CA AFM

Suggested Solution

Test-15 (of Test series)

Test-2 (of Full syllabus)

100 Marks

Mission 80+ for M/J 25

Case Scenario-I		
1.	(c)	21.6
2.	(c)	Loss of ₹510
3.	(b)	two
4.	(a)	Increased by 3.6
5.	(d)	Increase in debt-equity ratio

Hint:

P_0 = ₹25

No. of share = 10,00,000

Fund required to raise = ₹20 lakh

(i) **Ex-right price & value of a right:**

Right ratio = $\frac{1}{4}$

Right share = $10,00,000 \times \frac{1}{4} = 2,50,000$

Issue price = $\frac{20,00,000}{2,50,000}$ = ₹8

Ex-right price = $\frac{(4 \times ₹25)+(1 \times ₹8)}{4+1}$ = ₹21.6

Value of RE = 25-21.6 = ₹3.4

(ii) **Impact on shareholders' wealth:**

Existing share price = ₹25

New share price after right issue = ₹21.6

Decrease in wealth = (25-21.6) × 150 shares = ₹510

Note:

- Shareholders have two choices to exercise right:
  - (i) Apply for share by paying issue amount.
  - (ii) Sale RE before allotment date.

- There will be no change in shareholders' wealth due to right issue. However, shareholders' wealth decreases if they ignore right.

(iii)

Let, One right share has been offered for every x *shares.*

Number of right shares = $\frac{10}{x}$ lakh shares

Issue price of right shares = $\frac{20}{no.of\ right\ shares} = \frac{20}{10/x} = 2x$

Given, Ex-right price = 25 – 28% = 18

Also,

Ex-right price = $\frac{(\text{Existing price} \times \text{Existing no.of share}) + (\text{Issue price} \times \text{Right share})}{(\text{Existing no.of share} + \text{Right share})}$

Or, 18 = $\frac{(25 \times 10) + (2x \times 10/x)}{(10 + 10/x)}$

Solving, we get x = 2

(iv) Value of revised RE = 25-18 = 7

Value of each RE increased by 7- 3.4 = 3.6

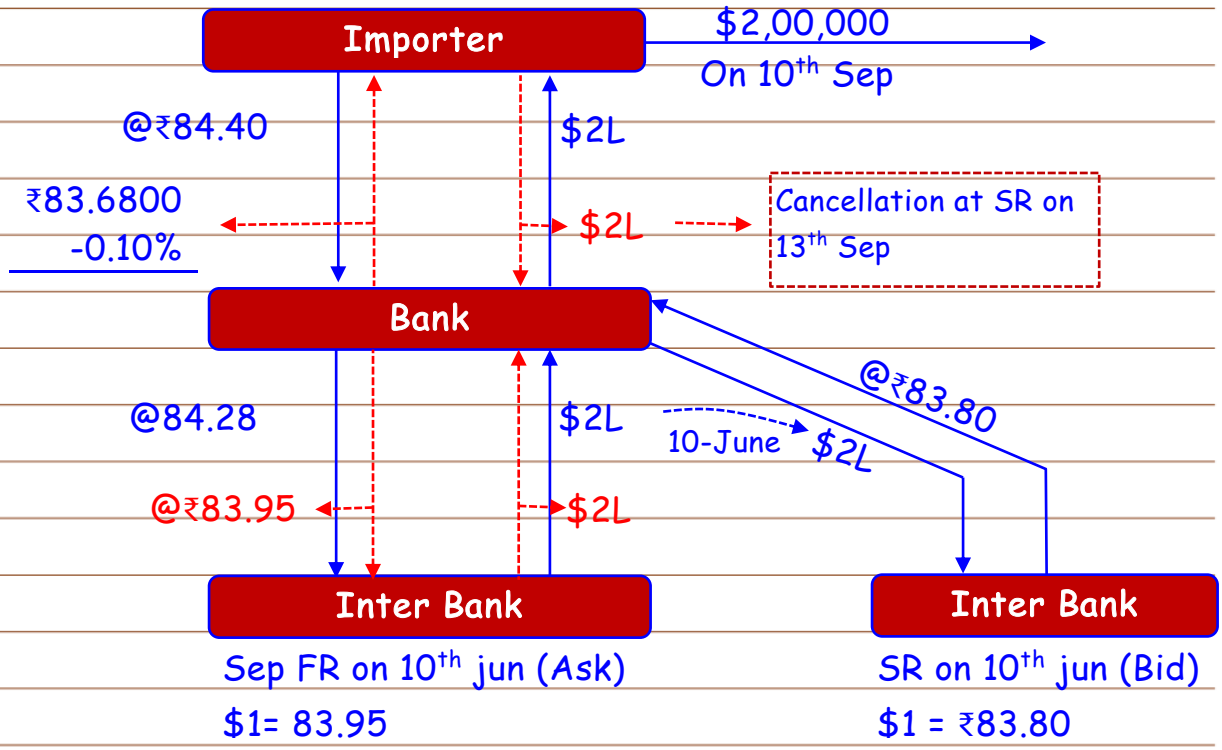
(v) correct option is (d)

