EXAMPLE – 65

Ram purchased goods from USA

Payable = $ 1,00,000 After 3 months

SR ₹/$ = 70/71

3 month FR ₹/$ = 72/73

Cash discount = 1% of immediate payment

₹ Loan = 14% p.a.

Which option is better

(i) Forward cover.

(ii) Leading.

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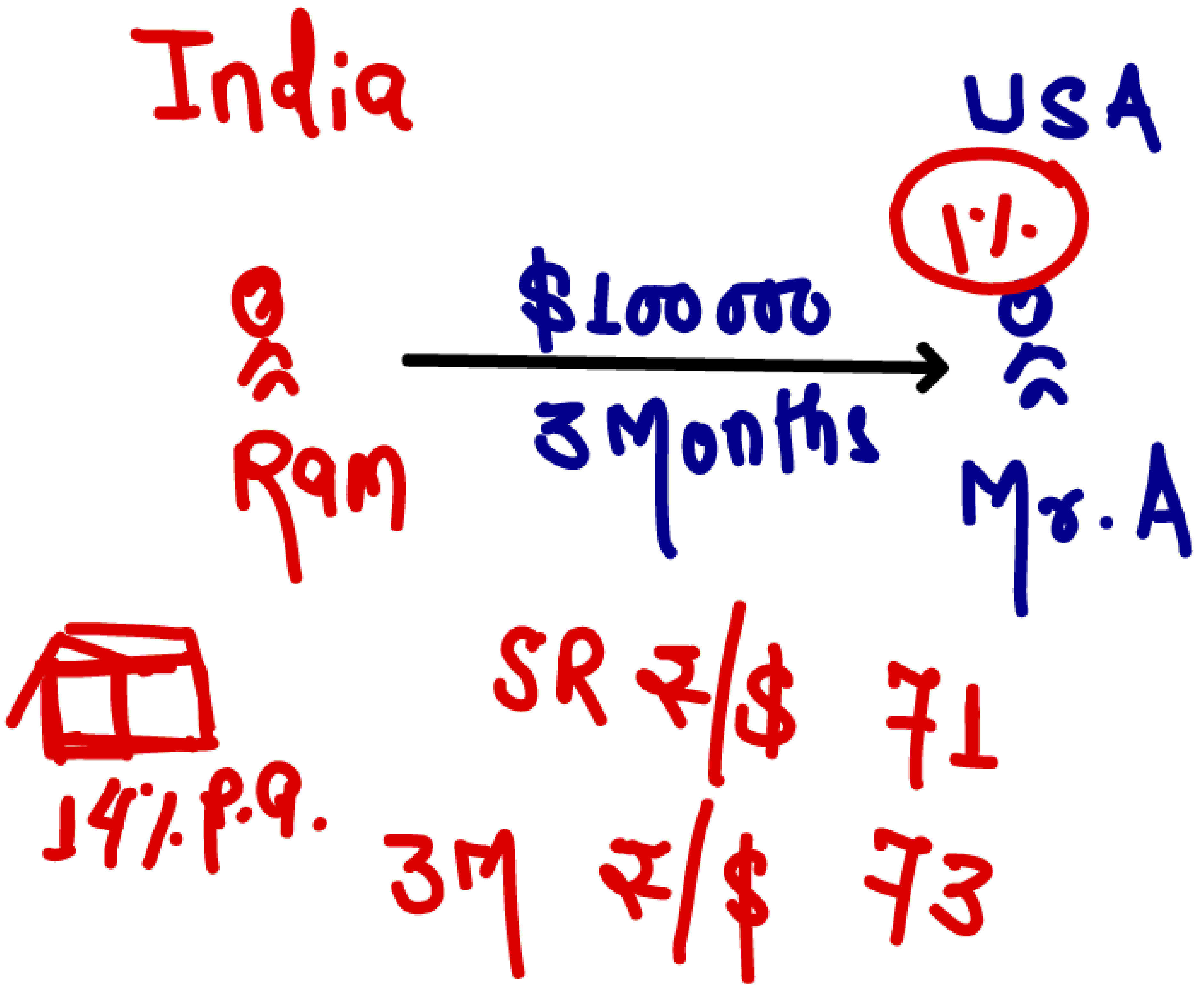

Option 1 Forward Cover

Buy \$100000 at 3 months FR ($\$100000 \times 73$) = ₹ 7300000

Option 2 Lead payment

\$ payable after discount ($\$100000 \times 99\%$) = \$99000

Buy \$99000 at SR ($\$99000 \times 71$) = ₹ 7029000

Borrow ₹ 7029000 @ 14% p.a. for 3 months

Cash outflows 7029000×1.035 = ₹ 7275015

Lead payment is better due to Lower Cash outflows.

