

**CA FINAL**  
**STRATEGIC FINANCIAL MANAGEMENT**  
**MOCK TEST PAPER**

**Maximum Marks - 100**

**Time Allowed - 3 Hours**

**Topic cover in paper**

- Forex
- Derivative
- IRRM
- RM

*Answer All Questions*

**Question 1.**

Following information is given:

Exchange rates: Canadian dollar 0.666 per DM (spot)

Canadian dollar 0.671 per DM (3-months)

Interest rates: DM 7.5% p.a.

Canadian Dollar - 9.5% p.a.

To take the possible arbitrage gains, what operations would be carried out?

**8 Marks**

**Question 2.**

Following information relates to M/s A Ltd. which is a manufacturing -cum-exporting unit. It is exporting some electronic components to Japan, USA and Europe on 90 days credit terms:

Cost and Sales Information:

	<b>Japan</b>	<b>USA</b>	<b>Europe</b>
Variable cost per unit	₹ 225	₹ 395	₹ 510
Export sale price per unit	Yen 650	\$ 10.23	Euro 11.99
Receipts from sale due in 90 days	Yen 78,00,000	\$ 1,02,300	Euro 95920
<b>Foreign exchange rate information</b>			
	<b>Japan Yen/Re</b>	<b>USA \$/Re</b>	<b>Europe Euro/Re</b>
Spot market	2.417-2.437	0.0214-0.0217	0.0177-0.0180
3 months forward	2.397-2.427	0.0213-0.0216	0.0176-0.0178
3 months spot	2.423-2.459	0.02144-0.02156	0.0177-0.0179

Advice the company by calculating average contribution to sales ratio whether it should hedge its currency risk or not.

**8 Marks**

**Question 3.**

Ram holding shares of Reliance Industries Ltd. which is currently selling at ₹ 1000. He is expecting that this price will further fall due to lower than expected level of profits to be announced after one month. As on following option contract are available in Reliance Share.

<b>Strike Price (₹)</b>	<b>Option</b>	<b>Premium (₹)</b>
1030	Call	40
1010	Call	35
1000	Call	30
990	Put	35
970	Put	20
950	Put	8
930	Put	5

Ram is interested in selling his stock holding as he cannot afford to lose more than 5% of its value.

Recommend a hedging strategy with option and show how his position will be protected.

**8 Marks**

#### Question 4.

K Ltd. currently operates from 4 different buildings and wants to consolidate its operations into one building which is expected to cost ₹ 90 crores. The Board of K Ltd. had approved the above plan and to fund the above cost, agreed to avail an External Commercial Borrowing (ECB) of GBP 10 m from G Bank Ltd. on the following conditions:

- The Loan will be availed on 1st April, 2019 with interest payable on half yearly rest.
- Average Loan Maturity life will be 3.4 years with an overall tenure of 5 years.
- Upfront Fee of 1.20%.
- Interest Cost is GBP 6 months LIBOR + Margin of 2.50%.
- The 6 month LIBOR is expected to be 1.05%.

K Ltd. also entered into a GBP-INR hedge at 1 GBP = INR 90 to cover the exposure on account of the above ECB Loan and the cost of the hedge is coming to 4.00% p.a.

As a Finance Manager, given the above information and taking the 1 GBP = INR 90:

- i. Calculate the overall cost both in percentage and rupee terms on an annual basis.
- ii. What is the cost of hedging in rupee terms?
- iii. If K Ltd. wants to pursue an aggressive approach, what would be the net gain/loss for K Ltd. if the INR depreciates/appreciates against GBP by 10% at the end of the 5 years assuming that the loan is repaid in GBP at the end of 5 years?

Ignore time value and taxes and calculate to two decimals.

**8 Marks**

#### Question 5

On 1st January 2019 Global Ltd., an exporter entered into a forward contract with BBC Bank to sell US\$ 2,00,000 on 31st March 2019 at ₹ 71.50/\$. However, due to the request of the importer, Global Ltd. received the amount on 28 February 2019. Global Ltd. requested the Bank to take

delivery of the remittance on 2nd March 2019. The Inter- banking rates on 28th February were as follows:

Spot Rate	₹ 71.20/71.25
One month premium	5/10

If Bank agrees to take early delivery then what will be the net inflow to Global Ltd. assuming that the prevailing prime lending rate is 15%. Assume 365 days in a year.

**8 Marks**

**Question 6.**

Omega 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 or floatation cost). The estimated floatation cost is 2%. To finance this project, it proposes to issue GDRs.

As a financial consultant, you are requested to compute the number of GDRs to be issued and cost of the GDR with the help of following additional information:

- i. Expected market price of share at the time of issue of GDR is ₹ 250 (Face Value being ₹100)
- ii. 2 shares shall underlay each GDR and shall be priced at 4% discount to market price.
- iii. Expected exchange rate ₹ 64/\$
- iv. Dividend expected to be paid is 15% with growth rate 12%.