Increase in debt-equity ratio is not an advantage because a rights issue raises equity, not debt, thus improving (reducing) the debt-equity ratio.

Case Scenario-II		
6.	(c)	83.5975
7.	(a)	30,000
8.	(b)	94.68
9.	(b)	84.3350
10.	(d)	190,594.68

Hint:

Interpretation of Question:



Solution

Calculation of common charges:

(i) Cancellation rate:

- Spot rate (Bid) prevailing on 13th June is applicable for cancellation.

  $1 = ₹ 83.6800 - .10% = ₹ 83.5963 (rounded off to ₹ 83.5975)

Amount payable on $2,00,000 = 2,00,000 (84.4000-83.5975) = ₹1,60,500

(ii) Swap Loss:

• Sale price of $	₹ 83.8000
• Purchase price of $	₹ 83.9500
• Swap loss per $	₹ 0.15
• Total swap loss to be recovered from customer (0.15 × 2,00,000)	₹ 30,000

(iii) Interest on outlay of fund:

• Purchase rate of $	₹ 84.2800
• Sale rate of $	₹ 83.8000
• Outlay per $	₹ 0.48
• Total outlay	₹ 96,000

Interest for 3 days = 96,000 × 12% × (3/365) = ₹ 94.68

(iv) New Contract rate:

- Enter new forward contract for due in August, at rate prevailing on 13th June (ask).

$ 1	₹84.2500
	+0.10%
	₹84.3343
Rounded to:	**₹84.3350**

(v) Total cost of Importer:

Cancellation loss	1,60,500
Swap loss	30,000
Interest	94.68
Total cost of Y	**190,594.68**

Case Scenario-III		
11.	(b)	5%
12.	(c)	1.1
13.	(b)	12.36%
14.	(a)	17%

Hint:

Risk free return = ~~6%~~

Face value of Bond = ₹100

Interest = ₹100 x 6% = ₹6

Return from Bond = $\frac{\$6}{\$120} \times 100 = 5\%$ $\because (\frac{\text{Interest}}{\text{Market price}} \times 100)$

Hence, R_F = 5%

(i) **Calculation of SD of market:**

Using CAPM,

Fair return = $R_F + \beta_y(R_M - R_F)$

or, 16 = $5 + \beta_y(15 - 5)$

$\therefore \beta_y$ = 1.1

Again,

$$\beta_y = \frac{\text{Covariance(Y,m)}}{\sigma_m^2}$$

$$\text{or, } 1.1 = \frac{168}{\sigma_m^2}$$

$$\therefore \sigma_m = \sqrt{152.73} = 12.36\%$$

(ii) **Calculation of SD of security:**

$$r_{x,m} = \frac{\text{Covariance(Y,m)}}{\sigma_y \sigma_m}$$

$$\text{or, } 0.80 = \frac{168}{\sigma_y \times 12.36}$$

$$\therefore \sigma_y = \frac{168}{12.36 \times 0.80} = 17\%$$

Case Scenario-IV		
15.	(b)	Pass Through Certificate (PTCs)
16.	(d)	Prosper Finance Ltd.
17.	(b)	Special Purpose Vehicle (SPV)
18.	(c)	Receiving and Paying Agent (RPA)
19.	(a)	When Yield to Maturity in the market falls, prices of PO securities tend to rise.
20.	(c)	The Arranger/Sponsor
21.	(b)	To make payments on the underlying receivables

Hint:

