

MOCK TEST PAPER 2
FINAL COURSE: GROUP – I
PAPER – 2: STRATEGIC FINANCIAL MANAGEMENT

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

Working notes should form part of the answer.

Time Allowed – 3 Hours

Maximum Marks – 100

1. (a) You have the following quotes from Bank X and Bank Y:

	Bank X	Bank Y
SPOT	USD/CHF 1.0750/55	USD/CHF 1.0753/60
3 months	5/10	
6 months	8/16	
SPOT	GBP/USD 1.1945/60	GBP/USD 1.1940/50
3 months	25/20	
6 months	37/26	

Calculate:

- (i) How much minimum CHF amount you have to pay for 1 Million GBP spot?
- (ii) Considering the quotes from Bank X only, for GBP/CHF what are the Implied Swap points for both Bid and Offer Spot rates over 5 months? **(8 Marks)**
- (b) Shiva has a fund of ₹ 5 lacs which he wants to invest in share market with rebalancing target after every 15 days to start with for a period of one month from now. The present NIFTY is 17025. The minimum NIFTY within a month can at most be 15322.50. He wants to know as to how he should rebalance his portfolio under the following situations, according to the theory of Constant Proportion Portfolio Insurance Policy, using "2" as the multiplier:
- (1) Immediately to start with.
- (2) 15 days later-being the 1st day of rebalancing if NIFTY falls to 16321.89.
- (3) 15 days further from the above date if the NIFTY touches 17512.14.
- Note:** Assume that the value of his equity component will change in tandem with that of the NIFTY. **(8 Marks)**
- (c) Explain some of the parameters to identify the Currency Risk. **(4 Marks)**
2. (a) On the basis of given information, Mr. XLY want to create a portfolio equally as risky as the market and is having ₹ 20,00,000 to invest.

Assets	Investment	Beta
Stock A	₹ 4,00,000	0.70
Stock B	₹ 5,00,000	1.10
Stock C	?	1.60
Debenture (D)	?	0

How do you recommend and interpret the risk scenario and investment in all the securities?

(6 Marks)

(b) Following is the Balance Sheet of M/s. PK Ltd. as on 31-03-2015:

Particulars	₹ in Lacs
I. Equity & Liabilities	
Shareholders' Fund	
Equity Share Capital (₹ 10 each)	900.00
10% Preference Share Capital (₹ 100 each)	300.00
Reserves & Surplus	(500.00)
Non-Current Liabilities	
Term Loan	400.00
Current Liabilities	
Trade Payables	400.00
Total (I)	1500.00
II. Assets	
Non-Current Assets	1000.00
Current Assets :	
Inventory	300.00
Trade Receivables	100.00
Cash & Bank Balance	100.00
Total (II)	1500.00

M/s PK Ltd. did not perform well and has suffered sizeable 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 have been designed :

- (i) Equity shares are to be reduced to ₹ 2 per share fully paid.
- (ii) Preference shares are to be reduced by ₹ 50 per share and rate of dividend on Preference shares is also reduced by 2%.
- (iii) Trade Payables have agreed to forego 40% of their existing claims and for the balance 50% they have agreed to convert their claims into equity shares of ₹ 2 each, fully paid.
- (iv) In order to make payment for Term Loan, the company issues 200 Lacs equity shares of ₹ 2 each at par. Entire sum is required to be paid on application.
- (v) Non-Current Assets is to be revalued at ₹ 500 Lacs.

You are required:

- (1) To show the impact of financial restructuring.
- (2) To prepare Balance Sheet assuming the scheme of restructuring is implemented.

10 Marks)

(c) Explain the conditions that are required to be satisfied by an entity to be considered as a Startup vide GSR Notification 127 (E) dated 19th February 2019. **(4 Marks)**

OR

Explain some of the 'sell-side' imperatives in Mergers & Acquisitions. **(4 Marks)**

3. (a) Mr. A is holding 1000 shares of face value of ₹ 100 each of M/s. ABC Ltd. He wants to hold these shares for long term and have no intention to sell.