EXAMPLE – 66

Ram purchased goods from USA

Payable = $ 1,00,000

SR ₹/$ = ₹ 70/71

6 months FR ₹/$ = ₹ 68/69

₹ Loan = 10% p.a.

Which option is better

(i) Pay immediately without any interest.

(ii) Pay after 6 months @ 12% p.a.

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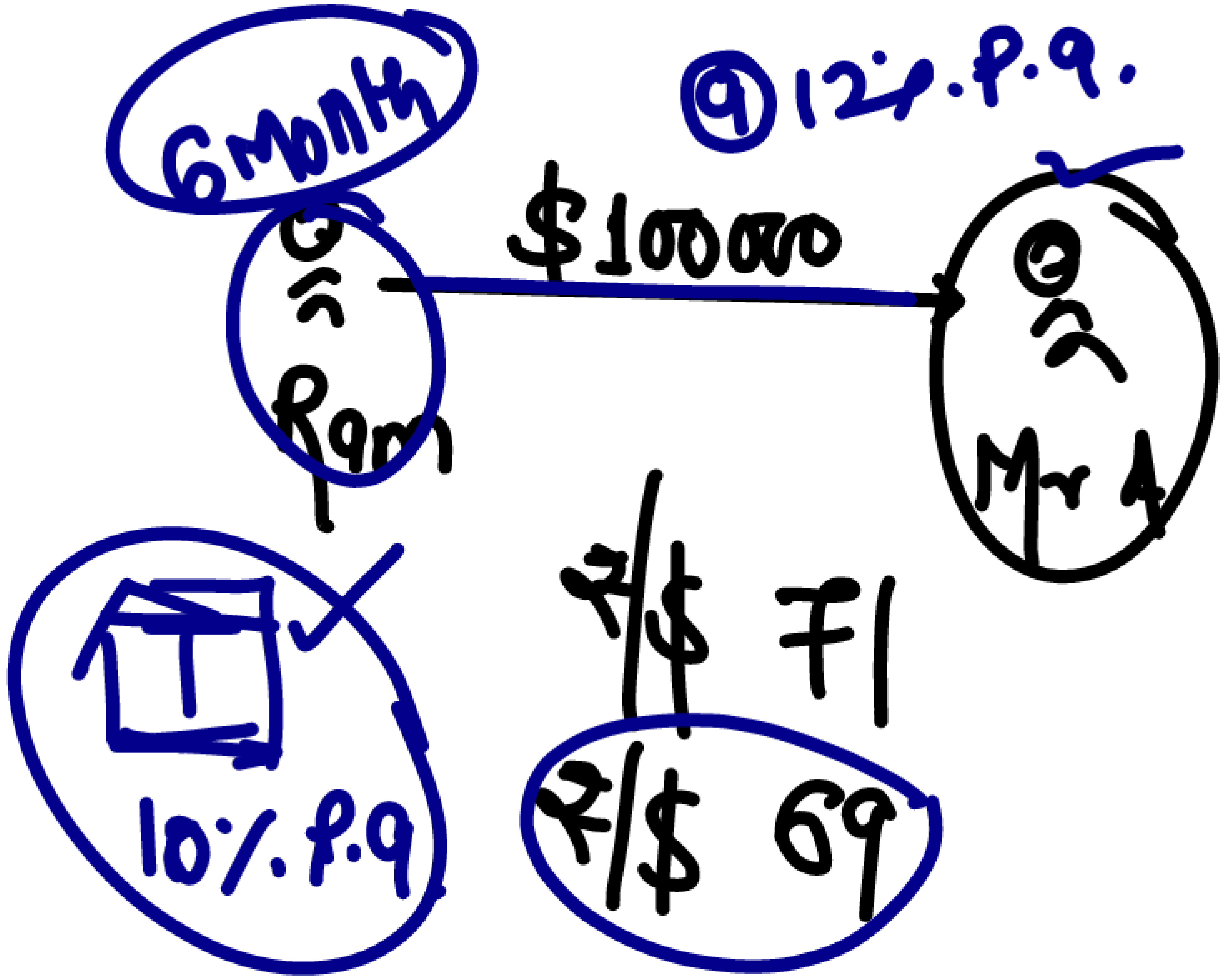

