



**FINAL EXAMINATION**  
**MODEL QUESTION PAPER**  
**PAPER – 14**

**SET - 1**  
**TERM – DECEMBER 2025**  
**SYLLABUS 2022**

**STRATEGIC FINANCIAL MANAGEMENT**

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

**SECTION – A (Compulsory)**

**1. Choose the correct option:**

**[15 x 2 = 30]**

- (i) The Profitability Index of a project is 1.28 and its cost of investment is ₹ 2,50,000. The NPV of the project is \_\_\_\_\_.
- (a) ₹75,000  
(b) ₹ 80,000  
(c) ₹70,000  
(d) ₹65,000
- (ii) If project cost = ₹ 12,000, Annual cash flow = ₹ 4,500 Cost of capital = 14%, life = 4 years, PVIFA (14%, 4) = 2.9137, then the sensitivity with respect to the project cost is \_\_\_\_\_.
- (a) 9.27 %  
(b) 10.27 %  
(c) 9.72%  
(d) 10.72%
- (iii) Which of the following statements is correct?
- (a) Expected NPV always provides risk-free value of the project  
(b) Expected NPV incorporates both expected cash flows and their probabilities  
(c) Expected NPV ignores risk altogether  
(d) Expected NPV is always higher than actual NPV
- (iv) Under “securitisation process”, \_\_\_\_\_ are instruments which issued subsidiary company in respect of receivables of holding or parent company.
- (a) Pass through certificate  
(b) Pay through certificate  
(c) Preferred stock certificate  
(d) None of the above
- (v) Liquidity of a company generally measures \_\_\_\_\_.
- (a) The ability of a company to pay its employees in a timely manner  
(b) The ability to pay interest and principal on all debt  
(c) The ability to pay dividends  
(d) The ability to pay current liabilities
- (vi) The current dividend, market price and the annual dividend growth rate of a company are ₹2.50 per share, ₹50 per share and 5%, respectively. The capitalization rate of the equity will be \_\_\_\_\_.
- (a) 0.0526  
(b) 0.10  
(c) 0.1050  
(d) 0.1025



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(vii) Mr. Pandey has formed a portfolio and the characteristics of his portfolio are given below:

Security	Cipla	Ranbaxy	Treasury	Bill Index fund
Weight ( $W_i$ )	0.07	0.25	0.25	0.43
Beta ( $\beta_i$ )	1.72	0.89	?	?

Beta of his Portfolio is \_\_\_\_\_.

- (a) 0.8512
- (b) 0.9539
- (c) 0.7729
- (d) 1.5067

(viii) A company has the following data:

Unlevered Beta ( $\beta_U$ ) = 0.9

Debt/Equity Ratio (D/E) = 1.0

Tax rate (T) = 30%

What is the Levered Beta ( $\beta_L$ )?

- (a) 0.9
- (b) 1.26
- (c) 1.53
- (d) 1.80

(ix) If the share of BA Ltd. (F. V. ₹10) quotes ₹920 on NSE, and the 3 months futures price quotes at ₹950, and the borrowing rate is given as 8% and the expected annual dividend yield is 15% p.a. payable before expiry, then the price of 3-month BA Ltd. futures would be \_\_\_\_\_.

- (a) ₹948.40
- (b) ₹939.90
- (c) ₹938.50
- (d) ₹936.90

(x) An interest rate floor is primarily used to protect:

- (a) Borrowers from rising interest rates
- (b) Lenders from falling interest rates
- (c) Equity investors from stock price decline
- (d) Traders from foreign exchange risk

(xi) A stock index currently stands at 7000. The risk-free interest rate is 8% p.a. continuously compounded and the dividend yield on the index is 4% p.a. What should be the futures price for a four-month contract? [Given  $e^{(.08-.04)4/12} = 1.013423$ ]

- (a) 7093.96
- (b) 7097.34
- (c) 7098.68
- (d) 7099.25



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- (xii) Shibosai bond is a bond which is \_\_\_\_\_.
- (a) Denominated in ¥ and issued outside Japan
  - (b) Denominated in a currency other than ¥ and issued in Japan
  - (c) Denominated in Japanese ¥ and issued under private placement in Japan
  - (d) Denominated in ¥ and issued by a overseas corporate to the public in Japan
- (xiii) The following various currency quotes are available from a leading Indian Bank:  
₹/£: ₹ 75.31/75.33  
£/\$: £0.6391/0.6398  
\$/¥: \$0.01048/0.01052  
The rate at which yen (¥) can be purchased with rupees will be \_\_\_\_\_.
- (a) ₹ 0.5070
  - (b) ₹1.5030
  - (c) ₹1.7230
  - (d) None of the above
- (xiv) An Indian Company is planning to invest in USA. The annual rates of inflation are 8% in India and 3% in USA. If the spot rate is currently ₹73.50/1\$, what spot rate can you expect after 2 years, assuming the inflation rates will remain the same over 2 years?
- (a) ₹66.85
  - (b) ₹80.81
  - (c) ₹70.09
  - (d) ₹77.07
- (xv) Which of the following is not a component of Digital Finance Ecosystem?
- (a) Digital Infrastructure
  - (b) Digital Money
  - (c) Digital Liabilities
  - (d) Digital Financial Services

