MAY 2019

Roll No. ....

Final New Syllabus

Paper - 2

Strategic Financial Management

Total No. of Questions – **6**

Total No. of Printed Pages – **11**

Time Allowed – **3** Hours

Maximum Marks – **100**

FCL2

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. 1 is compulsory.

Candidates are also required to answer any **four** questions from the remaining **five** questions.

Working notes should form part of the respective answers.

Marks

1. (a) Compute Economic Value Added (EVA) of Goodluck Ltd. from the following information : **8**

Profit & Loss Statement

Particulars	(₹ in Lakh)
(a) Income –	
Revenue from Operations	2000
(b) Expenses –	
Direct Expenses	800
Indirect Expenses	400
(c) Profit before interest & tax (a – b)	800
(d) Interest	30
(e) Profit before tax (c – d)	770
(f) Tax	231
(g) Profit after tax (e – f)	539

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Balance Sheet

Particulars	(₹ in Lakh)
Equity and Liabilities :	
(a) Shareholders' Fund –	
Equity Share Capital	1000
Reserves & Surplus	600
(b) Non-Current Liabilities –	
Long Term Borrowings	200
(c) Current Liabilities	800
Total	**2600**
Assets :	
(a) Non-Current Assets	2000
(b) Current Assets	600
Total	**2600**

Other Information :

(1) Cost of Debts is 15%.

(2) Cost of Equity (i.e. shareholders' expected return) is 12%.

(3) Tax Rate is 30%.

(4) Bad Debts Provision of ₹ 40 lakhs is included in indirect expenses and ₹ 40 lakhs reduced from receivables in current assets.

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(b) The shares of G Ltd. are currently being traded at ₹ 46. The company published its results for the year ended 31st March 2019 and declared a dividend of ₹ 5. The company made a return of 15% on its capital and expects that to be the norm in which it operates. G Ltd. also expects the dividends to grow at 10% for the first three years and thereafter at 5%. **8**

You are required to advise whether the share of the company is being traded at a premium or discount.

PVIF @ 15% for the next 3 years is 0.870, 0.756 and 0.658 respectively.

(c) State the important features of National Pension Scheme (NPS). **4**

2\. (a) Given is the following information : **8**

	Day Ltd.	Night Ltd.
Net Earnings	₹ 5 crores	₹ 3.50 crores
No. of Equity Shares	10,00,000	7,00,000

The shares of Day Ltd. and Night Ltd. trade at 20 and 15 times their respective P/E ratios.

Day Ltd. considers taking over Night Ltd. by paying ₹ 55 crores considering that the market price of Night Ltd. reflects its true value. It is considering both the following options :

(i) Takeover is funded entirely in cash.

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(ii) Takeover is funded entirely in stock.

You are required to calculate the cost of the takeover and advise Day Ltd. on the best alternative.

(b) ABB Ltd. has a surplus cash balance of ₹ 180 lakhs and wants to distribute 50% of it to the equity shareholders. The company decides to buyback equity shares. The company estimates that its equity share price after re-purchase is likely to be 15% above the buyback price, if the buyback route is taken. **8**

Other information is as under :

(1) Number of equity shares outstanding at present (Face value ₹ 10 each) is 20 lakhs.

(2) The current EPS is ₹ 5.

You are required to calculate the following :

(i) The price at which the equity shares can be re-purchased, if market capitalization of the company should be ₹ 400 lakhs after buyback.

(ii) Number of equity shares that can be re-purchased.

(iii) The impact of equity shares re-purchase on the EPS, assuming that the net income remains unchanged.

(c) List the main applications of Value At Risk (VAR). **4**

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3. (a) Following are the details of a portfolio consisting of 3 shares : 8

Shares	Portfolio Weight	Beta	Expected Return(%)	Total Variance
X Ltd.	0.3	0.50	15	0.020
Y Ltd.	0.5	0.60	16	0.010
Z Ltd.	0.2	1.20	20	0.120

Standard Deviation of Market Portfolio Return = 12%

You are required to calculate the following :

(i) The Portfolio Beta.

(ii) Residual Variance of each of the three shares.

(iii) Portfolio Variance using Sharpe Index Model.

(b) Mr. John established the following spread on the TTK Ltd.'s stock : 8

(1) Purchased one 3-month put option with a premium of ₹ 15 and an exercise price of ₹ 900.

(2) Purchased one 3-month call option with a premium of ₹ 90 and an exercise price of ₹ 1100.

TTK Ltd.'s stock is currently selling at ₹ 1000. Calculate gain or loss, if the price of stock of TTK Ltd. –

(i) Remains at ₹ 1000 after 3 months.

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(ii) Falls to ₹ 700 after 3 months.

(iii) Raises to ₹ 1200 after 3 months.

Assume the size of option is 200 shares of TTK Ltd.

