The WAY CA test series – SEPT 2025

CA FINAL **P2 : ADVANCED FINANCIAL MANGEMENT** **29.07.2025**

[SYLLABUS : INTERNATIONAL FINANCIAL MANAGEMENT, SECURITY ANALYSIS STARTUP FINANCE, SECURITIZATION]

TIME : 2 HRS **TOTAL : 70 MARKS**

PART II : DESCRIPTIVE SOLUTIONS 70 MARKS

Question : 1(a) **6 Marks**

Date	Closing Sensex	Sign of Price Charge
1.10.07	2800	
3.10.07	2780	-
4.10.07	2795	+
5.10.07	2830	+
8.10.07	2760	-
9.10.07	2790	+
10.10.07	2880	+
11.10.07	2960	+
12.10.07	2990	+
15.10.07	3200	+
16.10.07	3300	+
17.10.07	3450	+
19.10.07	3360	-
22.10.07	3290	-
23.10.07	3360	+
24.10.07	3340	-
25.10.07	3290	-
29.10.07	3240	-
30.10.07	3140	-
31.10.07	3260	+

Total of sign of price changes (r) = 8

No of Positive changes = n1 = 11

No. of Negative changes = n2 = 8

$$\mu_r = \frac{2n_1n_2}{n_1+n_2}+1$$

$$\mu = \frac{2\times11\times8}{11+8}+1 = \frac{176}{19}+1 = 10.26$$

$$\hat{\sigma}_r = \sqrt{\frac{2n_1n_2(2n_1n_2-n_1-n_2)}{(n_1+n_2)^2(n_1+n_2-1)}}$$

$$\hat{\sigma}_r = \sqrt{\frac{(2\times11\times8)(2\times11\times8-11-8)}{(11+8)^2(11+8-1)}} = \sqrt{\frac{176\times157}{(19)^2(18)}} = \sqrt{4.252} = 2.06$$

Since too few runs in the case would indicate that the movement of prices is not random. We employ a two- tailed test the randomness of prices.

Test at 5% level of significance at 18 degrees of freedom using t- table

The lower limit $= \mu - t \times \hat{\sigma}_r$ = 10.26 - 2.101 x 2.06 = 5.932

Upper limit $= \mu - t \times \hat{\sigma}_r$ = 10.26 + 2.101 x 2.06 = 14.588

At 10% level of significance at 18 degrees of freedom

Lower limit = 10.26 - 1.734 × 2.06 = 6.688

Upper limit = 10.26 + 1.734 × 2.06 = 13.832

As seen r lies between these limits. Hence, the market exhibits weak form of efficiency.

*For a sample of size n, the t distribution will have n-1 degrees of freedom.

Question : 1(b) **4 Marks**

Succession planning is the process of identifying the critical positions within an organization and developing action plans for individuals to assume those positions.

A succession plan identifies future need of people with the skills and potential to perform leadership roles.

- Succession planning is an important priority for family owned businesses as most of them are managed by a non-family leader even though the ownership lies with the family.
- Taking a holistic view of current and future goals, this type of preparation ensures that the right people are available for the right jobs today and in the years to come. It can also provide a liquidity event, which enables the transfer of ownership in a going concern to rising employees.
- Succession planning is a good way for companies to ensure that businesses are fully prepared to promote and advance all employees—not just those who are at the management or executive levels.

Need for succession planning can be explained below:

- **Risk mitigation –** If existing leader quits, then searches can take six-nine months for suitable candidate to close. Keeping an organization without leader can invite disruption, uncertainty, conflict and endangers future competitiveness.
- **Cause removal –** If the existing leader is culpable of gross negligence, fraud, willful misconduct, or material breach while discharging duties and has been barred from undertaking further activities by court, arbitral tribunal, management, stakeholders or any other agency.

- **Talent pipeline –** Succession planning keep employees motivated and determined as it can help them obtaining more visibility around career paths expected, which would help in retaining the knowledge bank created by company over a period of time and leverage upon the same.
- **Conflict Resolution Mechanism –** This planning is very helpful in promoting open and transparent communication and settlement of conflicts.
- **Aligning –** In family-owned business succession planning helps to align with the culture, vision, direction and values of the business.

