooming and relaxation has ever since been increasing. Keeping this in mind, Ms. Sania is planning to expand her business and open a spa also along with the salon services.

For the expansion, she is planning to take a loan from the bank. She has got options from two banks. She has approached you for your expert financial advice and suggested that she select from the two banks.

The salon requires Rs. 10,00,000 for the expansion project. The money will be utilised for setting up the section with required equipment and hiring new staff.

Option 1:

ABC Bank provides the loan of Rs. 10,00,000 at 8% compounded annually. The repayment has to be done in equal annual payments for 6 years.

Option 2:

XYZ Bank provides the loan of the same amount at 8% compounded annually where the repayment has to be done in equal annual instalment for 10 years.

1. You need to prepare a loan amortization table for both the options and help Ms Sania to decide which option will be beneficial for her.
2. She is going to get a lump sum money from one of her investments at the end of 5 years from now. If, at the time of the 5th payment, she decides to pay off the entire loan, how much amount she has to pay?