FINAL EXAMINATION **SET - 2**

MODEL QUESTION PAPER **TERM – DECEMBER 2025**

PAPER – 14 **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) Terminal value of the project cash inflows means

(a) The sum of the future cash flows after a particular period of time

(b) The present value of the projects' future cash inflows

(c) The sum of the reinvested values of the cash inflows up to the end of the project life

(d) The sum of the reinvested values of the cash inflows up to the end of the project life minus initial outlay

(ii) Given, expected value of profit without perfect information = ₹1,600 and expected value of perfect information = ₹300, then expected value of profit with perfect information will be _____

(a) ₹1,300

(b) ₹1,900

(c) ₹950

(d) None of the above

(iii) A project requires ₹250,000 investment and will generate ₹100,000 annually for 3 years. Risk-free rate = 8%, risk premium = 6%. Find the Net Present Value (NPV) using the Risk-Adjusted Discount Rate (RADR) method.

(a) ₹ 23,140

(b) ₹ –17,860

(c) ₹ 32,140

(d) ₹ –7,860

(iv) _____ certificate under securitisation have multiple maturity structure.

(a) Pass through certificate

(b) Pay through certificate

(c) Preferred stock certificate

(d) Interest only certificate

(v) The declining market is called 'bear market' because of the

(a) Long hibernation period of bears

(b) Traditional usage

(c) Fur coat of the bears

(d) Attacking manner of bears

(vi) A bond with a face value of ₹1,000 provides 12% annual coupon and pays ₹1,050 at maturity in 10 years. If the investor requires a 13% return, at what price should the company issue the bond?

(a) ₹1,008.67
(b) ₹960.87
(c) ₹1,050.00
(d) ₹1,200.00

(vii) If the risk-free rate is 10% and the expected return on the market portfolio is 15%, what is the expected return of a portfolio with a beta of 0.10?

(a) 10.0%
(b) 10.5%
(c) 11.0%
(d) 15.0%

(viii) XYZ Ltd. has an unlevered beta of 0.6. The company has debt of ₹600 lakh and equity of ₹800 lakh. The corporate tax rate is 20%. What is the levered beta of the company?

(a) 0.84
(b) 1.00
(c) 1.80
(d) 0.96

(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) A borrower has a floating rate loan tied to LIBOR and wants protection against rising interest rates. Which instrument should the borrower purchase?

(a) Interest rate cap
(b) Interest rate floor
(c) Interest rate collar
(d) Interest rate swap

(xi) M buys a call option contract for a premium of ₹200. The exercise price is ₹25 and the current market price of the share is ₹22. If the share price after three months reaches ₹30, what is the profit made by M on exercising the option? A contract is for 100 shares. Ignore transaction charges.

(a) ₹200
(b) ₹300
(c) ₹100
(d) ₹600

(xii) _____ is a private arrangement between lending banks and a borrower.

(a) Club loan
(b) Multiple component facility
(c) Syndicated Euro credit
(d) All of the above

(xiii) The following rates are prevailing: Euro/$:1.1916/1.1925 and $/£:1.42/1.47 what will be the cross rate between Euro/Pound?

(a) £1.6921 / 1.7530
(b) £1.7530/1.6921
(c) £1.6921/1.1925
(d) £1.7530/1.1916

(xiv) The current spot rate for the U.S. dollar is ₹66. The expected inflation rate is 6.5% in India and 3% in USA. The expected rate of dollar a year hence is –

(a) ₹67.50
(b) ₹68.24
(c) ₹69.50
(d) ₹70.05

(xv) UPI stands for _____.

(a) United Payment Interface
(b) Unified Payment Interface
(c) Unique Payment Interface
(d) Utility Payment Interface

SECTION – B

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

[5 x 14 = 70]

2. (a) Z Ltd. is considering two mutually exclusive projects, Project A and Project B, each costing ₹60 lakhs. The expected cash inflows and discount factors at a cost of capital of 15% are given below:

At the end of the year	Project A	Project B	P.V. @ 15%
1	60	100	0.870
2	110	130	0.756
3	120	50	0.658
4	50	-	0.572

Additional Information:

Life of Project A = 4 years

Life of Project B = 3 years

Salvage value = NIL for both projects

Tax rate = 33.99%

Cost of capital = 15%

Required:

1. Calculate the Net Present Value (NPV) for both Project A and Project B.
2. Based on the NPVs, advise which project Z Ltd. should accept, assuming the projects are mutually exclusive? **[7]**

(b) Fair finance, a leasing company, has been approached by a prospective customer intending to acquire a machine whose Cash Down price is ₹3 crores. The customer, in order to leverage his tax position, has requested a quote for a three-year lease with rentals payable at the end of each year but in a diminishing manner such that they are in the ratio of 3: 2: 1. Depreciation can be assumed to be on straight line basis and Fair Finance's marginal tax rate is 35%. The target rate of return for Fair Finance on the transaction is 12%.