**SECTION – B**

**(Answer any five questions out of seven questions given. Each question carries 14 marks.)**

**[5 x 14 = 70]**

2. (a) Narayan hospital is considering to purchase a machine for laboratory testing work which is priced at ₹2,00,000. The projected life of the machine is 8 years and has an expected salvage value of ₹18,000 at the end of 8<sup>th</sup> year. The annual operating cost of the machine is ₹22,500. It is expected to generate revenues of ₹1,20,000 per year for eight years. Presently, the hospital is outsourcing the laboratory testing work to its neighbour Test Centre and is earning commission income of ₹ 32,000 per annum, net of taxes.

Required:

ANALYSE whether it would be profitable for the hospital to purchase the machine. Give your recommendation under Net Present Value method. Consider tax @30%.



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PV factors at 10% are given below:

Year	0	1	2	3	4	5	6	7	8
PV Factor	1	0.909	0.826	0.751	0.683	0.620	0.564	0.513	0.467

[7]

(b) Excel Transport needs a truck for which it is considering the following two options:

(i) Buy the asset for ₹3,00,000 by borrowing the amount @12% interest and repaying the same together with interest in 4 equal annual instalments.

(ii) Acquiring the asset on lease with a payment of annual lease rentals of ₹90,000 per annum for 4 years.

The firm follows straight line method of depreciation and is under the income tax bracket of 30%. Life of the asset is 4 years.

Recommend which option – lease or buy, should the firm opt for?

[7]

3. (a) The Globe Manufacturing Company Ltd. is considering an investment in one of the two mutually exclusive proposals – Projects X and Y, which require cash outlays of ₹3,40,000 and ₹3,30,000 respectively. The certainty-equivalent (C.E.) approach is used in incorporating risk in capital budgeting decisions. The current yield on government bond is 10% and this be used as the riskless rate. The expected net cash flows and their certainty-equivalents are as follows:

Year-end	Project X		Project Y	
	Cash flow (₹)	C.E	Cash flow (₹)	C.E
1	1,80,000	0.8	1,80,000	0.9
2	2,00,000	0.7	1,80,000	0.8
3	2,00,000	0.5	2,00,000	0.7

Present value factors of ₹1 discounted at 10% at the end of year 1, 2 and 3 are 0.9091, 0.8264 and 0.7513 respectively.

Required:

(i) Suggest which project should be accepted?

(ii) If risk adjusted discount rate method is used, which project would be analysed with a higher rate?

[7]

- (b) TEXTON Ltd. is a major player in the textile industry of the country. The industry is expected to maintain high growth for a period of 5 years, after which it is expected to drop down. Currently, the company is distributing 40% of its profit as dividend to shareholders. The dividend payout ratio of the company is expected to remain at the current level for the next 5 years, after which it is expected to increase to 55%. The net profit margin of the company is currently 8% and is expected to remain at the same level for the next 5 years, after which it is expected to decrease to 5.7%. Currently, the company is able to generate sales of ₹2.50 for every ₹1.00 of assets employed, and it is expected to remain the same for the next 5 years. After that, the company is expected to generate sales of ₹3.50 for every ₹1.00 of assets employed.



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50% of the assets of the company are financed with equity capital, and this is expected to remain the same in the future.

At present, the risk-free rate of return is 7%, and the market risk premium is 15.5%. The Beta of the company is currently 1.2. The current net worth of the company is ₹250 lakhs, and the number of shares outstanding is 2 lakhs. Assume that the market is in equilibrium.

(Calculation to be rounded off to 3 decimals)

Given: Present Value Interest Factors (PVIF):

Year	1	2	3	4	5
PVIF (20%)	0.833	0.694	0.579	0.482	0.402
PVIF (24%)	0.806	0.650	0.524	0.423	0.341
PVIF (25%)	0.800	0.640	0.512	0.410	0.328
PVIF (25.6%)	0.796	0.634	0.505	0.402	0.320

Required:

Analyze and assess the price per share of TEXTON Ltd. using the Dividend Discount Model DDM).

[7]

4. (a) PALSON Ltd. has issued a convertible bond with a face value of ₹1,00,000. The bond pays a coupon rate of 6% per annum, with interest payments made semi-annually. The bond has a term of 3 years and will be redeemed at ₹1,10,000 at maturity. Alternatively, the bondholder has the option to convert the bond into 50 shares at the end of the 3-year term. The required rate of return for the bond is 12% per annum.

Currently, the share price of PALSON Ltd is ₹2,000, and the shares are expected to grow at an annual rate of 8%. The shares also pay an annual dividend of ₹50 each.

