Roll No…………………

Total No. of questions – 6 | Total No. of Printed Pages -13

Time Allowed – 3 Hours | Maximum Marks - 100

JKL

Answers to questions are to be given only in English except in case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

Question No. **1** is compulsory.

Candidates are also required to answer any four questions from the remaining **five** questions.

Working notes should form part of the respective answer.

Marks

1. (a) Following details are available for X Ltd. **10**

Income Statement for the year ended 31st March, 2018

Particulars	Amount
Sales	40,000
Gross Profit	12,000
Administrative Expenses	6,000
Profit Before tax	6,000
Tax @ 30%	1,800
Profit After Tax	4,200

 Marks

Balance sheet as on 31st March, 2018

Particulars	Amount
Fixed Assets	10,000
Current Assets	6,000
Total Assets	16,000
Equity Share Capital	15,000
Sundry Creditors	1,000
Total Liabilities	16,000

The Company is contemplating for new sales strategy as follows :

i. Sales to grow at 30% per year for next four years.

ii. Assets turnover ratio, net profit ratio and tax rate will remain the same.

iii. Depreciation will be 15% of value of net fixed assets at the beginning of the year.

iv. Required rate of return for the company is 15%

Evaluate the viability of new strategy.

(b) The following data is related to 8.5% Fully Convertible (into Equity shares) Debentures issued by JAC Ltd. at ₹ 1000. **6**

Market Price of Debenture ₹ 900

Marks

Conversion Ratio	30
Straight Value of Debenture	₹ 700
Market Price of Equity share on the date of Conversion	₹ 25
Expected Dividend Per Share	₹ 1

You are required to calculate:

i. Conversion Value of Debenture

ii. Market Conversion Price

iii. Conversion Premium per share

iv. Ratio of Conversion Premium

v. Premium over Straight Value of Debenture

vi. Favourable income differential per share

vii. Premium pay back period

(c) List the concepts and characteristics of venture capital. **4**

2. (a) IM is an American firm having its subsidiary in Japan and JI is a Japanese firm having its subsidiary in USA: They face the following interest rates **8**

Marks

	IM	JI
USD Floating rate	LIBOR+0.5%	LIBOR+2.5%
JPY Fixed rate	4%	4.25%

IM wishes to borrow USD at floating rate and JI JY at fixed rate. The amount required by both the companies is same at the current Exchange Rate. A financial institution requires 75 basis points as commission for arranging Swap. The companies agree to share the benefit/ loss equally.

You are required to find out

i. Whether a beneficial swap can be arranged ?

ii. What rate of interest for both IM and JI ?

(b) Given is the following information: **8**

	Day Ltd.	Night Ltd.
Net Earnings	₹ 5 crores	₹ 3.5 crores
No. of Equity Shares	10,00,000	7,00,000

The shares of Day Ltd. and Night Ltd. trade at 20 and 15 times their respective P/E ratios.

Day Ltd. considers taking over Night Ltd. By paying ₹ 55 crores considering that the market price of Night Ltd. reflects its true value. It is considering both the following options:

i. Takeover is funded entirely in cash.

Marks

ii. Takeover is funded entirely in stock.

You are required to calculate the cost of the takeover and advise Day Ltd. on the best alternative.

(c) Write a short note on Asset and Liability Management. **4**

3. (a) A mutual fund raised Rs. 150 lakhs on April 1, 2018 by issue of 15 lakh units at Rs. 10 per unit. The fund invested in several capital market instruments to build a portfolio of Rs. 140 lakhs, Initial expenses amounted to Rs. 8 lakhs. During the month of April, the fund sold certain instruments costing Rs. 44.75 lakhs for Rs. 47 lakhs and used the proceeds to purchase certain other securities for Rs. 41.6 lakhs. The fund management expenses for the month amounted to Rs. 6 lakhs of which Rs. 50,000 was in arrears. The fund earned dividends amounting to Rs. 1.5 lakhs and it distributed 80% of the realized earnings. The market value of the portfolio on 30th April, 2018 was Rs. 147.85 lakhs. **8**

An investor subscribed to 1000 units on April 1 and disposed it off at closing NAV on 30th April. Determine his annual rate of earnings.

(b) XYZ Ltd. has imported goods to the extent of US$ 8 Million. The payment terms are as under: **8**

a. 1% discount if full amount is paid immediately; or

b. 60 days interest free credit. However, in case of a further delay up to 30 days, interest at the rate of 8% p.a. will be charged for additional days after 60 days. M/s XYZ Ltd. has ₹ 25 Lakh available and for remaining it has an offer from bank for a loan up to 90 days @ 9.0% p.a.

The quotes for foreign exchange are as follows:

Spot Rate INR/ US$ (buying)	₹ 66.98
60 days Forward Rate INR/ US$ (buying)	₹ 67.16
90 days Forward Rate INR/ US$ (buying)	₹ 68.03

Advise which one of the following options would be better for XYZ Ltd.

i. Pay immediately after utilizing cash available and for balance amount take 90 days loan from bank.

ii. Pay the supplier on 60th day and avail bank's loan (after utilizing cash) for 30 days.

iii. Avail supplier offer of 90 days credit and utilize cash available.

Further presume that the cash available with XYZ Ltd. will fetch a return of 4% p.a. in India till it is utilized.

Assume year has 360 days. Ignore Taxation.

Compute your working upto four decimals and cash flows in Crore.

