

**MOCK TEST PAPER**  
**FINAL (Old) COURSE: GROUP – I**  
**PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT**

Question No. 1 is compulsory. Attempt any **five** questions from the remaining **six** questions.

*Working notes should form part of the answer.*

**Time Allowed – 3 Hours**

**Maximum Marks – 100**

1. (a) Ramesh owns a plot of land on which he intends to construct apartment units for sale. No. of apartment units to be constructed may be either 10 or 15. Total construction costs for these alternatives are estimated to be ₹ 600 lakhs or ₹ 1025 lakhs respectively. Current market price for each apartment unit is ₹ 80 lakhs. The market price after a year for apartment units will depend upon the conditions of market. If the market is buoyant, each apartment unit will be sold for ₹ 91 lakhs, if it is sluggish, the sale price for the same will be ₹ 75 lakhs. Determine the value of vacant plot of land. Assuming that the construction cost will remain same in year 1 should Ramesh start construction now or keep the land vacant? The yearly rental per apartment unit is ₹ 7 lakhs and the risk free interest rate is 10% p.a.

Assume that the construction cost will remain unchanged.

**(6 Marks)**

- (b) A company is long on 10 MT of copper @ ₹ 534 per kg (spot) and intends to remain so for the ensuing quarter. The variance of change in its spot and future prices are 16% and 36% respectively, having correlation coefficient of 0.75. The contract size of one contract is 1,000 kgs.

Required:

- (i) Calculate the Optimal Hedge Ratio for perfect hedging in Future Market.
- (ii) Advise the position to be taken in Future Market for perfect hedging.
- (iii) Determine the number and the amount of the copper futures to achieve a perfect hedge.

**(6 Marks)**

- (c) S Ltd. earns ₹ 6 per share having capitalisation rate of 10 per cent and has a return on investment at the rate of 20 per cent. According to Walter's model, what should be the price per share at 30 per cent dividend payout ratio? Is this the optimum payout ratio as per Walter?

**(4 Marks)**

- (d) From the following particulars, calculate the effective rate of interest p.a. as well as the total cost of funds to Bhaskar Ltd., which is planning a CP issue:

|                   |                     |
|-------------------|---------------------|
| Issue Price of CP | ₹ 97,550            |
| Face Value        | ₹ 1,00,000          |
| Maturity Period   | 3 Months            |
| Issue Expenses:   |                     |
| Brokerage         | 0.15% for 3 months  |
| Rating Charges    | 0.50% p.a.          |
| Stamp Duty        | 0.175% for 3 months |

**(4 Marks)**

2. (a) You as a dealer in foreign exchange have the following position in GBP on 31<sup>st</sup> October, 2019:

|                                     | GBP      |
|-------------------------------------|----------|
| Balance in the Nostro A/c Credit    | 2,00,000 |
| Opening Position Overbought         | 1,00,000 |
| Purchased a bill on London          | 1,60,000 |
| Sold forward TT                     | 1,20,000 |
| Forward purchase contract cancelled | 60,000   |
| Remitted by TT                      | 1,50,000 |
| Draft on London cancelled           | 60,000   |

Decide the steps would you take, if you are required to maintain a credit Balance of GBP 65,000 in the Nostro A/c and keep as oversold position on GBP 20,000? **(8 Marks)**

- (b) Robust Tech, an IT company had purchased printers 5 years ago which are due for replacement. The cost of the printers was ₹ 75,00,000 and the company depreciates these class of assets on a straight-line basis for 10 years. The printers are expected to realize ₹ 7,50,000.

There is a proposal to replace all the printers in the company and as a Finance Manager; you are presented with the following alternatives:

**Proposal 1:** Purchase a new Class of sophisticated network printers at a cost of ₹ 1,00,00,000 which would be depreciated over a period of 5 years and expected to realize ₹ 10,00,000 at the end. The purchase could either be funded through a loan at 14% repayable in 5 equal annual installments at the end of the year. PVAF at 14% for 5 years is 3.433

OR

**Proposal 2:** Help Printers Ltd. had submitted a proposal to take over the existing printers and provide on rent the new class of sophisticated network printers for the next 5 years at an annual rental of ₹ 18,00,000 payable at the end of the year with a clause to increase the rentals by ₹ 2,00,000 on an annual basis.