(c) Briefly explain the steps involved in Mechanism of Securitization. 4

4. (a) A Mutual Fund Company introduces two schemes – Dividend Plan and Bonus Plan. The face value of the Unit is ₹ 10 on 1-4-2014. Mr. R invested ₹ 5 lakh in Dividend Plan and ₹ 10 lakh in Bonus Plan. The NAV of Dividend Plan is ₹ 46 and NAV of Bonus Plan is ₹ 42. Both the plans matured on 31-03-2019. The particulars of Dividend and Bonus declared over the period are as follows : 8

Date	Dividend %	Bonus Ratio	NAV of Dividend Plan (₹)	NAV of Bonus Plan (₹)
31-12-2014	12%	–	47.0	42.0
30-09-2015	–	1 : 4	48.0	43.0
31-03-2016	15%	–	49.5	41.5
30-09-2017	–	1 : 6	50.0	44.0
31-03-2018	10%	–	48.0	43.5
31-03-2019	–	–	49.0	44.0

You are required to calculate the effective yield per annum in respect of the above two plans.

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(b) Following financial informations are available of XP Ltd. for the year 2018 : **8**

Equity Share Capital (₹ 10 each)	₹ 200 Lakh
Reserves and Surplus	₹ 600 Lakh
10% Debentures (₹ 100 each)	₹ 350 Lakh
Total Assets	₹ 1200 Lakh
Assets Turnover Ratio	2 times
Tax Rate	30%
Operating Margin	10%
Dividend Payout Ratio	20%
Current Market Price per Equity Share	₹ 28
Required Rate of Return of Investors	18%

You are required to :

(i) Prepare Income Statement for the year 2018.

(ii) Determine its Sustainable Growth Rate.

(iii) Determine the fair price of the company's share using Dividend Discount Model.

(iv) Give your opinion on investment in the company's share at current price.

(c) Explain briefly the sources for funding a Start-up. **4**

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5. (a) A Rice Trader has planned to sell 22000 kg of Rice after 3 months from now. The spot price of the Rice is ₹ 60 per kg and 3 months future on the same is trading at ₹ 59 per kg. Size of the contract is 1000 kg. The price is expected to fall as low as ₹ 56 per kg, 3 months hence. What the trader can do to mitigate its risk of reduced profit ? If he decides to make use of future market, what would be the effective realized price for its sale when after 3 months, spot price is ₹ 57 per kg and future contract price for 3 months is ₹ 58 per kg ? **8**

(b) On 1st January 2019 Global Ltd., an exporter entered into a forward contract with BBC Bank to sell US$ 2,00,000 on 31st March 2019 at ₹ 71.50/$. However, due to the request of the importer, Global Ltd. received the amount on 28 February 2019. Global Ltd. requested the Bank to take delivery of the remittance on 2nd March 2019. The Inter-banking rates on 28th February 2019 were as follows : **8**

Spot Rate	₹ 71.20/71.25
One month premium	5/10

If Bank agrees to take early delivery then what will be the net inflow to Global Ltd. assuming that the prevailing prime lending rate is 15%. Assume 365 days in a year.

(c) State the benefits of listing to a Small and Medium Enterprise (SME). **4**

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6. (a) Sun Limited, an Indian company will need \$ 5,00,000 in 90 days. In this connection, following information is given below : 8

Spot Rate - \$1 = ₹ 71

90 days forward rate of \$1 as of today = ₹ 73

Interest Rates are as follows :

Particulars	US	India
90 days Deposit Rate	2.50%	4.00%
90 days Borrowing Rate	4.00%	6.00%

A call option on \$ that expires in 90 days has an exercise price of ₹ 74 and a premium of Re. 0.10. Sun Limited has forecasted the spot rates for 90 days as below :

Future Rate	Probability
₹ 72.50	25%
₹ 73.00	50%
₹ 74.50	25%

Which of the following strategies would be the most preferable to Sun Limited :

(i) A Forward Contract;

(ii) A Money Market Hedge;

(iii) An Option Contract;

(iv) No Hedging.

Show your calculations in each case.

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(b) K Ltd. currently operates from 4 different buildings and wants to consolidate its operations into one building which is expected to cost ₹ 90 crores. The Board of K Ltd. had approved the above plan and to fund the above cost, agreed to avail an External Commercial Borrowing (ECB) of GBP 10 m from G Bank Ltd. on the following conditions : **8**

- The Loan will be availed on 1st April, 2019 with interest payable on half yearly rest.
- Average Loan Maturity life will be 3.4 years with an overall tenure of 5 years.
- Upfront Fee of 1.20%.
- Interest Cost is GBP 6 months LIBOR + Margin of 2.50%.
- The 6 month LIBOR is expected to be 1.05%.

K Ltd. also entered into a GBP-INR hedge at 1 GBP = INR 90 to cover the exposure on account of the above ECB Loan and the cost of the hedge is coming to 4.00% p.a.

As a Finance Manager, given the above information and taking the 1 GBP = INR 90:

(i) Calculate the overall cost both in percentage and rupee terms on an annual basis.

(ii) What is the cost of hedging in rupee terms ?

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(iii) If K Ltd. wants to pursue an aggressive approach, what would be the net gain/loss for K Ltd. if the INR depreciates/appreciates against GBP by 10% at the end of the 5 years assuming that the loan is repaid in GBP at the end of 5 years ?

Ignore time value and taxes and calculate to two decimals.

(c) Discuss briefly the important constituents of International Financial Centre (IFC). 4

OR

What are the differences between Islamic Finance and Conventional Finance ?

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