	Explanation: -
15.	The securities issued by SAT pass through the cash flows from the receivables directly to investors, which is characteristic of Pass-Through Certificates (PTCs).
16.	The Originator is the entity that originally owns the receivables. Prosper Finance Ltd. owns the loan receivables and sells them to HCS, making it the Originator.
17.	SAT is a trust created specifically to hold the receivables and issue securities, which defines it as a Special Purpose Vehicle (SPV).
18.	TGS is responsible for collecting payments from obligors, transferring them to SAT, and handling defaults, which aligns with the role of a Receiving and Paying Agent (RPA).
19.	Principal Only (PO) securities are sensitive to interest rate changes. When Yield to Maturity falls, the present value of future cash flows increases, leading to a rise in PO securities' prices.
20.	HCS facilitates the securitization by purchasing receivables, creating the SPV (SAT), and structuring the issuance of securities, making it the Arranger or Sponsor of the transaction.
21.	The Obligor is the entity (e.g., borrowers of the loans) responsible for making payments on the receivables, which are then passed through to investors via the SPV.

Part II (Descriptive Questions)

Question-1(a) Solution:

Requirement = 150 tonnes per month (3 tonne = 22 barrels)

SP: ₹7500/barrel

Aug beg. — Aug end

SP: 7500
Aug Fut: 7668

EP: 7800
Req: 150 × 22/3
= 1100 barrels

733.33 barrel
Future Contract

366.67 barrel
No hedging

(i) **No. of contract to be booked:**

Lot size = 50 barrel
Quantity to be hedged = 733.33 barrel
No. of contract = $\frac{733.33}{50}$ = 14.67 contract
(Rounded to 15 contract.)

Note: It means hedged part = 15 × 50 = 750 barrel
Exposed part = 1100 – 750 = 350 barrel

(ii) **Effective price per barrel when SP = 7570 and FP = 7788:**

Sale price of future (Exit on Aug end)	7788
Purchase price of Future	7668
Gain per barrel	120
Total gain on 15 contracts [(120 × 50) × 15]	90,000

(a) **Outflow to buy 1100 barrels from spot market:**

= 7570 × 1100 = 83,27,000

(b) **Effective price for whole requirement of Aug:**

Outflow in spot market	83,27,000
Less: gain from future contract	(90,000)
Total net cost for 1100 barrels	82,37,000
Effective cost per barrel	7488.18

(iii) (a)

Let, In August spot price be 'r'

Therefore, Future Price = 1.01r

Sale price of future (Exit on Aug end)	1.01r
Purchase price of Future	7668
Gain per barrel	1.01r - 7668
Total gain on 15 contracts [50× 15]	(1.01r – 7668) ×750

(b) **Outflow to buy 1100 barrels from spot market:**

= r × 1100 = 1100 r

(c) **Effective price for whole requirement of Aug:**

Outflow in spot market (1100 × r)	1100r
Less: gain from future contract	(1.01r – 7668) ×750
Total net cost for 1100 barrels	1100 r - (1.01r – 7668) ×750

Effective cost per barrel = current price +2% = 7500+2% =7650

Total Net cost for 1100 barrels = 7650 × 1100 = 84,15,000

1100 r - (1.01r – 7668) ×750 = 84,15,000

Or, 1100r - 757.5r + 57,51,000 = 84,15,000

Or, 342.5 r = 26,64,000

Or, r = 7,778.1

Future Price = 1.01r = 1.01 ×7,778.1 = 7,855.88

Question-1(b) Solution:

Expected return under APT $= \lambda_0 + \beta_1\lambda_1 + \beta_2\lambda_2 + \beta_3\lambda_3 + \beta_4\lambda_4 + \beta_5\lambda_5$

Where,

λ_0 = 8.50%

$\lambda_1, \lambda_2, \lambda_3, \lambda_4, \lambda_5$ = change in market return

(Actual Value – Expected Value)

$= 8.50\% + \beta_{GNP}(7.7 - 7.7) + \beta_{INF}(7.5 - 5.5) + 1.3(9 - 7.75) + 1.7(11 - 10) + 1(7.5 - 7) = 17.40\%$

Or, 15.825 $= 8.50 + 2\,\beta_{INF} + 1.625 + 1.7 + 0.5$

Or, 15.825 $= 12.325 + 2\,\beta_{INF}$

Or, β_{INF} **= 1.75**

β_{GNP}: As Change in market return of GNP is Zero, any value of β_{GNP} satisfy the equation. Hence β_{GNP} = Any Value

