



FINAL CA – NOV 2018
SUB: STRATEGIC FINANCIAL
MANAGEMENT

Topics: Forex, Int. Futures, Foreign Investment
 Appraisal, Derivatives, Currency,
 Miscellaneous, Mutual Funds.

Test Code – CF3
 Branch (MULTIPLE) (Date :)

(50 Marks)

Note: All questions are

compulsory.

Question 1 (8 marks)

Exchange Position:

Particulars	Purchase £	Sale £
Opening Balance Overbought	35,000	—
DD Purchased	12,500	—
Purchased a Bill on London	40,000	—
Sold forward TT	—	30,000
Forward purchase contract cancelled	—	15,000
TT Remittance	—	37,500
Draft on London cancelled	15,000	—
	102,500	82,500
Closing Balance Overbought	—	20,000
	102,500	102,500

Cash Position (Nostro A/c)

	Credit £	Debit £
Opening Balance (credit)	65,000	—
TT Remittance	—	37,500
	65,000	37,500
Closing Balance (credit)	—	27,500
	65,000	65,000

To maintain Cash Balance in Nostro Account at £7,500 you have to sell £20,000 in Spot which will bring Overbought exchange position to Nil. Since bank require Overbought position of £7,500 it has to buy the same in forward market.

Question 2 (5 marks)

$\$2,000,000$ per month = $\$24,000,000$ per year

Time saved = $10 - 2 = 8$ days funds are freed for other uses.

Investing $\$24,000,000$ at 12% for 8 days: Yield = $24,000,000 (0.12) (8/360) = \$64,000$

% yield = $64,000/24,000,000 = 0.00267$ or 0.267%

Since the firm saves less than 0.3% and the proposed charges is 0.5%, the services would not produce commensurate savings. However, the new transfer time would shorten the exposure of the funds to various risks by an average of 8 days. The firm must decide whether or not this reduction in risk is worth the difference between the proposed fee and the savings due to the shorter transfer time, $0.5\% - 0.267\% = 0.233\%$.

Question 3 (6 marks)**(a) Dirty Price**

$$= \text{Clean Price} + \text{Interest Accrued}$$

$$= 99.42 + 100 * 12/100 * 292/360 = 109.733$$

(b) First Leg (Start Proceed)

$$= \text{Nominal Value} * \text{Dirty Price} / 100 * 100 - \text{Initial Margin} / 100$$

$$= 5,00,00,000 * 109.733 / 100 * 100 - 2 / 100$$

$$= 5,37,69,317 \text{ say } \text{`}5,37,69,000$$

(c) Second Leg (Repayment at Maturity)

$$= \text{Start Proceed} * (1 + \text{Repo rate} * \text{No of days} / 360)$$

$$= \text{`}5,37,69,000 * (1 + 0.0525 * 14/360)$$

$$= \text{`}5,38,78,778$$

Question 4 (5 marks)

Issue Price	50,00,0
Less: Interest @ 12.5% for 4 months	2,08,33
Issue Expenses	2,500
Minimum Balance	1,50,00
	46,39,1

$$\text{Cost of Funds} = 2,10,833 (1 - 0.30) / 46,39,167 * 12/4 * 100 = 9.54\%$$

Question 5 (6 marks)**(a) Return for the year (all changes on a per unit basis):**

Change in Price (` 9.10 - ` 8.50)		` 0.60
Dividends received	` 0.90	
Capital gains distributions		<u>` 0.75</u>
Total return		<u>` 2.25</u>

$$\text{Holding period return} = 2.25 / 8.50 = 26.47\%$$

(b) When all dividends and capital gains distributions are reinvested into additional units of the fund (` 8.75/unit):

Dividends and capital gains per unit:	` 0.90 + ` 0.75	= ` 1.65
Total amount received from 200 units:	` 1.65 X 200	= ` 330.00
Additional units added:	` 330 / ` 8.75	= 37.7 units
Value of 237.7 units held at end of year:	237.7 units X ` 9.10	= ` 2,163
Price paid for 200 units at beginning of year	200 units X ` 8.50	= ` 1,700

Thus, the Holding Period Return would be:

$$(\text{No. of units at end of Period} * \text{Ending Price}) - (\text{No. of units at beginning of Period} * \text{Initial Price}) / \text{No. of units at beginning of Period} * \text{Initial Price}$$

$$= 2613 - 1700 / 1700 = 463 / 1700 = 27.24\%$$

Question 6 (5 marks)

No. of Shares = Rs. 1300 crores / Rs. 40 = 32.5 crores

EPS = PAT/ No. of shares

EPS = Rs. 290 crores / 32.5 crores = Rs. 8.923

FCFE = Net income - [(1-b) (capex - dep) + (1-b) (ΔWC)]
 FCFE = 8.923 - [(1-0.27) (47-39) + (1-0.27) (3.45)]
 = 8.923 - [5.84 + 2.5185] = 0.5645

Cost of Equity = Rf + β (Rm - Rf)
 = 8.7 + 0.1 (10.3 - 8.7) = 8.86%

P0 = FCFE (1+g) / Ke - g = 0.5645 (1.08) / 0.0886 - 0.08 = 0.60966 / 0.0086 = Rs. 70.89

Question 7 (5 marks)

The optional hedge ratio to minimize the variance of Hedger's position is given by:

$$H = \rho \sigma_S / \sigma_F$$

Where

σ_S = Standard deviation of ΔS σ_F = Standard deviation of ΔF

ρ = coefficient of correlation between ΔS and ΔF

H = Hedge Ratio

ΔS = change in Spot price.

ΔF = change in Future price.

Accordingly

$$H = 0.75 \times 0.04 / 0.06 = 0.5$$

No. of contract to be short = $10 \times 0.5 = 5$

Amount = $5000 \times ` 474 = ` 23,70,000$

Question 8 (5 marks)

The term Repurchase Agreement (Repo) and Reverse Repurchase Agreement (Reverse Repo) refer to a type of transaction in which money market participant raises funds by selling securities and simultaneously agreeing to repurchase the same after a specified time generally at a specified price, which typically includes interest at an agreed upon rate.

Such a transaction is called a Repo when viewed from the perspective of the seller of securities (the party acquiring funds) and Reverse Repo when described from the point of view of the supplier of funds.

Indian Repo market is governed by Reserve Bank of India. At present Repo is permitted between 64 players against Central and State Government Securities (including T-Bills) at Mumbai.

Question 9 (5 marks)

Expected Turnover = ` 4.80 crore + 25% i.e. ` 1.20 crore = ` 6.00 crore

	₹ in Lacs	₹ in Lacs
<i>Advance to be given:</i>		
Debtors `6.00 crore x 90/360	150.00	
Less: 10% withholding	<u>15.00</u>	135.00
Less: Commission 2%		<u>3.00</u>
Net payment		132.00
Less: Interest @16% for 90 days on `132 lacs		<u>5.28</u>

			<u>126.72</u>
<i>Calculation of Average Cost:</i>			
Total Commission `6.00 crore x 2%			12.00
Total Interest ` 5.28 lacs x 360/90			<u>21.12</u>
			33.12
Less: Admin. Cost		6.00	
Saving in Bad Debts (`600 lacs x 1.75% x 80%)		<u>8.40</u>	<u>14.40</u>
			<u>18.72</u>
	`18.72 lacs		
Effective Cost of Factoring	<u>`126.72 lacs</u>	×100	14.77%