Question : 1(c) **4 Marks**

Some initiatives that are already existing in various fields like financial services, healthcare, government, travel industry, economic forecasts etc. are discussed below:

a) **Financial Services:** Blockchain can be used to provide an automated trade lifecycle in terms of the transaction log of any transaction of asset or property - whether physical or digital such as laptops, smartphones, automobiles, real estate, etc. from one person to another.

b) **Healthcare:** Blockchain provides secure sharing of data in healthcare industry by increasing the privacy, security, and interoperability of the data by eliminating the interference of third party and avoiding the overhead costs.

c) **Government:** At the government front, there are instances where the technical decentralization is necessary but politically should be governed by governments like land registration, vehicle registration and management, e-voting etc. Blockchain improves the transparency and provides a better way to monitor and audit the transactions in these systems.

d) **Travel Industry:** Blockchain can be applied in money transactions and in storing important documents like passports/other identification cards, reservations and managing travel insurance, loyalty, and rewards thus, changing the working of travel and hospitality industry.

e) **Economic Forecasts:** Blockchain makes possible the financial and economic forecasts based on decentralized prediction markets, decentralized voting, and stock trading, thus enabling the organizations to plan and shape their businesses.

Question : 2(a) **6 Marks**

Working Notes:

1. **Calculation of the project cash flows for VK Ltd.'s subsidiary in Farland**

Fr.'000

Year	0	1	2	3	4	5
Cash flows from operations		32400	34992	37791	40815	44080
Depreciation		16000	16000	16000	16000	16000

Interest		600	600	600	600	600
Profit before Tax		15800	18392	21191	24215	27480
Farland Tax		3160	3678	4238	4843	5496
Profit after Tax		12640	14714	16953	19372	21984
Add back Depreciation		16000	16000	16000	16000	16000
Initial Investment	-80000	28640	30714	32953	35372	37984
Working Capital	-6000	---	---	---	---	---
Change in W.C.		-480	-518	-560	-605	-653
Loan Capital						-6000
Sale of Subsidiary	---	---	---	---	---	2000
	-80000	**28160**	**30196**	**32393**	**34767**	**33331**

2. Expected Exchange Rates

Year	Rate
0	2.50
1	2.50 x 1.05 = 2.63
2	2.50 x (1.05)2 = 2.76
3	2.50 x (1.05)3 = 2.89
4	2.50 x (1.05)4 = 3.04
5	2.50 x (1.05)5 = 3.19

3. Calculation of Tax paid in India

Year	1	2	3	4	5
PBT (Fr)	15800	18392	21191	24215	27480
Tax @ 10%	1580	1839	2119	2422	2748
Exchange rate	2.63	2.76	2.89	3.04	3.19
Tax in India (INR '000)	601	666	733	797	861

Calculation Net Present Value (NPV) for VK Ltd.'s subsidiary at parent company level

Year	0	1	2	3	4	5
Project Cash Flows (Fr. '000)	-80000	28160	30196	32393	34767	33331
Exchange Rate (Fr./INR)	2.50	2.63	2.76	2.89	3.04	3.19
Cash Invested from India (INR '000)	-32000	--	--	--	--	--
Cash Received in India (INR '000)	--	10707	10941	11209	11437	10449
Tax in India (INR '000)		601	666	733	797	861
	-32000	10106	10275	10476	10640	9588
Lost export after tax (INR '000)		824	849	874	900	927
Parent Cash Flow	-32000	9282	9426	9602	9740	8661
PVF	1	0.893	0.797	0.712	0.636	0.567
	-32000	8289	7513	6837	6195	4911
					NPV	1745

Decision: Since NPV of the project is positive it should be accepted.

Question : 2(b) **4 Marks**

Apart from the support from government, there are quite a few other reasons why India became such a sustainable environment for start-ups to thrive in.