On 1st January 2020, M/s XYZ Ltd. has made short sales of M/s. ABC Ltd.'s shares and approached Mr. A to lend his shares under Stock Lending Scheme with following terms:

- (i) Shares to be borrowed for 3 months from 01-01-2020 to 31-03-2020,
- (ii) Lending Charges/Fees of 1% to be paid every month on the closing price of the stock quoted in Stock Exchange and
- (iii) Bank Guarantee will be provided as collateral for the value as on 01-01-2020.

Other Information:

- (a) Cost of Bank Guarantee is 8% per annum,
- (b) On 29-02-2020 M/s ABC Ltd., declared dividend of 25%,
- (c) Closing price of M/s. ABC Ltd.'s share quoted in Stock Exchange on various dates are as follows:

Date	Share Price in Scenario -1 Bullish	Share Price in Scenario -2 Bullish
01-01-2020	1000	1000
31-01-2020	1020	980
29-02-2020	1040	960
31-03-2020	1050	940

You are required to find out:

- (i) Earning of Mr. A through Stock Lending Scheme in both the scenarios,
- (ii) Total Earnings of Mr. A during 01-01-2020 to 31-03-2020 in both the scenarios,
- (iii) What is the Profit or loss to M/s. XYZ by shorting the shares using through Stock Lending Scheme in both the scenarios? **(8 Marks)**

- (b) The following are the details of three mutual funds of MFL:

	Growth Fund	Balanced Fund	Regular Fund	Market
Average Return (%)	7	6	5	9
Variance	92.16	54.76	40.96	57.76
Coefficient of Determination	0.3025	0.6561	0.9604	

The yield on 182 days Treasury Bill is 9 per cent per annum.

You are required to:

- (i) Rank the funds as per Sharpe's measure.
- (ii) Rank the funds as per Treynor's measure.
- (iii) Compare the performance with the market. **(8 Marks)**

- (c) Explain the various requirements that makes an organisation sustainable. **(4 Marks)**

4. (a) The Management of a multinational company TL Ltd. is engaged in construction of Infrastructure Project. A proposal to construct a Toll Road in Nepal is under consideration of the Management.

The following information is available:

The initial investment will be in purchase of equipment costing USD 250 lakhs. The economic life of the equipment is 10 years. The depreciation on the equipment will be charged on straight line method.

EBIDTA to be collected from the Toll Road is projected to be USD 33 lakhs per annum for a period of 20 years.

To encourage investment Nepalese government is offering a 15 year term loan of USD 150 lakhs at an interest rate of 6 per cent per annum. The interest is to be paid annually. The loan will be repaid at the end of 15 year in one tranche.

The required rate of return for the project under all equity financing is 12 per cent per annum.

Post tax cost of debt is 5.6 per cent per annum.

Corporate Tax Rate is 30 per cent.

All cash Flows will be in USD.

Ignore inflation.

You are required to advise the management on the viability of the proposal by using Adjusted Net Present Value method.

Given

PVIFA (12%, 10) = 5.650, PVIFA (12%, 20) = 7.469, PVIFA (8%,15) = 8.559, PVIF (8%, 15) = 0.315. **(8 Marks)**

- (b) There are two Mutual Funds viz. D Mutual Fund Ltd. and K Mutual Fund Ltd. Each having close ended equity schemes.

NAV as on 31-12-2014 of equity schemes of D Mutual Fund Ltd. is ₹ 70.71 (consisting 99% equity and remaining cash balance) and that of K Mutual Fund Ltd. is 62.50 (consisting 96% equity and balance in cash).

Following is the other information:

Particular	Equity Schemes	
	D Mutual Fund Ltd.	K Mutual Fund Ltd.
Sharpe Ratio	2	3.3
Treynor Ratio	15	15
Standard deviation	11.25	5

There is no change in portfolios during the next month and annual average cost is ₹ 3 per unit for the schemes of both the Mutual Funds.

