NEW SCHEME

FINAL COURSE – GROUP I
PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

Syllabus 100% A

Question 1 is compulsory.
The students may attempt any five of the remaining six questions
All the workings shall form a part of part of your answer.

Maximum Time : 3 hours *Maximum Marks : 100*

100 A

1. a) An importer booked a forward contract with his bank on 10th April for USD 2,00,000 due on 10th June @ ` 64.4000. The bank covered its position in the market at ` 64.2800.

The exchange rates for dollar in the interbank market on 10th June and 20th June were:

	10th June	20th June
Spot USD 1=	` 63.8000/8200	` 63.6800/7200
Spot/June	` 63.9200/9500	` 63.8000/8500
July	` 64.0500/0900	` 63.9300/9900
August	` 64.3000/3500	` 64.1800/2500
September	` 64.6000/6600	` 64.4800/5600

Exchange Margin 0.10% and interest on outlay of funds @ 12%. The importer requested on 20th June for extension of contract with due date on 10th August.

Rates rounded to 4 decimal in multiples of 0.0025.

On 10th June, Bank Swaps by selling spot and buying one month forward.

Calculate:

(i) Cancellation rate
(ii) Amount payable on $ 2,00,000

(iii) Swap loss
(iv) Interest on outlay of funds, if any
(v) New contract rate
(vi) Total Cost

(12 marks)

b) XL Ispat Ltd. has made an issue of 14 per cent non-convertible debentures on January 1, 2007. These debentures have a face value of ` 100 and is currently traded in the market at a price of ` 90.

Interest on these NCDs will be paid through post-dated cheques dated June 30 and December 31. Interest payments for the first 3 years will be paid in advance through post- dated cheques while for the last 2 years post-dated cheques will be issued at the third year. The bond is redeemable at par on December 31, 2011 at the end of 5 years.

Required:

(i) CALCULATE the current yield and YTM of the bond.
(ii) CALCULATE the duration of the NCD.
(iii) CALCULATE the realized yield on the NCD assuming that intermediate coupon payments are, not available for reinvestment calculate.

(8 marks)

2. a) (i) X Ltd. is interested in expanding its operation and planning to install manufacturing plant at US. For the proposed project it requires a fund of $ 10 million (net of issue expenses/ floatation cost). The estimated floatation cost is 2%. To finance this project it proposes to issue GDRs.

You as financial consultant is required to compute the number of GDRs to be issued and cost of the GDR with the help of following additional information.

(i) Expected market price of share at the time of issue of GDR is ` 250 (Face Value ` 100)
(ii) 2 Shares shall underly each GDR and shall be priced at 10% discount to market price.
(iii) Expected exchange rate `60/$.

(iv) Dividend expected to be paid is 20% with growth rate 12%.

(4 marks)

a) (ii) Explain Startup India Initiative.

(4 marks)

b) (i) Describe the various Islamic Finance Instruments.

(4 marks)

b) (ii) List the ways to arrange finance for Small and Medium Enterprises.

(4 marks)

c) What is the impact of GDRs on Indian Capital Market?

(4 marks)

3. a) Closing values of BSE Sensex from 6th to 17th day of the month of January of the year 200 X were as follows:

Days	Date	Day	Sense x
1	6	THU	29522
2	7	FRI	29925
3	8	SAT	No Trading
4	9	SUN	No Trading
5	10	MON	30222
6	11	TUE	31000
7	12	WED	31400
8	13	THU	32000
9	14	FRI	No Trading
10	15	SAT	No Trading
11	16	SUN	No Trading

12	17	MON	33000

Compute Exponential Moving Average (EMA) of Sensex during the above period. The 30 days simple moving average of Sensex can be assumed as 30,000. The value of exponent for 30 days EMA is 0.062.

Provide detailed analysis on the basis of your calculations.

(8 marks)

b) The following are the data on five mutual funds:

Fund	Return	Standard Deviation	Beta
A	15	7	1.25
B	18	10	0.75
C	14	5	1.40
D	12	6	0.98
E	16	9	1.50

You are required to compute Reward to Volatility Ratio and rank these portfolio using:

- Sharpe method and
- Treynor's method

assuming the risk free rate is 6%.