Some of the major reasons are:

i. **The Pool of Talent -** Our country has a big pool of talent. There are millions of students graduating from colleges and B-schools every year. Many of these students use their knowledge and skills to begin their own ventures, and that has contributed to the startup growth in India. In the past, much of this talent was attracted to only the big companies, but now that is slowly changing.

ii. **Cost Effective Workforce -** India is a young country with over 10 million people joining the workforce every year. The workforce is also cost effective. So, compared to some other countries, the cost of setting up and running a business is comparatively lower.

iii. **Increasing use of the Internet -** India has the world's second-highest population, and after the introduction of affordable telecom services, the usage of internet has increased significantly. It has even reached the rural areas. India has the second-largest internet user base after China, and companies as well as start-ups are leveraging this easy access to the internet.

iv. **Technology -** Technology has made the various processes of business very quick, simple and efficient. There have been major developments in software and hardware systems due to which data storage and recording has become an easy task. Indian startups are now increasingly working in areas of artificial intelligence and blockchain technologies which is adding to the growth of businesses.

v. **Variety of Funding Options Available -** Earlier there were only some very traditional methods available for acquiring funds for a new business model, which included borrowing from the bank or borrowing from family and

friends. However, this concept has now changed. There are numerous options and opportunities available. Start-up owners can approach angel investors, venture capitalists, seed funding stage investors, etc. The easing of Foreign Direct Investment norms and opening up of majority of sectors to 100% automatic route has also opened the floodgates for foreign funding in the Indian start-up ecosystem.

Question : 2(c) **4 Marks**

Following are Various types of risks Investors are exposed at each stage of the transaction.

1) Credit risk or Counterparty risk

It is the prime risk wherein investors are prone to the risk of bankruptcy and non-performance of the servicer.

2) Legal risks

Since in the Indian context it is a recently developed concept there is an absence of conclusive judicial precedent or explicit statutory provisions on securitization transactions. As a result, any dispute over the legal ownership of the assets is likely to result in uncertainty regarding investor pay-outs from the pool cash flow.

3) Market risks

Market risks represent external risks to the transaction and include market-related factors that impact the performance of the transaction. Some of these risks are as follows:

(a) Macroeconomic risks: The performance of the underlying loan contracts depends on macroeconomic factors, such as industry downturns or adverse price movements of the underlying assets.

For example, in transportation, declining industrial production may reduce Commercial Vehicles (CVs) usage, hurting operators cash flow & loan repayments. Lower CV prices could raise default risks as borrower might choose to default on the loan, letting the finance company repossess and sell the vehicle rather than continuing to make timely payments.

(b) Prepayment risks: A change in the market interest rate represents a difficult situation for investors because it is a combination of prepayment risk and volatile interest rates. With a reduction in interest rates generally prepayment of retail loans increases, resulting in reinvestment risk for investors because investors may receive their monies ahead of schedule and may not be able to reinvest the amount at the same yield.

(c) Interest rate risks: This risk is prominent where the loans in the pool are based on a floating rate and investor pay-outs are based on a fixed rate or vice versa. It results in an interest rate mismatch and can lead to a situation where the pool cash inflow, even at 100% collection efficiency, is not

sufficient to meet investor pay-outs. Interest rate swaps can be used to hedge this type of risk to some extent.

Question : 3 (a) **10 Marks**

To evaluate whether investment in same project is a viable option or not, we shall compute the NPV of the project.

Working Note:

(1) Expected Exchange Rates

End of Year	INR	INR/MUR
1	$INR\ 1.88 \times \frac{(1+0.06)}{(1+0.05)}$	1.8979
2	$INR\ 1.8979 \times \frac{(1+0.06)}{(1+0.05)}$	1.9160
3	$INR\ 1.9160 \times \frac{(1+0.06)}{(1+0.05)}$	1.9342
4	$INR\ 1.9342 \times \frac{(1+0.06)}{(1+0.05)}$	1.9526