Option 1 Pay Immediately

Buy \$100000 at SR ($\$100000 \times 71$) = ₹7100000

Borrow ₹7100000 @ 10% p.a. for 6 months

Cash outflows (7100000×1.05) = $\boxed{₹7455000}$

Option 2 Pay after 6 months

\$ payable with Interest ($\$100000 \times 1.06$) = \$106000

Buy \$106000 at 6 month FR

$\$106000 \times 69$ = $\boxed{₹7314000}$

Pay after 6 months is better due to Lower Cash outflows

EXAMPLE – 67

We export to USA & export proceeds $ 1,00,000 after 6 months. We can hedged with the help of following two alternatives.

(i) Invoicing in home currency at current Exchange rate

(ii) Forward cover

SR ₹/$ = ₹ 70/₹ 72

6 months FR ₹/$ = ₹ 68/₹ 70

Which option is better?

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Option 1 Invoicing in Home currency

Cash Inflow ($\$100000 \times 70$) = ₹ 7000000

Option 2 Forward Cover

Sell \$ 100000 at 6 month FR

$\$100000 \times 68$ = ₹ 6800000

Invoicing is better due to Higher CI.

QUESTION – 55

An Indian importer has to settle an import bill for $ 1,30,000. The exporter has given the Indian exporter two options:

(i) Pay immediately without any interest charges.

(ii) Pay after three months with interest at 5 percent per annum.

The importer's bank charges 15 percent per annum on overdrafts. The exchange rates in the market are as follows:

Spot rate (₹ /$) : 48.35 /48.36

3-Months forward rate (₹/$) : 48.81 /48.83

The importer seeks your advice. Give your advice.

(Study Material PM & Exam November -2011)

(Page No. 82)

option 1 Pay immediately

Buy $130000 at SR

$\$130000 \times 48.36 = 6286800$

Borrow ₹6286800 @ 15% p.a. for 3 Months

Cash Outflows = 6286800 (1.0375)

$= \boxed{₹6522555}$

option 2 pay after 3 Months

$ payable = $\$130000 \times 1.0125$

$= \$131625$

Buy $ at FR

$\$131695 \times 48.83 = \boxed{₹6427249}$

option 2 is better due to Lower CO

QUESTION – 56

$2000000

Z Ltd. importing goods worth USD 2 million, requires 90 days to make the payment. The overseas supplier has offered a 60 days interest free credit period and for additional credit for 30 days an interest of 8% per annum.

The bankers of Z Ltd offer a 30 days loan at 10% per annum and their quote for foreign exchange is as follows:

	₹
Spot 1 USD	56.50
60 days forward for 1 USD	57.10
90 days forward for 1 USD	57.50

You are required to evaluate the following options:

(i) Pay the supplier in 60 days or

(ii) Avail the supplier's offer of 90 days credit.

(Study Material & PM)