Question-2(a) Solution:

(1) Earning of Mr. A through Stock Lending Scheme

		Scenario 1	Scenario 2
Lending fee :			
31-01-20	520/480 x 1%	5.20	4.80
29-02-20	540/460 x 1%	5.40	4.60
31-03-20	550/440 x 1%	5.50	4.40
Earning from lending per share (A)		16.10	13.80
Total no. of shares		1000	1000
Total Earning from lending		16,100	13,800

(II) Total Earnings of Mr. A during 01-01-20 to 31-03-20

	Scenario 1	Scenario 2
Earning from lending per share (A)	16.10	13.80
Dividend income per share (B)	25	25
Total earnings per share (A+B)	41.10	38.80
Total no. of share	1000	1000
Total Earnings	41,100	38,800

(III) Profit or loss to M/s XYZ :

	Scenario 1	Scenario 2
Gain on shortening the shares [500-550] & [500-440]	(50)	60
Lending fees paid	(16.10)	(13.80)
Dividend paid to Mr. A*	(25)	(25)
Bank guarantee charges @ 8% p.a.	[500×8%×3/12]	(10)
Gain per share	(101.10)	11.20
Total no. of shares	1000	1000
Total Gain on Shortening the share	(101,100)	11,200

* NS Opinion:

While calculating profit of Mr. XYZ, Dividend paid to Mr. A has not been deducted in the Suggested Solution of the ICAI.

But as per Author opinion, we must have to deduct dividend amount to calculate profit or loss of M/s XYZ as dividend is payable by XYZ to Mr. A.

Question-2(b) Solution:

- SMD Bank shall choose that Bond from eligible securities which provides max profit or minimum loss.
- Profit/Loss = $\left[\text{Future Settlement Price} \times \text{Conversion Factor}\right] - \text{Quoted Price of Bond}$

Profit of SMD Bank as selling IRF using different conversion factors:

Security	Future Settlement Price	Conversion factor	FSP x Con. Factor	Quoted spot price	Profit / loss
6.55GOI 2025	10000	0.9060	9060	9264	(204)
6.80 GOI 2029	10000	0.9195	9195	8775	420
6.85 GOI 2026	10000	0.9643	9643	9723	(80)
8.44 GOI 2027	10000	1.1734	11743	11463	280
8.85 GOI 2028	10000	1.2428	12428	12017	411

Since 6.80% GOI 2029 maximize profit the same should be recommended as CTD.

Question-3 (a) Solution:

Interpretation (not for exam):

It is not clear whether dividend plan is Dividend Payout plan or Dividend re-investment plan.

As this question is modified version of old question, it is better to take same assumption as old question (if you remember).

Going to assume dividend re-investment plan.

(A) **Issue price of Dividend plan:**

⇨ Assume it is dividend re-investment plan

Annual profit	= ₹ 27748.60
Life	= 5 years
Total profit in 5 years	= (27748.60 × 5) = ₹138743

Total investment value at end of 5 year (31.3.20)

= 920,000 + 138743 = ₹ 10,58,743

Total no. of units as on 31.3.20 $= \frac{1058743}{49\ (NAV)} = 21607$

Going to calculate No. of units as on 31.3.2020 if someone invested in 1 unit on 01.04.2015.

Face value = ₹ 10 (assumed)

Date	Opening units	Div. per unit	Total Div.	NAV	Additional units issued	Closing units
01.04.2015	-	-	-	-	-	1
31.03.2017	1	1.2	1.2	48	0.0205	1.025
31.03.2018	1.025	1	1.025	50	0.0205	1.0455
31.03.2019	1.0455	1.5	1.5683	45	0.03485	1.08035

As no dividend declared after 31.3.2019

No. of units on 31.3.2020 = 1.08035

1.08035 unit on 31.3.2020 = 1 unit on 01.04.2015

21607 unit on 31.3.2020 $= \left(\frac{1}{1.08035} \times 21607\right)$ on 1.4.15