(2) Initial Investment = MUR 100 Million x INR 1.88 = INR 18.80 crore

Working Capital (Year 1) = MUR 2 Million x 1.8979 = INR 0.3796 crore

Working Capital (Year 2) = MUR 2 Million x 1.9160 = INR 0.3832 crore

Working Capital (Year 3) = MUR 2 Million x 1.9342 = INR 0.3868 crore

Working Capital (Year 4) = MUR 2 Million x 1.9526 = INR 0.3905 crore

(3) WACC = 40% x 10% + 60% x 12% = 11.20%

(4) Inflation adjusted Revenue

Year	Revenue (₹)	Revenue (Inflation Adjusted) (₹)
1	6.00 crore	6.00 crore x 1.10 = 6.60 crore
2	7.00 crore	7.00 crore x 1.10 x 1.09 = 8.393 crore
3	8.00 crore	8.00 crore x 1.10 x 1.09 x 1.08 = 10.3594 crore
4	8.00 crore	8.00 crore x 1.10 x 1.09 x 1.08 x 1.07 = 11.0845 crore

(5) Inflation adjusted Cost

Year	Cost (₹)	Cost (Inflation Adjusted) (₹)
1	3.00 crore	3.00 crore x 1.12 = 3.3600 crore
2	4.00 crore	4.00 crore x 1.12 x 1.10 = 4.9280 crore
3	4.00 crore	4.00 crore x 1.12 x 1.10 x 1.09 = 5.3715 crore
4	4.00 crore	4.00 crore x 1.12 x 1.10 x 1.09 x 1.08 = 5.8012 crore

(6) Annual cash flows (₹ Crore)

Year	1	2	3	4
Revenue	6.600	8.393	10.3594	11.0845
Less: Cost	3.360	4.928	5.3715	5.8012
Less: Depreciation	1.800	1.800	1.800	1.800
Profit before Tax (PBT)	1.440	1.665	3.1879	3.4833
Tax @ 30%	0.432	0.4995	0.9564	1.0450
Profit after Tax	1.008	1.1655	2.2315	2.4383
Add: Depreciation	1.800	1.800	1.800	1.800
Cash Flows	2.808	2.9655	4.0315	4.2383

NPV of the Project

Year	0	1	2	3	4
Initial Investment (₹ Crore)	(18.80)				
Working Capital (₹ Crore)	-	(0.3796)	(0.3832)	(0.3868)	(0.3905)
Scrap Value (₹ Crore)					0.8000
W.C Recovered (₹ Crore)					1.5401
Annual Cash flows		2.8080	2.9655	4.0315	4.2383

Net Cash Flow	(18.80)	2.4284	2.5823	3.6447	6.1879
Exchange Rate	1.88	1.8979	1.9160	1.9342	1.9526
Cash Flows (in Million MUR)	(100)	12.7952	13.4776	18.8434	31.6906
PVF@11.20%	1	0.8993	0.8087	0.7273	0.6540
Present value (in Million MUR)	(100)	11.5067	10.8993	13.7048	20.7257

Net Present Value = - MUR 43.1635 Million

Advise: Since NPV of the project is negative the proposal is not a viable option for investment.

Question : 3 (b) **4 Marks**

Yes, this statement is correct.

Arguments for technical analysis:

a) Under influence of crowd psychology trend persists for some time. Technical analysis helps in identifying these trends early which is helping decision making.

b) Shift in demand and supply is gradual rather than instantaneous. Technical analysis helps in detecting this shift rather early and hence provides clues to future price movements .

c) Fundamental information about a company is observed and assimilated by the market over a period of time. Hence price movements tend to more or less in same direction till the information is fully assimilated in the price of the stock.

Arguments against technical analysis:

a) Technical are not able to offer a convincing explanation for tools employed by them.

b) Empirical evidence in support of random walk hypothesis cast its shadow on it.

c) By the time trends are signaled by technical analysis, trends have already taken place.