(c) Write a short note on Netting and its types. **4**

4. (a) A USA based company is planning to set up a software development unit in India. Software developed at the Indian unit will be bought back by the US parent at a transfer price of US \$10 millions. The unit will remain in existence in India for one year; the software is expected to get developed within this time frame. **8**

The US based company will be subject to corporate tax of 30 per cent and a withholding tax of 10 per cent in India and will be eligible for tax credit in India. The software developed will be sold in the US market and many companies are ready to acquire the same. Other estimates are as follows:

Rent for fully furnished unit with necessary hardware in India	₹ 18,75,000
Manpower cost (80 software professional will be working for 10 hours each day)	500 per man hour
Administrative and other costs	₹ 15,00,000

Advise the US Company the minimum amount it should charge from the prospective buyer. The rupee-dollar rate is ₹ 60/\$.

Note: Assume 365 days a year.

Marks

(b) Following information is available of M/s. TS Ltd. **8**

	(₹ in crores)
PBIT	5.00
Less : Interest on Debt (10%)	1.00
PBT	4.00
Less: Tax @ 25%	1.00
PAT	3.00
No. of outstanding shares of ₹ 10 each	40 lakh
EPS (₹)	7.5
Market price of share (₹)	7.5
P/E ratio	10 Times

TS Ltd. has an undistributed reserves of ₹ 8 crores. The company requires ₹ 3 crores for the purpose of expansion which is expected to earn the same rate of return on capital employed as present. However, if the debt to capital employed ratio is higher than 35%, then P/E ratio is expected to decline to 8 Times and rise in the cost of additional debt to 14%. Given this data which of the following options the company would prefer, and why?

Option (i) : If the required amount is raised through debt, and

Option (ii) : If the required amount is raised through equity and the new shares will be issued at a price of ₹ 25 each

(c) Discuss about the Primary Participants in the process of Securitization. **4**

Marks

5. (a) Place the following strategies by different persons in the Exposure Management Strategies Matrix. **8**

Strategy 1: Kuljeet a wholesaler of imported items imports toys from China to sell them in the domestic market to retailers. Being a sole trader, he is always so much involved in the promotion of his trade in domestic market and negotiation with foreign supplier that he never pays attention to hedge his payable in foreign currency and leaves his position unhedged.

Strategy 2: Moni, is in the business of exporting and importing brasswares to USA and European countries. In order to capture the market he invoices the customers in their home currency. Lavi enters into forward contracts to sell the foreign exchange only if he expects some profit out of it other-wise he leaves his position open.

Strategy 3: TSC Ltd. is in the business of software development. The company has both receivables and payables in foreign currency. The Treasury Manager of TSC Ltd. not only enters into forward contracts to hedge the exposure but carries out cancellation and extension of forward contracts on regular basis to earn profit out of the same. As a result management has started looking Treasury Department as Profit Centre.

Strategy 4: DNB Publishers Ltd. in addition to publishing books are also in the business of importing and exporting of books. As a matter of policy the movement company invoices the customer or receives invoice from the supplier immediately covers its position in

Marks

the Forward or Future markets and hence never leave the exposure open even for a single day.

(b) AB Ltd.'s equity shares are presently selling at a price of ₹ 500 each. An investor is interested in purchasing AB Ltd.'s shares. The investor expects that there is a 70% chance that the price will go up to ₹ 650 or a 30% chance that it will go down to ₹ 450, three months from now. There is a call option on the shares of the firm that can be exercised only at the end of three months at an exercise price of ₹ 550. **8**

Calculate the following:

i. If the investor wants a perfect hedge, what combination of the share and option should he select ?

ii. Explain how the investor will be able to maintain identical position regardless of the share price.

iii. If the risk-free rate of return is 5% for the three months period, what is the value of the option at the beginning of the period ?

iv. What is the expected return on the option?

(c) Short note on balancing Financial goals vis-à-vis Sustainable Growth. **4**

Marks

6. (a) B Ltd. wants to acquire S Ltd. and has offered a swap ratio of 2 : 3 (2 shares for every 3 share of S Ltd.) Following information is available: **8**

Particulars	B Ltd.	S Ltd.
Profit after tax (in ₹)	21,00,000	4,50,000
Equity shares outstanding (Nos.)	6,00,000	1,80,000
EPS (in ₹)	3.5	2.5
PE Ratio	10 times	7 times
Price quoting per share on BSE before the merger announcement	35	17.5

Required:

i. The number of equity shares to be issued by B Ltd. for acquisition of S Ltd.

ii. What is the EPS of B Ltd. after the acquisition?

iii. Determine the equivalent earnings per share of S Ltd. and calculate per share gain or loss to shareholders of S Ltd.

iv. What is the expected market price per share of B Ltd. after the acquisition, assuming its PE Multiple remains unchanged?

v. Determine the market value of the merged firm.

vi. After the announcement of merger, price of shares of S Ltd. rose by 10% on BSE. Mr. X, an investor, having 10,000

Marks

shares of S Ltd. is having another investment opportunity, which yields annual return of 14% is seeking your advise whether he needs to offload the shares in the market or accept the shares from B Ltd.

(b) Consider the following information on two stocks, X and Y. **8**

Year	**2016**	**2017**
Return on X (%)	10	16
Return on Y (%)	12	18

You are required to calculate:

i. The expected return on a portfolio containing X and Y in the proportion of 40% and 60% respectively.

ii. The Standard Deviation of return from each of the two stocks.

iii. The Covariance of returns from the two stocks.

iv. The Correlation coefficient between the returns of the two stocks.

v. The risk of a portfolio containing X and Y in the proportion of 40% and 60%.

(c) Explain the significance/applications of VaR. **4**

OR

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Discuss the Capital Asset Pricing Model (CAPM) and its relevant assumptions. **4**