

International Financial Management

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Table of Contents

INTRODUCTION	3
TASK	3
Dividend distribution policy of Tesco:	4
Efficient market hypothesis theory of Tesco:	5
Methods which is used by Tesco, while appraising of projects:	5
CONCLUSION.....	6
REFERENCES	7

INTRODUCTION

International financial management is also known as international macroeconomics, it highlights the interaction between two or more countries financially. And it majorly focuses on foreign direct investment as well as currency exchange rates. Instead of focusing on individual market it consider market of multiple countries (Agliardi, and Agliardi, 2019). In this report, challenges faced in international financial market by Tesco which is a multinational food and beverages company, and its dividend policy, its marketing hypothesis theory as well as methods which is used by Tesco while project appraisals will be discussed.

TASK

The research related to finance is conducted by the institutions like IFCs that is international finance corporation and NBER that is National bureau of economic Research. It consider the ways of how to make efficient decisions related to corporate finance with regards to investment, capital structure, dividend policy, management of working capital in order to achieve key objectives of the organisation. Whenever company deal in domestic market, for both selling and purchase of its products this will need only domestic currency. If a company try in raise their organisation at international level and try to establish their market in different countries and people, so the problem occurs that different country has its own different currency, this will effect the overall cost sales and profit of the organisations. Tesco mainly works and operates its activities in European countries. At international level Tesco face challenges like **International Competitiveness**; International level competitor who has similar products or doing the same operating activities could effect its marketing and its operations. For instance wall mart also doing the same business this can effect the sale of Tesco, if the wall mart started giving tough competition then it will become difficult for Tesco to operate. **Exchange Rates**; Tesco's ultimate revenue is affected by the exchange rate (Bansal, and et.al., 2021). For example there is a sudden change in exchange rates of UK with respect to another country it will be a big threat for for Tesco to operate internationally. **Tariff and Tax**; market of organisation get affected by the tariff and tax lows, this can effect an organisation both positively and negatively, if the rates of taxes are high then it will difficult for the Tesco to compete in different countries. Due to globalisation these challenges are now becoming more complex from which financial market and commodity market of world becoming more integrated. Managers of Tesco should gain

knowledge of environment in which they operating in order to achieve their primary goals. The environment of foreign countries includes issues like political and system of socioeconomic and culture of a particular country is different. So the Tesco have to understand the nature or environment of host company to operate successfully in foreign market. Another challenge which can be faced by Tesco is financing function. Because there are multiple source of funds available to the Tesco's manager. He should concern about exchange of foreign rates as well as political risk in collecting funds. With the help of it MNCs are able to minimise its capital cost and maximise the excess cash return, and also compared firms which are being used to raise and investment of funds in a single market of market.

Dividend distribution policy of Tesco:

The dividend policy of Tesco is directly linked to the interest of the investors. They believe that good dividend policy helps to attract more investors, and if their policy is not that much satisfying then it can lost investors as well as affects market value and share price of the organisation. If the investment policy of the company does not change, dividend policy of the organisation is not able to change value of the firm. It is based on two assumptions: Investors of the organisation doesn't need to pay tax on dividend received (Kamble, and et.al., 2019). If the firm pay its dividend in cash, they can issue new stocks without flotation cost, in order to replace this cash. Second assumption states that dividend policy can be bad for the investors who is an average stockholders because when they get their dividend, they have to pay cash. But if stockholders like dividend policy of the organisation or dividend policy working as a future prospects for the organisation, then dividend policy is goods for all the stockholders and can helps in increase the value of the firm. Tesco's dividend policy is depends on the assumption that if the dividend works as signal of future prospect. From the past five years dividend policy of the organisation positively effect the value of the firm. Various technical methods has been used to analyse the dividend policy of the company. It includes assumption of time series of change in earning per share and dividend per share. Estimation of time series means models which is used to estimate of future events based on past information to determine points of future data. For example based on the past performance, the opening price of the a particular share can be decided. Tesco announce a dividend of 50.93 pence per share (Kovermann, and Velte, 2019). The dividend policy of this company states that the payment of dividend should be prior to the consolidation according to the number of share. For instance: if an investor is ready to buy its

share of 190. then he will receive the payment of dividend of £ 96.77(0.5093×190) and he will hold remaining 150 shares. Because of consolidation investor don't want to see the sudden drop in the price of share. An investor should consider that if he is going to purchase dividend of the Tesco then he should left his holding for some share then he can purchase dividend.

Efficient market hypothesis theory of Tesco:

It is a hypothesis which indicates that continues generation of alpha is not possible and also share price reflects overall information. According to this theory trading of stocks are always is on faire value of exchanges. It makes situation in which investors are not able to purchase undervalued shares and they can't even sell their stocks (Morozova, and et.al.,2019). People who supports the efficient market hypothesis states that investors get benefits if investor invest at law cost and passive portfolio. And on the other hand, people who doesn't support this theory states that beating market is possible as well as deviation of stock can done with fair market values. A market can be inefficient when price of asset inaccurately reflects its actual value which can be occurred by various reasons. Inefficiency in Tesco's market exist for some reasons like asymmetries in information, scarcity of buyers and sellers which indicated low liquidity, cost of transactions may be high, emotions of people, psychology of market etc. in order t5o reflect the degree, modifications of EMH exist which can be imposed to the market of Tesco: **Semi Strong Efficiency**- it contains all the public information which would be used to calculate current share price of the stock. With the help of fundamental analysis and fundamental analysis they are not able to achieve their primary goal (Munir, and et.al., 2020). **Weak Efficiency**- this theory states that today's prices of stocks will be reflected by past prices of the stocks of Tesco. That is why technical analysis is not the efficient way to pop-up the market.

Methods which is used by Tesco, while appraising of projects:

Tesco uses various methods of appraisal of projects that is payback, accounting rate of return, discounted cash flow method of NPV that is net present value. And the internal rate of return.

- **Payback period method** which is used to identify how much time will be taken to recover the investment cost. With the help of this Tesco will able evaluate how much time will a project takes to recover its cost of investment.

- **Discounted cash flow method** predict the cost of investment with the help of future cash flow (Olivia, and et.al., 2020). Tesco use this method to evaluate today's investment value, which is based on prediction that how much fund this investment can generate.
- **Internal rate of return** it is a method which is used by Tesco to determine profitability of a particular investor. IRR is a rate of discount which helps in making net present value of overall cash flows equal to zero.

CONCLUSION

From the above report, it can be concluded that, financial market have various shape and analytics. Efficient management of international finance can aid companies in achieving equal efficiency and effectiveness in overall market. Without this, companies are not able to sustain in the market. International financial market helps companies in collecting funds from foreign countries, it helps companies to make fruitful decision in respect to investments. The dividend policy of Tesco which is being discussed above is good in respect to its investors. They always give their first priority to their shareholders. Which makes a sound image of Tesco in front of its investors.

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