If Share Market goes down by 5% within a month, calculate expected NAV after a month for the schemes of both the Mutual Funds.

For calculation, consider 12 months in a year and ignore number of days for particular month.

(8 Marks)

- (c) Explain the various features of Securitization.

(4 Marks)

5. (a) Mr. A owns a portfolio with the following characteristics:

	Security X	Security Y	Risk Free security
Beta	1.60	1.80	0
Expected Return	15%	16%	7%

- (i) If Mr. A has ₹ 2,00,000 to invest and sells short ₹ 1,00,000 of security B and purchases ₹ 3,00,000 of security A what is the sensitivity of Mr. A's portfolio ?
- (ii) If Mr. A borrows ₹ 2,00,000 at the risk free rate and invests the amount he borrows along with the original amount of ₹ 2,00,000 in security X and Y in the same proportion as described in part (i), what is sensitivity of the portfolio?
- (iii) What is the expected market risk premium? **(8 Marks)**
- (b) A textile manufacturer has taken floating interest rate loan of ₹40,00,000 on 1st April, 2012. The rate of interest at the inception of loan is 8.5% p.a. interest is to be paid every year on 31st March, and the duration of loan is four years. In the month of October 2012, the Central bank of the country releases following projections about the interest rates likely to prevail in future.

Dates	Interest Rate
31 st March, 2013	8.75%
31 st March, 2014	10.00%
31 st March, 2015	10.50%
31 st March, 2016	7.75%.

- (i) ADVISE how borrower can hedge the risk arising out of expected rise in the rate of interest when he is interested in pegging his interest cost at 8.50% p.a. and if option on Interest Rate is available at 0.75% p.a.
- (ii) Assume that the premium negotiated by both the parties at the above-mentioned rate which is to be paid on upfront basis and the actual rate of interest on the respective due dates happens to be as follows:

Dates	Interest Rate
31 st March, 2013	10.20%
31 st March, 2014	11.50%
31 st March, 2015	9.25%
31 st March, 2016	8.25%.

Evaluate how the settlement will be executed on the respective interest due dates. **(8 Marks)**

- (c) Explain various benefits that accrues to an investor by investing money in the Securitized Instruments. **(4 Marks)**
6. (a) Details about portfolio of shares of an investor is as below:

Shares	No. of shares (lakh)	Price per share	Beta
A Ltd.	10.00	₹ 400	1.50
B Ltd.	6.00	₹ 500	1.20
C Ltd.	5.00	₹ 600	1.80

The investor thinks that the risk of portfolio is very high and wants to reduce the portfolio beta to 1.125. He is considering two below mentioned alternative strategies:

- (i) Dispose off a part of his existing portfolio to acquire risk free securities, or
- (ii) Take appropriate position on Nifty Futures which are currently traded at 5000 and each Nifty points is worth ₹ 500.

You are required to determine:

- (1) portfolio beta,

- (2) the value of risk free securities to be acquired,
- (3) the number of shares of each company to be disposed off,
- (4) the number of Nifty contracts to be bought/sold; and
- (5) the value of portfolio beta for 4% rise in Nifty.

(10 Marks)

- (b) Ram holding shares of Reliance Industries Ltd. which is currently selling at ₹ 1000. He is expecting that this price will further go down due to lower level of profit than expected level to be announced after one month. As on date following option contract are available in Reliance Share.

Strike Price	Option	Premium (₹)
1030	Call	40
1010	Call	35
1000	Call	30
990	Put	35
970	Put	20
950	Put	8
930	Put	5

Ram is interested in selling his stock holding as he cannot afford to lose more than 5% of its value.

Recommend a hedging strategy with option and show how his position will be protected.

(6 Marks)

- (c) Explain briefly the various factors that affect the value of an Option.

(4 Marks)