**8 Marks**

**Question 7.**

Mr. KK purchased a 3-month call option for 100 shares in PQR Ltd. at a premium of ₹ 40 per share, with an exercise price of ₹ 560. He also purchased a 3-month put option for 100 shares of the same company at a premium of ₹ 10 per share with an exercise price of ₹ 460. The market price of the share on the date of Mr. KK's purchase of options, is ₹ 500. Compute the profit or loss that Mr. KK would make assuming that the market price falls to ₹ 360 at the end of 3 months.

**4 Marks**

**Question 8.**

Sun Limited, an Indian company will need \$ 5,00,000 in 90 days. In this connection, following information is given below:

Spot Rate - \$1 = ₹ 71

90 days forward rate of \$1 as of today = ₹ 73

Interest Rates are as follows:

Particulars	US	India
90 days Deposit Rate	2.50%	4.00%
90 days Borrowing Rate	4.00%	6.00%

A call option on \$ that expires in 90 days has an exercise price of ₹ 74 and a premium of Re. 0.10. Sun Limited has forecasted the spot rates for 90 days as below:

Future Rate	Probability
₹ 72.50	25%
₹ 73.00	50%
₹ 74.50	25%

Which of the following strategies would be the most preferable to Sun Limited :

- i. A Forward Contract;
- ii. A Money Market hedge;
- iii. An Option Contract;
- iv. No Hedging.

Show your calculations in each case.

**8 Marks**

### Question 9.

The directors of Implant Inc. wishes to make an equity issue to finance a \$10 m (million) expansion scheme which has an expected Net Present Value of \$2.2m and to re-finance an existing \$6 m 15% Bonds due for maturity in 5 years time. For early redemption of these bonds there is a \$3,50,000 penalty charges. The Co. has also obtained approval to suspend these pre-emptive rights and make a \$15 m placement of shares which will be at a price of \$0.5 per share. The floatation cost of issue will be 4% of Gross proceeds. Any surplus funds from issue will be invested in IDRs which is currently yielding 10% per year.

The Present capital structure of Co. is as under:

	'000
Ordinary Share (\$1 per share)	7,000
Share Premium	10,500
Free Reserves	25,500
	<b>43,000</b>
15% Term Bonds	6,000
11% Debenture (2012-2020)	8,000
	<b>57,000</b>

Current share price is \$2 per share and debenture price is \$ 103 per debenture. Cost of capital of Co. is 10%. It may be further presumed that stock market is semi -strong form efficient and no information about the proposed use of funds from the issue has been made available to the public. You are required to calculate expected share price of company once full details of the placement and to which the finance is to be put, are announced.

**8 Marks**

### Question 10.

An Indian company obtains the following quotes (₹/\$)

Spot:	35.90/36.10
3 - Months forward rate:	36.00/36.25
6 - Months forward rate:	36.10/36.40

The company needs \$ funds for six months. Determine whether the company should borrow in \$ or ₹ Interest rates are :

3 - Months interest rate : ₹ : 12%, \$ : 6%

6 - Months interest rate : ₹ : 11.50%, \$ : 5.5%

Also determine what should be the rate of interest after 3-months to make the company indifferent between 3-months borrowing and 6-months borrowing in the case of:

- i. Rupee borrowing
- ii. Dollar borrowing

Note: For the purpose of calculation you can take the units of dollar and rupee as 100 each.

**8 Marks**

### Question 11.

Following is the information about Mr. J's portfolio:

Investment in shares of ABC Ltd.	₹ 200 lakh
Investment in shares of XYZ Ltd.	₹ 200 lakh
Daily standard deviation of both shares	1%
Co-efficient of correlation between both shares	0.3

Required:

Determine the 10 days 99% Value At Risk (VAR) for Mr. J' s portfolio. Given : The Z score from the Normal Table at 99% confidence level is 2.33. (Show your calculations up to four decimal points).

**4 Marks**

### Question 12.

TMC Holding Ltd. has a portfolio of shares of diversified companies valued at ₹ 400 crore enters into a swap arrangement with None Bank on the terms that it will get 1.15% quarterly on notional

principal of ₹ 400 crore in exchange of return on portfolio which is exactly tracking the Sensex which is presently 21600.

Calculate the net payment to be received/ paid at the end of each quarter if Sensex turns out to be 21,860, 21,780, 22,080 and 21,960.

**8 Marks**

**Question 13.**

a. List some of the parameters to identify currency risk .

**4 Marks**

b. How different stakeholders view the financial risk?

**4 Marks**

c. What are the limitations of Gap Report?

**4 Marks**