= 20,000 units

Hence, unit bought on 1.4.15 = 20,000

Amount invested = 920,000

Hence, NAV (1.4.2015) $= \left[\frac{920,000}{20,000}\right]$ = ₹46

(B) **Issue price of Bonus Plan:**

5-year yield = 6.4 × 5 = 32%

Total value of investment on 31.3.2020 = 10,00,000 + 32%

= 1320,000

No. of units on 31.3.2020 $= \frac{1320,000}{44}$ = 30,000 units

Closing units if some one bought 1 unit on 1.4.15

Date	Opening Units	Bonus ratio	Bonus units	Closing Units
31.12.16	1	$\left(\frac{1}{4}\right)$	0.25	1.25
31.12.18	1.25	$\left(\frac{1}{5}\right)$	0.25	1.50

1.50 Units on 31.3.2020 = 1 unit on 1.4.2015

30,000 units on 31.3.2020 $= \left(\frac{1}{1.5} \times 30,000\right)$ units on 1.4.2015

= 20,000 units

Hence, issue price (NAV on 1.4.2015) $= \frac{10,00,000}{20,000}$ = ₹50

Question-3 (b) Solution:

Cost of new machine = 26,00,000 + 9,000 + 6,000 = 26,15,000

Outflow in WC = 17,000

Annual Depreciation $= \frac{26,15,000}{8}$ = 3,26,875

Particulars	Amount
Sale value of Old Machine	12,500
Less:- Dismantling cost	4,500
Net sale value	8,000
Less:- WDV in books	76,000
STCL	(68,000)

Tax saving on STCL = 68,000 x 35% = 23,800

Total Inflow = 8,000 + 23,800 = 31,800

⇨**Incremental initial outflow:**

Cost of Machine	26,15,000
Working capital	17,000
	26,32,000
Less:- Inflow from old M.	31,800
Net Outflow	26,00,200

⇨**Annual Cash Inflows:**

Particulars	₹ (1 to 8y)
EBT	3,15,000
Less:- Tax @35%	1,10,250
EAT	2,04,750
Add:- Depreciation	3,26,875
Annual Cash Inflow	5,31,625

⇨ Inflow at 8y end from WC = 17,000

⇨ **PV of inflows @13%**

= 5,31,625 x PVIFA (13%, 8)

= 5,31,625 x 4.80 = 25,51,800

⇨ **PV of inflows from W.C.**

= 17,000 x 0.376

= 6,392

⇨ NPV = PV of Inflows – PV of Outflows

= (25,51,800 + 6,392) – 26,00,200

= - 42,008

Question-4(a) Solution:

NAV (₹)	Value of Conservative Portfolio (₹)	Value of aggressive Portfolio (₹)	Total value of Constant Ratio Plan (₹)	% increase or decrease in NAV	Revaluation Action	Total No. of units in aggressive portfolio
100.00	2,50,000	2,50,000	5,00,000	-	-	2500.00
78.00	2,50,000	1,95,000	4,45,000	22.00%	$\frac{222500-195000}{78}$	2500.00
	2,22,500	2,22,500	4,45,000		Buy 352.56 units	2852.56
92.00	2,22,500	2,62,435	4,84,935	17.94%	$\frac{2,42,468-2,62,435}{92}$	2852.56
	2,42,467	2,42,468	4,84,935		Sell 217.03 units	2635.53
86.00	2,42,467	2,42,468	4,84,935	6.52%	-	2635.53
102.00	2,42,467	2,68,824	5,11,291	18.60%	$\frac{2,55,646-2,68,824}{102}$	2635.53
	2,55,645	2,55,646	5,11,291		Sell 129.20 units	2506.33
98.00	2,55,645	2,45,620	5,01,265	3.92%	-	2506.33
100.00	2,55,645	2,50,633	5,06,278	2.04%	-	2506.33
102.00	2,55,645	2,55,646	5,11,291	2.00%	-	2506.33
118.00	2,55,645	2,95,747	5,51,392	15.68%	$\frac{2,75,696-2,95,747}{118}$	2506.33
	2,75,696	2,75,696	5,51,392		Sell 169.92 units	2336.41
120.00	2,75,696	2,80,369	5,56,065	1.69%	-	2336.41

(a) Hence, the ending value of the portfolio under constant ratio plan is ₹5,56,065.