(8 marks)

c) Explain the Interface of Financial Policy and Strategic Management.

(4 marks)

4. a) Reliable Industries Ltd. (RIL) is considering a takeover of Sunflower Industries Ltd. (SIL). The particulars of 2 companies are given below:

Particulars	Reliable Industries Ltd	Sunflower Industries Ltd.
Earnings After Tax (EAT)	` 20,00,000	` 10,00,000
Equity shares O/s	10,00,000	10,00,000
Earnings per share (EPS)	2	1
PE Ratio (Times)	10	5

(i) Calculate the market value of each Company before merger.

(ii) Calculate the market value of the Post-merger RIL assuming that the management of the shareholders of SIL will accept an offer of one share of RIL for four shares of SIL and there are no synergic effects. Also, calculate the new price per share.

(iii) Evaluate whether the shareholders of RIL better or worse off than they were before the merger.

(iv) Calculate the new post-merger EPS and Price per share if the management of RIL estimates that the earnings will increase by 20% due to synergic effects.

(v) Evaluate whether the shareholders are better off or worse off than before the merger.

(7 marks)

b) The equity share of VCC Ltd. is quoted at ` 210. A 3-month call option is available at a premium of ` 6 per share and a 3-month put option is available at a premium of ` 5 per share. Ascertain the net payoffs to the option holder of a call option and a put option.

(i) the strike price in both cases in ` 220; and

(ii) the share price on the exercise day is ` 200,210,220,230,240.

Also indicate the price range at which the call and the put options may be gainfully exercised.

(7 marks)

c) (i) Explain Financial Risk from the point of view of Stakeholder, Company and the Government.

(3 marks)

c) (ii) Consider a portfolio consisting of a Rs. 200,00,000 investment in share XYZ and a Rs. 200,00,000 investment in share ABC. The daily standard deviation of both shares is 1% and that the coefficient of correlation between them is 0.3. You are required to determine the 10- day 99% value at risk for the portfolio?

(3 marks)

5. a) Describe various securitization instruments.

(8 marks)

b) BRS Inc deals in computer and IT hardwares and peripherals. The expected revenue for the next 8 years is as follows:

Years	Sales Revenue ($ Million)
1	8
2	10
3	15
4	22
5	30
6	26
7	23
8	20

Summarized financial position as on 31 March 2012 was as follows:

$ Million

Liabilities	Amount	Assets	Amount
Equity Stocks	12	Fixed Assets (Net)	17
12% Bonds	8	Current Assets	3
	20		20

Additional Information:

(a) Its variable expenses is 40% of sales revenue and fixed operating expenses (cash) are estimated to be as follows:

Period	Amount ($ Million)
1- 4 years	1.6
5-8 years	2

(b) An additional advertisement and sales promotion campaign shall be launched requiring expenditure as per following details:

Period	Amount ($ Million)
1 year	0.50
2-3 years	1.50
4-6 years	3.00
7-8 years	1.00

(c) Fixed assets are subject to depreciation at 15% as per WDV method.

(d) The company has planned additional capital expenditures (in the beginning of each year) for the coming 8 years as follows:

Period	Amount ($ Million)
1	0.50
2	0.80
3	2.00
4	2.50
5	3.50
6	2.50
7	1.50
8	1.00

(e) Investment in Working Capital is estimated to be 20% of Revenue.

(f) Applicable tax rate for the company is 30%.

(g) Cost of Equity is estimated to be 16%.

(h) The Free Cash Flow of the firm is expected to grow at 5% per annum after 8 years.

CALCULATE:

(i) Value of Firm
(ii) Value of Equity

(7 marks)

c) Sun Moon Mutual Fund (Approved Mutual Fund) sponsored open-ended equity oriented scheme "Chanakya Opportunity Fund". There were three plans viz. 'A' – Dividend Re-investment Plan, 'B' – Bonus Plan & 'C' – Growth Plan.