Given: PV Factor Table

Year	PVIF (3%)	PVIF (6%)	PVIF (8%)	PVIF (12%)
1	0.971	0.943	0.926	0.893
2	0.943	0.89	0.857	0.797
3	0.915	0.84	0.794	0.712
4	0.888	0.792	0.735	0.636
5	0.863	0.747	0.681	0.567
6	0.837	0.705	0.630	0.507

Required:

- (i) Analyze the value of the bond if it redeems at maturity.
- (ii) Assess the value of share at conversion.
- (iii) Assess the value of conversion option.
- (iv) Advise which option is more advantageous for the bondholder.

[7]



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- (b) Orange purchased 200 units of Oxygen Mutual fund at ₹45 per unit of 31st December 2023. In 2024, he received ₹1.00 as dividend per unit and a capital gains distribution of ₹2 per unit.

Required:

(i) Calculate the return for the period of one year assuming that the NAV as on 31st December 2024 was ₹48 per unit

(ii) Calculate the return for the period of one year assuming that the NAV as on 31st December 2024 was ₹48 per unit and all dividends and capital gains distributions have been reinvested at an average price of ₹46.00 per unit.

Ignore Taxation.

[7]

5. (a) Returns on two portfolios, B and L, for the past 4 years are –

Year	1	2	3	4
Portfolio B	13.00%	13.50%	12.50%	14.00%
Portfolio L	14.35%	11.75%	13.60%	12.90%

Beta factor of the two portfolios are 1.3 and 1.2 respectively. If the market portfolio fetches 12% return and RBI Bonds, which are considered risk free, yield 5% return, which of the above two portfolios will an investor prefers? Justify your answer.

[7]

- (b) Consider the following data on four mutual funds:

Funds	Alpha (%)	Systematic Risk (%)	Unsystematic Risk (%)	Correlation Matrix				
				W	X	Y	Z	Market
A	(4)	4	3	1	0.5	0.8	0.3	0.75
B	9	3	7	-	1.0	0.7	0.5	0.60
C	0	2	2	-	-	1	0.6	0.89
D	(12)	5	3	-	-	-	1.0	0.72

The market return during the period was 15% with a variance of 25%. The risk-free interest is 7%. Calculate Treynor, Sharpe and Jensen alpha and rank them.

[7]

6. (a) The price of Compact Stock of a face value of ₹10 on 31st December, 2024 was ₹414 and the futures price on the same stock on the same date i.e., 31st December, 2024 for March, 2025 was ₹444.

Other features of the contract and the related information are as follows:

- Time to expiration 3 months (0.25 year)
- Annual dividend on the stock of 30% payable before 31.3.2025.
- Borrowing Rate is 20 % p.a.

Based on the above information, calculate future price for Compact Stock on 31st December, 2024. Please also assess whether any arbitrage opportunity exists. [7]

- (b) A put and a call option each have an expiration date 6 months hence and an exercise price ₹9. The interest rate for the 6 months period is 3 percent.



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- i. If the put has a market price of ₹2 and share is worth ₹10 per share, calculate the value of the call?
- ii. If the put has a market price of ₹2 and the call ₹4. calculate the value of the share per share?
- iii. If the call has a market value of ₹5 and market price of the share is ₹12 per share calculate the value of the put?

[7]

7. (a) M/s Virushka Electronics Ltd. exports air conditioners to Germany by importing all the components from Singapore. The company is exporting 2,400 units at a price of Euro 500 per unit. The cost of imported components is S\$ 800 per unit. The fixed cost and other variables cost per unit are ₹1,000 and ₹1,500 respectively. The cash flows in foreign currencies are due in six months.

The current exchange rates are as follows:

₹/Euro 51.50/55

₹/S\$ 27.20/25

After six months the exchange rates turn out as follows:

₹/Euro 52.00/05

₹/S\$ 27.70/75

(1) You are required to calculate loss/gain due to transaction exposure.

(2) Based on the following additional information calculate the loss/gain due to transaction and operating exposure if the contracted price of air conditioners is ₹25,000:

(i) The current exchange rate changes to

₹/Euro 51.75/80

₹/S\$ 27.10/15

(ii) Price elasticity of demand is estimated to be 1.75

(iii) Payments and receipts are to be settled at the end of six months.

[7]

- (b) Zerox LTD, an Indian firm, is required to pay JPY 5,00,000 on 30th June. To hedge the foreign exchange risk, the firm is considering two alternatives: a forward market cover and a currency option contract. On 1st April, the following quotations are available (JPY/INR):

<u>Instrument</u>	<u>Rate</u>
Spot	1.9516 / 1.9711
3 months forward	1.9726 / 1.9923

The forex currency option prices for purchasing JPY are as follows:

- Strike Price: JPY 2.125
- Call Option Premium (June): JPY 0.047
- Put Option Premium (June): JPY 0.098

For any excess or balance of JPY not covered by the option, the firm would use the forward rate as the future spot rate.

Required: Recommend the cheaper hedging alternative for Zerox Ltd. and justify your choice.

[7]



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**8. Short Notes on:**

- (a) Discuss the Advantages of Digital Financial Services. [5]
- (b) Discuss the features of Global Depositary Receipts (GDRs). [5]
- (c) Discuss the key parties involved in the process of securitization and explain their respective roles. [4]