(b) **Under buy & hold strategies, as on Oct-23**

Since equal fund (2.5 Lac each) has been invested in equity & bond,

Value of Bond = ₹2,50,000 (no change)

Value of Equity = 2,50,000 ×120/100 = ₹3,00,000

Total value as on Oct-23 (under buy-hold plan) = 2,50,000 + 3,00,000
= ₹5,50,000

Value of Portfolio under *Constant Ratio plan* = ₹5,56,065

Value of Portfolio under **Constant Ratio plan is better** as on Oct-23

Question-4(b) Solution:

Some points to be kept in mind while preparing a Pitch Presentation are as follows:

(i) Introduction

(ii) Team

(iii) Problem

(iv) Solution

(v) Marketing/Sales

(vi) Projections or Milestones

(vii) Competition

Financial projections include following three basic documents that make up a business's financial statements: -

1. **Income Statement –** This estimates how much money the business will generate by projecting income and expenses. It shows the revenue earned, costs incurred to generate and support that revenue, employee salaries, and rent expenses. For the first year, a monthly income statement is needed, while for the second year, quarterly statements will suffice. In later years, only an annual income statement is required.

2. **Cash Flow Statement** – A projected cash flow statement shows how much cash will be coming into the business and how much will be utilized. At the end of each period (monthly, quarterly, or annually), the total cash inflow and outflow are calculated to determine whether the business has generated cash or is experiencing a cash burn, along with the cash balance remaining.

3. Balance Sheet – This statement provides an overview of the business's financial position, including assets, liabilities, and equity. It shows how much cash the business has in the bank, how much it owes to suppliers, and how much money has been invested. Typically, an annual balance sheet is prepared for financial projections.

Question-5 (a) Solution:

1 year (52 weeks) ⇒ 260 trading days

1 week ⇒ $\frac{260}{52}$ trading days

= 5 trading days.

SD of daily change in (%) = 2%

SD of daily change in (₹) = Value of share × 2%

= ₹ 200 Lakh × 2%

= ₹ 4 Lakh

SD of 5 days change in (₹) = ₹ $4 \times \sqrt{5}$ = ₹ 8.944

max loss of 5 days with 98% confidence level

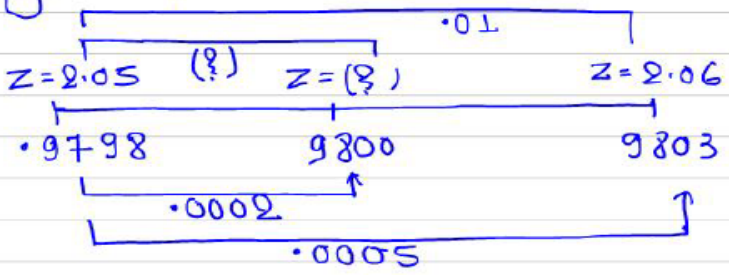
Z Score at 98% ⇒ Z Value of cumulative standard table where prob. is .9800

For .9798 prob ⇒ Z is 2.05

For .9803 prob ⇒ Z is 2.06

For .9800 prob ⇒ Z is (?)

Using interpolation:



.0005 ⇒ .01

.0002 ⇒ $\left(\frac{.01}{.0005} \times .0002\right)$ = .004

Hence, Z score with 98% confidence level
= 2.054 + .004 = 2.054
Max loss of 5 days with 98%.
= SD of 5 days in (₹) × Z score
= 8.994 × 2.054 = 18.474 lakh

Question- 5(b) Solution:

Shareholders of Y Ltd, will get 2.5 lakh share of X Limited, so they will get:

$$= \frac{2.5 \text{ lakh}}{10 \text{ lakh} + 2.5 \text{ lakh}} = 20\% \text{ of shares X Limited}$$

The value of X Ltd. after merger will be:

= Rs. 80 × 10 lakh + Rs. 40 × 5 lakh + Rs. 120 lakh

= Rs. 800 lakh + Rs 200 lakh + Rs. 120 lakh = Rs. 1120 lakhs

True Cost of Merger will be:

(Rs. 1120 × 20%) i.e, Rs. 224 lakhs – Rs. 200 lakhs = Rs. 24 lakhs

Question-5 (c) Solution:

Either

Technical analysis is based on the following three principals:

(a) The Market Discounts Everything	Many experts criticize technical analysis because it only considers price movements and ignores fundamental factors. The argument against such criticism is based on the Efficient Market Hypothesis, which states that a company's share price already reflects everything that has or could affect a company. And it includes fundamental factors. So, technical analysts generally have the view that a company's share price includes everything including the fundamentals of a company.
(b) Price Moves in Trends	Technical analysts believe that prices move in trends. In other words, a stock price is more likely to continue a past trend than move in a different direction.