Question : 4 (a) **10 Marks**

Working Notes:

1) Calculation of Cost of Capital (GDR)

Current Dividend (D_0)	2.50
Expected Dividend (D_1)	2.75
Net Proceeds (₹ 200 per share – 1%)	198.00
Growth Rate	10.00%

$$k_e = \frac{2.75}{198} + 0.10 = 0.1139 \text{ i.e. } 11.39\%$$

2) Calculation of Expected Exchange Rate as per Interest Rate Parity

Year	Expected Rate
1	$= 9.50 \times \frac{(1+0.12)}{(1+0.10)} = 9.67$
2	$= 9.50 \times \frac{(1+012)^2}{(1+0.10)^2} = 9.85$

3) Realization on the disposal of Land net of Tax

	CN ¥
Sale value at the end of project	3500000.00
Cost of Land	3000000.00
Capital Gain	500000.00
Tax paid	125000.00
Amount realized net of tax	3375000.00

4) Realization on the disposal of Office Complex

	(CN ¥)
Sale value at the end of project	500000.00
WDV	0.00
Capital Gain	500000.00
Tax paid	125000.00
Amount realized net of tax (A)	375000.00

5) Computation of Annual Cash Inflows

Year	1	2
Annual Units	10000	10000
Price per bottle (CN ¥)	540.00	583.20
Annual Revenue (CN ¥)	5400000.00	5832000.00

Less: Expenses		
Variable operating cost (CN ¥)	2160000.00	2332800.00
Depreciation (CN ¥)	750000.00	750000.00
Fixed Cost per annum (CN ¥)	2376000.00	2566080.00
PBT (CN ¥)	114000.00	183120.00
Tax on Profit (CN ¥)	28500.00	45780.00
Net Profit (CN ¥)	85500.00	137340.00
Add: Depreciation (CN ¥)	750000.00	750000.00
Cash Flow	835500.00	887340.00

a) Computation of NPV of the project in CN ¥ (CN ¥)

Year	0	1	2
Initial Investment	- 4500000.00		
Annual Cash Inflows		835500.00	887340.00
Realization on the disposal of Land net of Tax			3375000.00
Realization on the disposal of Office Complex			375000.00
Total	- 4500000.00	835500.00	4637340.00
PVF @11.39%	1.000	0.898	0.806
PV of Cash Flows	- 4500000.00	750279.00	3737696.00
NPV			-12,025

b) Evaluation of Project from Opus Point of View

i. Assuming that inflow funds are transferred in the year in which same are generated i.e. first year and second year.

Year	**0**	**1**	**2**
Cash Flows (CN ¥)	-4500000.00	835500.00	4637340.00
Exchange Rate (₹ / CN ¥)	9.50	9.67	9.85
Cash Flows (₹)	-42750000.00	8079285.00	45677799.00

PVF @ 12%	1.00	0.893	0.797
	-42750000.00	7214802.00	36405206.00
NPV			870008.00

ii. Assuming that inflow funds are transferred at the end of the project i.e. second year.

Year	**0**	**2**
Cash Flows (CN ¥)	- 4500000.00	5472840.00
Exchange Rate (₹ / CN ¥)	9.50	9.85
Cash Flows (₹)	- 42750000.00	53907474.00
PVF	1.00	0.797
	- 42750000.00	42964257.00
NPV		214257.00

Though in terms of CN ¥ the NPV of the project is negative but in ₹ it has positive NPV due to weakening of ₹ in comparison of CN ¥. Thus, Opus can accept the project.

Question : 4 (b) **4 Marks**

A Unicorn is a privately held start-up company which has achieved a valuation US$ 1 billion. This term was coined by venture capitalist Aileen Lee, first time in 2013. Unicorn, a mythical animal represents the statistical rarity of successful ventures.

A start-up is referred as a Unicorn if it has following features:

i. A privately held start-up.

ii. Valuation of start-up reaches US$ 1 Billion.

iii. Emphasis is on the rarity of success of such start-up.

iv. Other common features are new ideas, disruptive innovation, consumer focus, high on technology etc.

However, it is important to note that in case the valuation of any start-up slips below US$ 1 billion it can lose its status of 'Unicorn'. Hence a start-up may be Unicorn at one point of time and may not be at another point of time.