At the time of Initial Public Offer on 1.4.2009, Mr. Anand, Mr. Bacchan & Mrs. Charu, three investors invested ` 1,00,000 each & chosen 'B', 'C' & 'A' Plan respectively.

The History of the Fund is as follows:

Date	Dividend %	Bonus Ratio	Net Asset Value per Unit (F.V. ` 10)		
			Plan A	Plan B	Plan C
28.07.2013	20		30.70	31.40	33.42
31.03.2014	70	5 : 4	58.42	31.05	70.05
31.10.2017	40		42.18	25.02	56.15
15.03.2018	25		46.45	29.10	64.28
31.03.2018		1 : 3	42.18	20.05	60.12
24.03.2019	40	1 : 4	48.10	19.95	72.40
31.07.2019			53.75	22.98	82.07

On 31st July 2019 all three investors redeemed all the balance units. CALCULATE:

(i) Annual rate of return of Mrs. Charu who has invested in 'A' – Dividend Re-investment Plan.
(ii) Annual rate of return of Mr. Anand who has invested in 'B' – Bonus Plan.
(iii) Annual rate of return of Mr. Bacchan who has invested 'C' – Growth Plan.

Assumptions:

(1) Long-term Capital Gain is exempt from Income tax.
(2) Short-term Capital Gain is subject to 10% Income tax.
(3) Security Transaction Tax 0.2 per cent only on sale/redemption of units.
(4) Ignore Education Cess

(5 marks)

6. a) Closing values of BSE Sensex from 6th to 17th day of the month of January of the year 200X were as follows:

Days	Date	Day	Sensex
1	6	THU	14522
2	7	FRI	14925
3	8	SAT	No Trading
4	9	SUN	No Trading
5	10	MON	15222
6	11	TUE	16000
7	12	WED	16400
8	13	THU	17000
9	14	FRI	No Trading
10	15	SAT	No Trading
11	16	SUN	No Trading
12	17	MON	18000

Calculate Exponential Moving Average (EMA) of Sensex during the above period. The 30 days simple moving average of Sensex can be assumed as 15,000. The value of exponent for 30 days EMA is 0.062.

Give detailed analysis on the basis of your calculations.

(5 marks)

b) Distinguish between Banking and Non-Banking financial institutions.

(5 marks)

c) The following is the Balance-sheet of XYZ Company Ltd as on March 31st, 2013.

(` in lakh)

Liabilities	Amount	Assets	Amount
6 lakh equity shares of `100/- each	600	Land & Building	200
2 lakh 14% Preference shares of `100/- each	200	Plant & Machinery	300
13% Debentures	200	Furniture & Fixtures	50
Debenture Interest accrued and Payable	26	Inventory	150
Loan from Bank	74	Sundry debtors	70
Trade Creditors	300	Cash at Bank	130
		Preliminary Expenses	10
		Cost of Issue of debentures	5
		Profit & Loss A/c	485
	1,400		1,400

The XYZ Company did not perform well and has suffered sizable losses during the last few years. However, it is now felt that the company can be nursed back to health by proper financial restructuring and consequently the following scheme of reconstruction has been devised:

(i) Equity shares are to be reduced to ` 25/- per share, fully paid up;
(ii) Preference shares are to be reduced (with coupon rate of 10%) to equal number of shares of `50 each, fully paid up.
(iii) Debenture holders have agreed to forego interest accrued to them. Beside this, they have agreed to accept new debentures carrying a coupon rate of 9%.
(iv) Trade creditors have agreed to forgo 25 per cent of their existing claim; for the balance sum they have agreed to convert their claims into equity shares of ` 25/- each.

(v) In order to make payment for bank loan and augment the working capital, the company issues 6 lakh equity shares at ` 25/- each; the entire sum is required to be paid on application. The existing shareholders have agreed to subscribe to the new issue.

(vi) While Land and Building is to be revalued at ` 250 lakh, Plant & Machinery is to be written down to ` 104 lakh. A provision amounting to ` 5 lakh is to be made for bad and doubtful debts.

You are required to show the impact of financial restructuring/re-construction. Also, prepare the new balance sheet assuming the scheme of re-construction is implemented in letter and spirit.

(10 marks)