You are required to suggest the best alternative to the management assuming the company's income rate is 50% and discount rate is 7%.

You may ignore realization of scrap value and their short term capital gains/loss under both the options.

| Year   | 1     | 2     | 3     | 4     | 5     |
|--------|-------|-------|-------|-------|-------|
| PV@7 % | 0.935 | 0.873 | 0.816 | 0.763 | 0.713 |

**(8 Marks)**

3. (a) MK Ltd. is considering acquiring NN Ltd. The following information is available:

| Company | Earning after Tax (₹) | No. of Equity Shares | Market Value Per Share (₹) |
|---------|-----------------------|----------------------|----------------------------|
| MK Ltd. | 60,00,000             | 12,00,000            | 200.00                     |
| NN Ltd. | 18,00,000             | 3,00,000             | 160.00                     |

Exchange of equity shares for acquisition is based on current market value as above. There is no synergy advantage available.

- (i) Find the earning per share for company MK Ltd. after merger, and  
(ii) Find the exchange ratio so that shareholders of NN Ltd. would not be at a loss. **(8 Marks)**

- (b) Mr. Y has invested in the three mutual funds (MF) as per the following details:

| Particulars  | MF 'X'   | MF 'Y'   | MF 'Z'   |
|--|----------|----------|----------|
| Amount of Investment (₹)                             | 2,00,000 | 4,00,000 | 2,00,000 |
| Net Assets Value (NAV) at the time of purchase (₹)   | 10.30    | 10.10    | 10       |
| Dividend Received up to 31.03.2018 (₹)               | 6,000    | 0        | 5,000    |
| NAV as on 31.03.2018 (₹)                             | 10.25    | 10       | 10.20    |
| Effective Yield per annum as on 31.03.2018 (percent) | 9.66     | -11.66   | 24.15    |

Assume 1 Year = 365 days

Mr. Y has misplaced the documents of his investment. Help him in finding the date of his original investment after ascertaining the following:

- Number of units in each scheme;
- Total NAV;
- Total Yield; and
- Number of days investment held.

**(8 Marks)**

4. (a) Ram buys 10,000 shares of X Ltd. at a price of ₹ 22 per share whose beta value is 1.5 and sells 5,000 shares of A Ltd. at a price of ₹ 40 per share having a beta value of 2. He obtains a complete hedge by Nifty futures at ₹ 1,000 each. He closes out his position at the closing price of the next day when the share of X Ltd. dropped by 2%, share of A Ltd. appreciated by 3% and Nifty futures dropped by 1.5%.

Interpret the overall profit/loss of Ram?

**(6 Marks)**

- (b) Mr. A, a HNI invested on 1.4.2014 in certain equity shares as below:

| Name of Co. | No. of shares         | Cost (₹)    |
|-------------|-----------------------|-------------|
| X Ltd.      | 1,00,000 (₹ 100 each) | 2,00,00,000 |
| Y Ltd.      | 50,000 (₹ 10 each)    | 1,50,00,000 |

In September 2014, 10% dividend was paid out by X Ltd. and in October 2014, 30% dividend paid out by Y Ltd. On 31.3.2015 market quotations showed a value of ₹ 220 and ₹ 290 per share for X Ltd. and Y Ltd. respectively.

On 1.4.2015, a technical analyst indicated as follows:

- (1) that the probabilities of dividends from X Ltd. and Y Ltd. for the year ending 31.3.2016 are as below:

| Probability factor | Dividend from X Ltd. (%) | Dividend from Y Ltd. (%) |
|--------------------|--------------------------|--------------------------|
| 0.2                | 10                       | 15                       |
| 0.3                | 15                       | 20                       |
| 0.5                | 20                       | 35                       |

- (2) that the probabilities of market quotations on 31.3.2016 are as below:

| Probability factor | Price/share of X Ltd. | Price/share of Y Ltd. |
|--------------------|-----------------------|-----------------------|
| 0.2                | 220                   | 290                   |
| 0.5                | 250                   | 310                   |
| 0.3                | 280                   | 330                   |

You are required to:

- (i) Analyze the average return from the portfolio for the year ended 31.3.2015;
- (ii) Analyze the expected average return from the portfolio for the year 2015-16; and
- (iii) Advise Mr. A, of the comparative risk in the two investments. **(10 Marks)**

5. (a) STR Ltd.'s current financial year's income statement reported its net income after tax as ₹ 50 Crore.