Calculate the lease rents to be quoted for the lease for three years. **[7]**

3. (a) Cyber Company is considering two mutually exclusive projects. Investment outlay of both the projects is ₹5,00,000 and each is expected to have a life of 5 years. Under three possible situations their annual cash flows and probabilities are as under:

		Cash Flow	
Situation	Probabilities	Project A	Project B
Good	0.3	6,00,000	5,00,000
Normal	0.4	4,00,000	4,00,000
Worse	0.3	2,00,000	3,00,000

The cost of capital is 9%. Recommend which project should be accepted, and discuss your answer with appropriate workings. **[7]**

(b) You have been reading about Software Ltd. which currently retains 90 per cent of its earnings (₹5 a share this year). It earns a ROE of almost 30 percent.

(i) Assuming a required rate of return of 14 percent, calculate how much you would pay for the share on the basis of the earnings multiplier model.

(ii) Calculate how much you would pay for the stock if its retention rate is 60 percent and its return on equity (ROE) is 19 percent. **[7]**

4. (a) A company issues Zero coupon bond of 10 years' maturity. Issue price ₹260. Maturity value ₹1,000. Ignore tax. Calculate YTM? **[7]**

(b) The following particulars are furnished about three Mutual Fund Schemes, P, Q and R

Particulars	Scheme P	Scheme Q	Scheme R
Dividend Distributed	₹1.75	___	₹1.30
Capital Appreciation	₹2.97	₹3.53	₹1.99
Opening NAV	₹32.00	₹27.15	₹23.50
Beta	1.46	1.10	1.40

Calculate the Alpha of the three schemes and evaluate their performance, if Government of India Bonds carry an interest rate of 6.84% and the NIFTY has increased by 12.13%. **[7]**

5. (a) A portfolio management services manage a stock fund consisting of five stocks with the following market values, betas and expected returns:

Stock	Market value (₹)	Beta	Expected Return
A	2,00,000	1.10	15%
B	1,00,000	0.75	14%
C	1,50,000	0.90	15%
D	2,50,000	1.20	16%
E	3,00,000	1.40	17%

Critically assess the portfolio's expected return using the CAPM, given a risk-free rate of 9% and a market return of 15%, and evaluate which stocks are undervalued or overvalued. **[7]**

(b) A fund had a value of ₹1000 on 1st January 2022. A net cash flow of ₹170 was received on 1st January 2023 and a further ₹500 on 1st January 2024. The value of the fund on 31st December 2022 was ₹1030 and on 31st December 2023 it was ₹1200.

(i) Using the fund value on 1st January 2022, calculate the value of the fund on 31st December 2024 so that the MWROR earned on the fund between 1st January 2022 and 31st December 2024 is 3% per annum.

(ii) Calculate the TWROR between the 1st January 2022 and 31st December 2024. Assume that the value of the fund on 31st December was ₹1788.08. **[7]**

6. **(a)** Evaluate the given data and judge the appropriate figures needed to fill the blanks in the following matrix.

Case	Portfolio Value	Existing Beta	Outlook	Activity	Desired Beta	No. of Futures Contacts
M	?	1.20	Bullish	?	1.8	90
N	₹3,60,00,000	?	?	Buy Index Futures	2.3	45
O	₹2,00,00,000	1.60	?	?	1.2	?
P	₹6,40,00,000	1.10	Bullish	?	?	48

S&P index is quoted at 4000 and the lot size is 100. **[7]**

(b) Calculate the value of option, both call and put, on expiry for the stock of Nirmal Spice Foods (NSF) Ltd. From the following information-
Exercise Price – ₹510
Spot Price on Exercise Date Ranges between ₹495 and ₹525, with interval of ₹5.
Also evaluate what will be the action on the above range of prices for both the options. [7]

7. **(a)** Evaluation of Forward Premium – Encashing Foreign Currency Deposits – The following 2 – way quotes appear in the foreign exchange market –

	Spot Rate	2-Months Forward
₹/ US $	₹46.00/ ₹46.25	₹47.00/ ₹47.50

Critically assess the exchange rate information to determine:
(i) The amount of US Dollars to be sold for realizing ₹25 lakhs after two months.
(ii) The Rupee amount payable to purchase US $2,00,000 in the spot market.
(iii) Whether it is financially advantageous for the firm to encash its US $69,000 immediately or defer for two months, given a 10% annual return on Rupee investments. **[7]**

(b) A company is considering hedging its foreign exchange risk. It has made a purchase on 1st July, 2024 for which it has to make a payment of US$ 60,000 on December 31, 2024. The present exchange rate is 1 US $ = ₹85. It can purchase forward 1$ at ₹84. The company will have to make an upfront premium @ 2% of the forward amount purchased. The cost of funds to the company is 12% per annum.

In the following situations, calculate the profit/loss the company will make if it hedges its foreign exchange risk with the exchange rate on 31st December, 2024 as:
(i) ₹88 per US $.
(ii) ₹82 per US $.
(iii) ₹90 per US $.
(iv) ₹85 per US $. **[7]**

8. Short Notes on:
(a) Discuss the Disadvantages of Cryptocurrency. **[5]**
(b) Discuss the concept of Foreign Currency Convertible Bonds (FCCBs) and explain their benefits. **[5]**
(c) Discuss the concept of a Sale and Lease Back Agreement. **[4]**