Question : 5(a) **5 Marks**

The following factors may particularly be kept in mind while assessing the factors relating to an industry.

a) **Product Life-Cycle:** An industry usually exhibits high profitability in the initial and growth stages, medium but steady profitability in the maturity stage and a sharp decline in profitability in the last stage of growth.

b) **Demand Supply Gap:** Excess supply reduces the profitability of the industry because of the decline in the unit price realization, while insufficient supply tends to improve the profitability because of higher unit price realization.

c) **Barriers to Entry:** Any industry with high profitability would attract fresh investments. The potential entrants to the industry, however, face different types of barriers to entry. Some of these barriers are innate to the product

and the technology of production, while other barriers are created by existing firms in the industry.

d) **Government Attitude:** The attitude of the government towards an industry is a crucial determinant of its prospects.

e) **State of Competition in the Industry:** Factors to be noted are- firms with leadership capability and the nature of competition amongst them in foreign and domestic market, type of products manufactured viz. homogeneous or highly differentiated, demand prospects through classification viz customer-wise/area-wise, changes in demand patterns in the long/immediate/ short run, type of industry the firm is placed viz. growth, cyclical, defensive or decline.

f) **Cost Conditions and Profitability:** The price of a share depends on its return, which in turn depends on profitability of the firm. Profitability depends on the state of competition in the industry, cost control measures adopted by its units and growth in demand for its products.

g) **Technology and Research:** They play a vital role in the growth and survival of a particular industry. Technology is subject to change very fast leading to obsolescence. Industries which update themselves have a competitive advantage over others in terms of quality, price etc.

Question : 5(b) **5 Marks**

i. Net Present Value (All Equity Financed) – Base NPV

Particulars	Period	USD Lakhs	PVF @ 12%	PV (USD Lakhs)
Initial Investment	0	(250.00)	1.000	(250.000)
EBIDTA	1 to 20	33.00	7.469	246.477
Tax	1 to 20	(9.90)	7.469	(73.943)
Depreciation	1 to 10	(25.00)		
Tax Saving on Dep	1 to 10	7.50	5.650	42.375
NPV				(35.091)

ii. Present Value of Impact of Financing by Debt

Particulars	Period	USD Lakhs	PVF @ 8%	PV (USD Lakhs)
Loan	0	150.00	1.000	150.000
Interest	1 to 15	(9.00)	8.559	(77.031)
Tax Saving on Interest	1 to 15	2.70	8.559	23.109
Repayment of Principal	15	(150.00)	0.315	(47.250)
			NPV	48.828

Adjusted Present Value of the Project

= Base NPV + PV of Impact of Financing

= - US$ 35.091 + US $ 48.828 lakh

= US$ 13.737 lakh

Advise: Since APV is positive, TL Ltd. should accept the project.

Alternatively, if instead of PV of overall impact of Financing the PV of impact of tax shield on Interest is considered then APV shall be computed as follows:

= Base NPV + PV of Tax Shield on Interest

= - US $ 35.091 + US $ 23.109 lakh

= - US $ 11.982 lakh

Advise: Since APV is negative, TL Ltd. should not accept the project.

Question : 5(c) **4 Marks**

Tokenization is a process of converting tangible and intangible assets into blockchain tokens. Digitally representing anything has recently acquired a lot of traction. It can be effective in conventional industries like real estate, artwork etc.

Tokenization and Securitization

Since tokenization of illiquid assets attempts to convert illiquid assets into a product that is liquid and tradable and hence to some extent it resembles the process of Securitization.

Hence, following are some similarities between Tokenization and Securitization:

i. **Liquidity: -** First and foremost both Securitization and Tokenization inject liquidity in the market for the assets which are otherwise illiquid assets.
ii. **Diversification: -** Both help investors to diversify their portfolio thus managing risk and optimizing returns.
iii. **Trading: -** Both are tradable hence helps to generate wealth.

iv. **New Opportunities: -** Both provide opportunities for financial institutions and related agencies to earn income through collection of fees.

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