Part-1

:- American Depository Receipts (ADR) or Global Depository Receipts (GDR) :-

→ ADR : Non US company shares listed in USA like NYSE, NASDAQ, etc.

→ GDR : US company shares listed in other countries

Eg: Indian co. → raise → $40 million net of floatation cost 3%. Suppose 1 ADR = 2 shares

price of one share = ₹340 in India

Issue discount = 10%

Exchange rate = ₹80/$

Gross amount raised = $\frac{\$40 \text{ million}}{(1-0.03)}$ = $41.2371 millions

Gross proceeds per ADR = $\frac{2 \times 340 - 10\%}{₹80/\$}$ = $7.65

Q.1) No. of ADR's to be issued ?

$\frac{41.2371}{7.65}$ = 5.3905 million ADRs

Net proceeds per ADR = $(2 \times 340) \times 90\%_{\text{disc}} \times 97\%_{\text{float}^n \text{ cost}}$

= ₹593.64 per ADR

Q.2) Calculate cost of ADR if Face value = 10, expected rate of dividend = 20% of FV, sustainable growth rate = 8%.

D_1 per ADR = 2 × 20% of 10 = 4

$k_e = \frac{D_1}{P_{net}} + g = \frac{4}{593.64} + 0.08 = 8.67\%$

Q.86	Pg
cw. 37	

Gross amount to be raised = $\frac{8.82}{0.98}$ = $9 million

Gross proceeds per GDR = $\frac{2 \times 360 \times 90\%}{72}$ = $9 per GDR

(1) No. of GDRs to be issued = $\frac{\$9 \text{ million}}{\$9 \text{ per GDR}}$ = 1 million GDR

Cost of GDR :

Expected Dividend per GDR = 2 × 20% of 100 = 40

Net proceeds per GDR in ₹ terms = 2×360 × 90% × 98%

= ₹ 635.04

$$\therefore ke = \frac{D_1}{P_{net}} + g = \frac{40}{635.04} + 0.12 = 18.30\%$$

(2) Since interest rate on equivalent loan i.e. 12% is less than cost of GDR i.e. 18.30%, Co. should accept offer from US Bank.

(3) If offer is accepted, there will be net saving of 6.30%.

International Working Capital Management :-

CA - CL

Cash Management

- Cash t/f efficiently
- Inter transfers (Aapasi lenden)
  - Netting
  - centralized cash management.
- Surplus or Deficit management
  - Decentralised
    All subsidiaries are asked to locally borrow / invest to manage deficit / surplus
  - Centralised
    Pooling of surplus from all subsidiaries to settle deficit if any. If there is net surplus, it is invested centrally.

- when to pay suppliers
  - lead or lag
    - std. costing type sums.

Part-2

Q·85	Pg
cw·37	

Cash Transfer wala sum

Monthly transfers = $ 2 million

So annual transfer = $ 24 million

Days for which funds would be freed = 10 - 2 = 8 days

∴ Interest earned = 12% × 24 × 8/365 = 0·06312 million

% savings = $\frac{0.6312}{24} \times 100 = 0.263\%$

Savings are less than the charge of 0·5%.

So, the offer of bank should be rejected.

Self Note: However, accepting the offer will also result in risk reduction as currency amounts will not remain exposed to various risks for 8 days. This additional benefit has to be taken into considertn while taking final decision.

Ye Q·84] Part 1 me discuss hua tha Q·85] se pehle...

Q·84	Pg
cw·36	

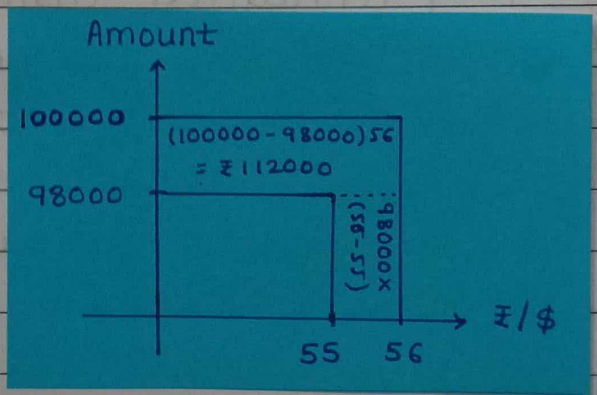
When to pay suppliers - lead or lag wala sum

(i) Rupee cost of paying the account within 10 days
= $ 100000 × 98% × 55 = ₹5390000

(ii) Rupee cost of buying forward contract = 100000 × ₹56/$
= ₹5600000

(iii) Difference due to T·V·M.
= (100000 - 98000) × 56
= ₹ 112000

Difference due to protection from currency value fluctuation
= 98000 × (56 - 55)
= ₹98000



Eg: Inter transfers (Netting) wala sum -

Indian firm has a receivable of $80000 & payable of $60000 from a US firm.

