FINAL – November 2017

STRATEGIC FINANCIAL MANAGEMENT

Test Code –P30
Branch (MULTIPLE) (Date : 16.07.2017)

(50 Marks)

Note: All questions are compulsory.

Question 1 (6 Marks)

A mutual fund made an issue of 10,00,000 units of ` 10 each on January 01, 2008. No entry load was charged. It made the following investments:

Particulars	`
50,000 Equity shares of ` 100 each @ ` 160	80,00,000
7% Government Securities	8,00,000
9% Debentures (Unlisted)	5,00,000
10% Debentures (Listed)	5,00,000
	98,00,000

During the year, dividends of ` 12,00,000 were received on equity shares. Interest on all types of debt securities was received as and when due. At the end of the year equity shares and 10% debentures are quoted at 175% and 90% respectively. Other investments are at par.

Find out the Net Asset Value (NAV) per unit given that operating expenses paid during the year amounted to ` 5,00,000. Also find out the NAV, if the Mutual fund had distributed a dividend of ` 0.80 per unit during the year to the unit holders.

Question 2(8 Marks)

The following information relating to the acquiring Company Abhiman Ltd. and the target Company Abhishek Ltd. are available. Both the Companies are promoted by Multinational Company, Trident Ltd. The promoter's holding is 50% and 60% respectively in Abhiman Ltd. and Abhishek Ltd.:

	Abhiman Ltd.	Abhishek Ltd.
Share Capital (Rs.)	200 lakh	100 lakh
Free Reserve and Surplus (Rs.)	800 lakh	500 lakh
Paid up Value per share (Rs.)	100	10
Free float Market Capitalisation (Rs.)	400 lakh	128 lakh
P/E Ratio (times)	10	4

Trident Ltd. is interested to do justice to the shareholders of both the Companies. For the swap ratio weights are assigned to different parameters by the Board of Directors as follows:

Book Value	25%
EPS (Earning per share)	50%
Market Price	25%

(a) What is the swap ratio based on above weights?

(b) What is the Book Value, EPS and expected Market price of Abhiman Ltd. after acquisition of Abhishek Ltd. (assuming P.E. ratio of Abhiman Ltd. remains unchanged and all assets and liabilities of Abhishek Ltd. are taken over at book value).

(c) Calculate:

(i) Promoter's revised holding in the Abhiman Ltd.

(ii) Free float market capitalization.

(iii) Also calculate No. of Shares, Earning per Share (EPS) and Book Value (B.V.), if after acquisition of Abhishek Ltd., Abhiman Ltd. decided to :

(a) Issue Bonus shares in the ratio of 1 : 2; and

(b) Split the stock (share) as Rs. 5 each fully paid.

Question 3(6 Marks)

On April 3, 2016, a Bank quotes the following:

Spot exchange Rate (US $ 1)	INR 66.2525	INR 67.5945
2 months’ swap points	70	90
3 months’ swap points	160	186

In a spot transaction, delivery is made after two days.

Assume spot date as April 5, 2016.

Assume 1 swap point = 0.0001,

You are required to:

a. ascertain swap points for 2 months and 15 days. (For June 20, 2016),
b. determine foreign exchange rate for June 20, 2016, and
c. compute the annual rate of premium/discount of US$ on INR, on an average rate.

Question 4(8 Marks)

LMN Ltd. is an export oriented business house based in Mumbai. The Company invoices in customer's currency. The receipt of US $ 6, 00, 000 is due on 1st September, 2016. Market information as at 1st June 2016 is:

Exchange Rates	US$/`	Exchange Rates US $ / `		Contract Size
Spot	0.01471	Currency Futures		
1 Month Forward	0.01464	June	0.01456	` 30,00,000
3 Months Forward	0.01458	September	0.01449	
	Initial Margin (`)	Interest Rates in India %		
June	12,000	8.00 p.a.		
September	16,000	8.50 p.a.		

On 1st September, 2016, the spot rate US $/` is 0.01461 and currency futures rate is US $/` 0.01462.

It may be assumed that variation in Margin would be settled on the maturity of the futures contract.

Which of the following methods would be most advantageous for LMN Ltd.:

(d) using Forward Contract,

(e) using Currency Futures; and

(f) not hedging Currency Risks

Show the calculations and comment.

Question 5 (6 Marks)

The following market data is available:

Spot USD/JPY 116.00

Deposit rates p.a.	USD	JPY
3 months	4.50%	0.25%
6 months	5.00%	0.25%

Forward Rate Agreement (FRA) for Yen is Nil.

1. What should be 3 months FRA rate at 3 months forward?
2. The 6 & 12 months LIBORS are 5% & 6.5% respectively. A bank is quoting 6/12 USD FRA at 6.50 – 6.75%. Is any arbitrage opportunity available?

Calculate profit in such case.

Question 6 (8 Marks)

Given below is the Balance Sheet of S Ltd. as on 31.3.2008:

Liabilities	` (in lakh)	Assets	` (in lakh)
Share capital		Land and building	40
(share of ` 10)	100	Plant and machinery	80
Reserves and surplus		Investments	10
Long Term Debts	40	Stock	20
	30	Debtors	15
		Cash at bank	5
	170		170

You are required to work out the value of the Company's, shares on the basis of Net Assets method and Profit-earning capacity (capitalization) method and arrive at the fair price of the shares, by considering the following information:

(i) Profit for the current year ` 64 lakhs includes ` 4 lakhs extraordinary income and ` 1 lakh income from investments of surplus funds; such surplus funds are unlikely to recur.

(i) In subsequent years, additional advertisement expenses of ` 5 lakhs are expected to be incurred each year.

(ii) Market value of Land and Building and Plant and Machinery have been ascertained at ` 96 lakhs and ` 100 lakhs respectively. This will entail additional depreciation of ` 6 lakhs each year.

(iii) Effective Income-tax rate is 30%.

(iv) The capitalization rate applicable to similar businesses is 15%.

Question 7 (8 marks)

X Ltd. is a shoe manufacturing company. It is all equity financed and has a Paid-up Capital of Rs. 10,00,000 (Rs. 10 per share).

X Ltd. has hired Swastika consultants to analyse the future earnings. The report of Swastika consultants states as follows:

(v) The earnings and dividend will grow at 25% for the next two years.

(vi) Earnings are likely to grow at the rate of 10% from 3rd year and onwards.

Further, if there is reduction in earnings growth, dividend payout ratio will increase to 50%. The other data related to the company are as follows:

Year	EPS (Rs.)	Net Dividend per share (Rs.)	Share Price (Rs.)
2010	6.30	2.52	63.00
2011	7.00	2.80	46.00
2012	7.70	3.08	63.75
2013	8.40	3.36	68.75
2014	9.60	3.84	93.00

You may assume that the tax rate is 30% (not expected to change in future) and post tax cost of capital is 15%.

By using the Dividend Valuation Model, calculate

a. Expected Market Price per share
b. P/E Ratio

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