Following is the capital structure of STR Ltd. at the end of current financial year:

|   | ₹         |
|---|-----------|
| Debt (Coupon rate = 11%)                    | 80 Crore  |
| Equity (Share Capital + Reserves & Surplus) | 250 Crore |
| Invested Capital                            | 330 Crore |

Following data is given to estimate cost of equity capital:

|                             |      |
|-----------------------------|------|
| Asset Beta of TSR Ltd.      | 1.11 |
| Risk –free Rate of Return   | 8.5% |
| Average market risk premium | 9%   |

The applicable corporate income tax rate is 30%.

Estimate Economic Value Added (EVA) of RST Ltd. in ₹ lakh. **(8 Marks)**

- (b) Derivative Bank entered into a swap arrangement on a principal of ₹ 10 crores and agreed to receive MIBOR overnight floating rate for a fixed payment on the principal. The swap was entered into on Monday, 19<sup>th</sup> August, 2019 and was to commence on 20<sup>th</sup> August, 2019 and run for a period of 7 days.

Respective MIBOR rates for Tuesday to Monday were:

8.15%, 7.98%, 7.95%, 8.12%, 8.15%, 7.75%.

If Fixed Rate of Interest is 8%, then evaluate

- (i) the nature of this Swap arrangement.
- (ii) the Net Settlement amount.

Notes:

- (1) Sunday is Holiday.
- (2) Work in rounded rupees and avoid decimal working.
- (3) Consider 365 days in a year. **(8 Marks)**

6. (a) XYZ Ltd. has imported goods to the extent of US\$ 8 Million. The payment terms are as under:

- (1) 1% discount if full amount is paid immediately or
- (2) 60 days interest free credit. However, in case of a further delay up to 30 days, interest at the rate of 8% p.a. will be charged for additional days after 60 days. M/s XYZ Ltd. has ₹ 25 Lakh available and for remaining it has an offer from bank for a loan up to 90 days @ 9.0% p.a.

The quotes for foreign exchange are as follows:

|   |         |
|---|---------|
| Spot Rate INR/ US\$ (buying)            | ₹ 66.98 |
| 60 days Forward Rate INR/ US\$ (buying) | ₹ 67.16 |
| 90 days Forward Rate INR/ US\$ (buying) | ₹ 68.03 |

Advise which one of the following options would be better for XYZ Ltd.

Pay immediately after utilizing cash available and for balance amount take 90 days loan from bank.

Pay the supplier on 60<sup>th</sup> day and avail bank's loan (after utilizing cash) for 30 days.

Avail supplier offer of 90 days credit and utilize cash available.

Further presume that the cash available with XYZ Ltd. will fetch a return of 4% p.a. in India till it is utilized.

Assume year has 360 days. Ignore Taxation.

Compute your working upto four decimals and cash flows in ₹ in Crore. **(10 Marks)**

(b) The following are the data on five portfolios:

| Portfolio | 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 evaluate the Reward to Volatility of these portfolio using:

- ◆ Sharpe method and
- ◆ Treynor's method

assuming the risk free rate is 6%.

**(6 Marks)**

7. Write short notes on any **four** of following

- (a) Problems that are faced in International Capital Budgeting Decision and how these can be overcome. **(4 Marks)**
- (b) Importance of Sustainable growth in context of planning healthy corporate growth. **(4 Marks)**
- (c) Difference between Investment Bank and Commercial Bank **(4 Marks)**
- (d) Types of Mergers **(4 Marks)**
- (e) Cross Border Leasing **(4 Marks)**