(c) History Tends to Repeat Itself	Technical analysts believe that history tends to repeat itself. Technical analysis uses chart patterns to analyze subsequent market movements to understand trends. While many form of technical analysis have been used for many years, they are still are considered to be significant because they illustrate patterns in price movements that often repeat themselves.

OR

Question-5 (c) Solution: OR

Efficient Market Theory was developed by University of Chicago professor Eugen Fama in the 1960s.

As per this theory, for a given time, all available price sensitive information is fully reflected in securities' prices. Thus this theory implies that no investor can consistently outperform the market as every stock is appropriately priced based on available information.

Stating otherwise theory states that no none can "beat the market" hence making it impossible for investors to either purchase undervalued stocks or sell stocks for inflated prices as stocks are always traded at their fair value on stock exchanges.

Misconception about the efficient market theory:

- Efficient Market Theory implies that market prices factor in all available information and as such it is not possible for any investor to earn consistent long term returns from market operations.
- Although price tends to fluctuate they cannot reflect fair value. This is because the future is uncertain. The market springs surprises continually and as prices reflect the surprises they fluctuate.
- Inability of institutional portfolio managers to achieve superior investment performance implies that they lack competence in an efficient market. It is not possible to achieve superior investment performance since market efficiency exists due to portfolio managers doing this job well in a competitive setting.

◉ The random movement of stock prices suggests that stock market is irrational. Randomness and irrationality are two different things, if investors are rational and competitive, price changes are bound to be random.

Question-6 (a) Solution:

CF_1 = ₹ 54 Lakh K_e = 20%

g = 9% K_d = 10%

V_H = 1800 Lakh

(i) Existing Debt Equity ratios/Values:

$$V_H = \left[\frac{CF_1}{K_o - g)}\right] = \frac{54}{K_o - 0.09}$$

$$\text{Or, } 1800 = \frac{54}{K_o - 0.09}$$

$$\text{Or, } K_o = \frac{54}{1800} + 0.09 = 0.12 \text{ (i.e., 12\%)}$$

Again,

$K_o = K_e W_e + K_d W_d$

or, $12 = 20 \times W_e + 10 \times (1 - W_e)$ $\therefore [W_e + W_d = 1]$ or $[W_d = 1 - W_e]$

or, $12 = 20 W_e + 10 - 10 W_e$

or, $2 = 10 W_e$

$\therefore W_e = \frac{2}{10} = 0.20$

$\therefore W_d = (1 - 0.20) = 0.80$

Existing Weight based of book value are 0.20 and 0.80

Hence, we can say,

Book value of Equity	20
Book value of Debt	80
Total	100

(ii) New Value/Correct value of company using Market value weight:

Market value of Equity (20 x 3 times)	60
Market value of Debt $\left(80 \times \frac{9}{10}\right)$	72
Total	132

$W_e = \frac{60}{132} = 0.455$

$W_d = \frac{72}{132} = 0.545$

$K_o = K_eW_e + K_dW_d$

$= 20 \times 0.455 + 10 \times 0.545 = 14.55\%$

$V_H = \left[\frac{CF_1}{K_o - g}\right] = \frac{54}{0.1455 - 0.09} = 972.97$ Lakh

Question-6 (b) Solution:

Corporate level strategy fundamentally is concerned with selection of businesses in which a company should compete and also with the development and coordination of that portfolio of businesses.

Corporate level strategy should be able to answer 3 basic questions:

Suitability	Whether the strategy would work for the accomplishment of common objective of the company.
Feasibility	Determines the kind and number of resources required to formulate and implement the strategy.
Acceptability	It is concerned with the stakeholders' satisfaction and can be financial and non-financial.

Question-6 (c) Solution:

Since the securitization is based on the pools of assets rather than the originators, the assets have to be assessed in terms of its credit quality and credit support available. Rating agency assesses the following:

- Strength of the Cash Flow.
- Mechanism to ensure timely payment of interest and principle repayment.
- Credit quality of securities.
- Liquidity support.
- Strength of legal framework.

Although rating agency is secondary to the process of securitization but it plays a vital role.