Spot ₹/$ = 82.20 / 82.90

Calculate benefit of netting of each firm.

Soln:- for US firm, netting will have no effect as amount of payable & receivable is already in $

Indian Firm:

Alt 1: No Netting

₹ Inflow from receivable = 80000 × 82.20 = ₹6576000

₹ Outflow in settling payable = 60000 × 82.90 = ₹4974000

∴ Net Inflow = ₹1602000

Alt 2: With netting

Firm will receive $ 20000 net

₹ inflow = $20000 × 82.20 ₹/$ = ₹1644000

∴ Benefit of Netting = 1644000 - 1602000 = ₹42000

Shortcut when B.C. is payable / receivable -

Net Benefit = common amount × (ask - bid)

= (82.90 - 82.20) × 60000

= ₹42000

Q.82	pg
cw. 35	

Centralised Cash Management wala sum

There would be centralised clearing of each subsidiary's payables & receivables.

For Soln of Q.82] refer [cw. soln. pg. 55

Q. 81 | Pg cw. 35

Alt 1: Decentralised Cash Mgt. (surplus / Deficit mgt wala sum)

→ Swiss Subsidiary -
Principal amount CHF 1996154 invested at an interest of 0.5% for 91 days.
Amount after 91 days = 1996154 (1 + 0.05 × 91/360)
= CHF 1998677

Sell CHF forward @ CHF 2.3326 - 0.0228 i.e. CHF 2.3098/£
getting $\frac{1998677}{2.3098}$ = £ 865303

→ Dutch Subsidiary -
Principal amount €1450000 invested at an interest of 2% for 91 days.
Amount after 91 days = 1450000 (1 + 0.02 × 91/360)
= €1457331

Sell € forward @ £/€ 0.6558 + 0.0037 = £/€ 0.6895
getting 1457331 × 0.6895 = £1004830

→ Holding Co -
£150000 receivable - invest @ 1% for 91 days
Amount after 91 days = 150000 (1 + 0.01 × 91/360)
= £150379

∴ Total amount after 3 months = £2020512

Alt 2: Bank's Offer

Surplus of Holding Co.	£150000
(+) Pooling of swiss Surplus (1996154 ÷ 2.3326)	£855764
(+) Pooling of Dutch Surplus (1450000 × 0.6858)	£994410
	£2000174

Minimum amount required after 91 days = £2020512

Minimum interest to be earned = 2020512 - 2000174
= £ 20338

∴ Minimum interest rate p.a. that should be offered by Bank = $\frac{20338}{2000174} \times 100 \times \frac{360}{91}$ = 4.023%.

Part-4

Q.87	CW
Pg. 38	

Part-3

Self practice : CW. Q.88 pg.38

Q.83	Pg
CW. 36	

Imp

Self practice : HW. Q.58, 59, 60, 61 pg. 25, 26, 27

Surplus / Deficit management wala sum. Soln :-

(i) (a) Decentralised -

→ U.S. Subsidiary → surplus $12.5 million
Invest @ 1.5% for 30 days
Amount after 30 days = 12.5 (1 + 0.015 × 30/360)
= $12.5156 million
Sell $ 30 days forward @ $ 0.0217/₹
getting $\frac{12.5156}{0.0217}$ = ₹ 576.757 million

→ U.K. subsidiary → surplus £ 6 million
Invest @ 3.7% for 30 days
Amount after 30 days = 6 (1 + 0.037 × 30/360)
= £ 6.0185
Sell £ 30 days forward @ £ 0.0150/₹
getting $\frac{6.0185}{0.0150}$ = ₹ 401.233 million

→ AMK Ltd. Indian Co. → deficit ₹ 500 million
Borrow ₹ 500 million @ 6.4% for 30 days
Amount after 30 days = 500 (1 + 0.064 × 30/360)
= ₹ 502.667 million

∴ Net surplus = 576.757 + 401.233 - 502.667 = ₹ 475.323 million

(b) Centralised -

Pooling of US surplus today = $\frac{12.5}{0.0215}$ = ₹581.4 million

(+) Pooling of UK surplus today = $\frac{6}{0.0149}$ = ₹402.68 million

(-) Indian Deficit = ₹500.00 million

Net amount available today = ₹484.08 million

Invest ₹484.08 million @ 6.2% for 30 days

getting $484.08 (1 + 0.062 \times 30/360)$ = ₹486.58 million

(ii) Centralised cash management is beneficial.