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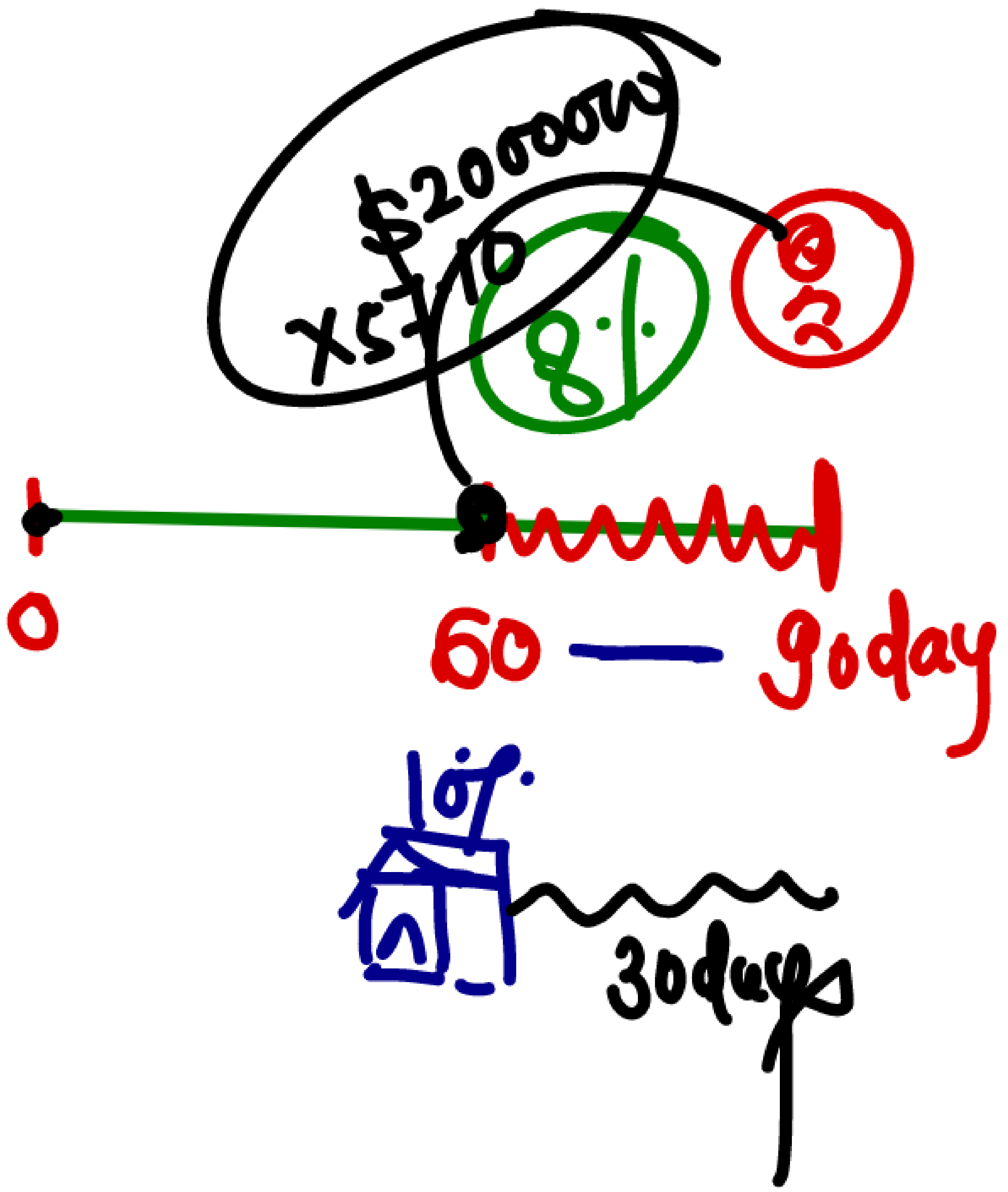

option 1 pay the Supplier in 60 days

Buy \$2000000 at 60 days FR $\$2000000 \times 57.10 = ₹114200000$

Borrow ₹114200000 @ 10% p.a. for 30 days

Cash outflow = (₹114200000 + ₹951667) = $\boxed{₹115151667}$

option 2 pay the Supplier in 90 days

\$ payable with Interest [\$2000000 + \$13333] = \$2013333

Buy \$ at 90 day FR

$\$2013333 \times ₹57.50 = \boxed{₹115766648}$

option 1 is better due to lower cash outflows

QUESTION – 57

DEF Ltd. has imported goods to the extent of US$ 1 crore. The payment terms are 60 days interest-free credit. For additional credit of 30 days, interest at the rate of 7.75% p.a. will be charged.

The banker of DEF Ltd. has offered a 30 days loan at the rate of 9.5% p.a. Their quote for the foreign exchange is as follows:

Spot rate INR/US$	62.50
60 days forward rate INR/US$	63.15
90 days forward rate INR/US$	63.45

Which one of the following options would be better?

(i) Pay the supplier on 60th day and avail bank loan for 30 days.

(ii) Avail the supplier's offer of 90 days credit.

(Study Material, PM, MTP April – 2022 & Exam May - 2015)

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QUESTION – 58

$1000000

Gibralater Limited has imported 5000 bottles of shampoo at landed cost in Mumbai, of US $ 20 each. The company has the choice for paying for the goods immediately or in 3 months' time. It has a clean overdraft limited where 14% p.a. rate of interest is charged.

Calculate which of the following method would be cheaper to Gibralter Limited.

H.W.

H.W Copy

(i) Pay in 3 months' time with interest @ 10% p.a. and cover risk forward for 3 months.

(ii) Settle now at a current spot rate and pay interest of the over draft for 3 months.

The rates are as follows:

Mumbai ₹ /$ spot : 60.25-60.55

3 months swap points : 35/25

(Study Material, PM & Exam November – 2014)

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