

FOREX CLASS 26

HOME WORK SUPPORT

COVERAGE

Question			Answer			Lecture Time
Q. No	Page no.	Book	Q. No	Page no.	Book	
58	25	HW Q BOOK	58	44	HW ANS BOOK	00:00:34 - 00:07:52
59	26	HW Q BOOK	59	45	HW ANS BOOK	00:07:53 - 00:11:04
60	26	HW Q BOOK	60	45	HW ANS BOOK	00:11:05 - 00:13:20
61	27	HW Q BOOK	61	46	HW ANS BOOK	00:13:21 - 00:24:43

PART V: DECISIONS INVOLVING CFO

Topic 26 INTERNATIONAL WORKING CAPITAL MANAGEMENT

Question 58: SSEI HW Book Page No. 25

Suppose you are a treasurer of XYZ plc in the UK. XYZ have two overseas subsidiaries, one based in Amsterdam and one in Switzerland. The Dutch subsidiary has surplus Euros in the amount of 725,000 which it does not need for the next three months but which will be needed at the end of that period (91 days). The Swiss subsidiary has a surplus of Swiss Francs in the amount of 998,077 that, again, it will need on day 91. The XYZ plc in UK has a net balance of £75,000 that is not needed for the foreseeable future.

Given the rates below, what is the advantage of swapping Euros and Swiss Francs into Sterling?

Spot Rate (€)	£0.6858- 0.6869
91 day Pts	0.0037 0.0040
Spot Rate (£)	CHF 2.3295- 2.3326
91 day Pts	0.0242 0.0228

Interest rates for the Deposits

Amount of Currency	91 day Interest Rate % pa		
	£	€	CHF
0 – 100,000	1	¼	0
100,001 – 500,000	2	1 ½	¼
500,001 – 1,000,000	4	2	½
Over 1,000,000	5.375	3	1

(Source: ICAI)

ANSWER:

Individual Basis

	Interest	Amt. after 91 days	Conversion in £
Holland € 725,000 x 0.02 x 91/360	€ 3,665.28	€ 728,665.28	£502,414.71 (728,665.28 x 0.6895)
Switzerland CHF 998,077 x 0.005 x 91/360	CHF 1,261.46	CHF 999,338.46	£432,651.51 (999,338.46 ÷ 2.3098)
UK £ 75,000 x 0.01 x 91/360	£ 189.58	£ 75,189.58	£ 75,189.58
Total GBP at 91 days			£ 1,010,255.80

Swap to Sterling

Sell € 7,25,000 (Spot at 0.6858) buy £	£ 4,97,205.00
Sell CHF 9,98,077(Spot at 2.3326) buy £	£ 4,27,881.76
Independent GBP amount	£ 75,000.00
	£ 1,000,086.76
Interest ($£ 1,000,086.76 \times 0.05375 \times 91/360$)	£ 13,587.98
Total GBP at 91 days	£ 1,013,674.74
Less: Total GBP at 91 days as per individual basis	£ 1,010,255.80
Net Gain	£ 3,418.94

PART VI: RESIDUAL

Topic 27 ADR/GDR

Question 59: SSEI HW Book Page No. 26

Skylark Systems Ltd. is interested to expand its operations in US for which it requires funds of \$ 20 million, net of issue expenses and floatation costs etc., which amounts to 3% of the issue size. To finance this project it proposes to issue GDR.

Following factors are considered in pricing the issue:

- Expected market price of share at the time of issue of GDR is ₹ 300 (FV ₹ 10)
- 3 shares shall underlay each GDR and shall be priced at 10% discount to market price.
- Expected exchange rate is ₹ 75/\$
- 20% Dividend is expected to be paid for next year with growth rate of 15%

You are required to compute the number of GDRs to be issued and cost of GDR to Skylark Systems Ltd.

If the company is able to raise the funds in US at the rate of 4% p.a. and the company is able to repay the loan along with interest from revenues generated from the operations of US, what is your advise to the company?

(Source: ICAI)

ANSWER:

Working Notes:

Net Issue Size = \$ 20 million

Gross Issue = $20.00 / 0.97 = \$ 20.619$ million

Issue Price per GDR in ₹ ($300 \times 3 \times 90\%$)	₹ 810
Issue Price per GDR in \$ ($₹ 810 / ₹ 75$)	\$ 10.80
Dividend Per GDR ($D1 = ₹ 2 \times 3 =$)	₹ 6.00
Net Proceeds Per GDR = $₹ 810 \times 0.97 =$	₹ 785.70

Number of GDR to be issued

$\$ 20.619 \text{ million} / \$ 10.80 = 1.9092 \text{ million}$

Cost of GDR

$$k_e = \frac{6.00}{785.70} + 0.15 = 15.76\%$$

If the company receives an offer from US Bank willing to provide an equivalent amount of loan with interest rate of 4%, it should accept the offer.

PART VI: RESIDUAL

Topic 27 ADR/GDR

Question 60: SSEI HW Book Page No. 26

Odessa Limited has proposed to expand its operations for which it requires funds of \$ 15 million, net of issue expenses which amount to 2% of the issue size. It proposed to raise the funds through a GDR issue. It considers the following factors in pricing the issue:

- The expected domestic market price of the share is Rs. 300.
- 3 shares (having face value of Rs. 10 each) underly each GDR.
- Underlying shares are priced at 10% discount to the market price .
- Expected exchange rate is Rs. 60/\$.

You are required to compute the number of GDR's to be issued and cost of GDR to Odessa Limited, if 20% dividend is expected to be paid with a growth rate of 20%.

(Source: ICAI)

ANSWER:

Net Issue Size = \$15 million

$$\text{Gross Issue} = \frac{\$15 \text{ million}}{0.98} = \$15.306 \text{ million}$$

$$\text{Issue Price per GDR in ₹} (300 \times 3 \times 90\%) = ₹ 810$$

$$\text{Issue Price per GDR in \$} (₹ 810 / ₹ 60) = \$13.50$$

$$\text{Dividend Per GDR (D}_1) = ₹ 2^* \times 3 = ₹ 6$$

* Assumed to be on based on Face Value of ₹ 10 each share.

$$\text{Net Proceeds Per GDR} = ₹ 810 \times 0.98 = ₹ 793.80$$

i. Number of GDR to be issued

$$\frac{\$15.306 \text{ million}}{\$13.50} = 1.1338 \text{ million}$$

ii. Cost of GDR to Odessa Ltd.

$$K_e = \frac{6.00}{793.80} + 0.20 = 20.76\%$$

PART VI: RESIDUAL

Topic 27 ADR/GDR

Question 61: SSEI HW Book Page No. 27

X Ltd. is interested in expanding its operation and planning to install manufacturing plant at US. For the proposed project it requires a fund of \$ 10 million (net of issue expenses/ floatation cost). The estimated floatation cost is 2%. To finance this project it proposes to issue GDR

You as financial consultant is required to compute the number of GDRs to be issued and cost of the GDR with the help of following additional information.

- Expected market price of share at the time of issue of GDR is ₹ 250 (Face Value ₹ 100)
- 2 Shares shall underly each GDR and shall be priced at 10% discount to market price.
- Expected exchange rate ₹ 60/\$.
- Dividend expected to be paid is 20% with growth rate 12%.

(Source: ICAI)

ANSWER:

Net Issue Size = \$10 million

Gross Issue = \$10 million / 0.98 = \$ 10.204 million

Issue Price per GDR in ₹ (250 x 2 x 90%)	₹ 450
Issue Price per GDR in \$ (₹ 450 / ₹ 60)	\$ 7.50
Dividend Per GDR (D1) (₹ 20 x 2)	₹ 40
Net Proceeds Per GDR (₹ 450 x 0.98)	₹ 441.00

a. Number of GDR to be issued = \$10.204 million / \$7.50 = 1.3605 million

b. Cost of GDR to X Ltd. $k_e = \frac{40.00}{441.00} + 0.12 = 21.07\%$