



FINAL EXAMINATION
MODEL QUESTION PAPER
PAPER – 14

SET - 1
TERM – JUNE 2025
SYLLABUS 2022

STRATEGIC FINANCIAL MANAGEMENT

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

SECTION – A (Compulsory)

1. Choose the correct option:

[15 x 2 = 30]

- (i) Which of the following is not a component of Digital Finance Ecosystem?
(a) Digital Infrastructure
(b) Digital Money
(c) Digital Liabilities
(d) Digital Financial Services
- (ii) If project cost = ₹12,000, Annual cash flow = ₹4,500 Cost of capital = 14%, life = 4 years, PVIFA (14%, 4) = 2.9137, then the sensitivity with respect to the project cost is
(a) 9.27 %
(b) 10.27 %
(c) 9.72 %
(d) 10.72 %
- (iii) Which of following clearly define the Leasing services?
(a) One party agrees to rent property owned by another party
(b) It guarantees the lessee, also known as the tenant, use of the asset
(c) It guarantees the lessor, regular payments from the lease
(d) All of the above.
- (iv) Under “securitisation process”, _____ are instruments which issued subsidiary company in respect of receivables of holding or parent company.
(a) Pass through certificate
(b) Pay through certificate
(c) Preferred stock certificate
(d) None of these
- (v) One year ago, you purchased an annual coupon bond for ₹817.84. At that time the bond had a maturity of 15 years, a face value of ₹1,000, a coupon rate of 5% and a yield to maturity of 7%. One year later, the yield to maturity increased to 7.5%. What is the total rate of return for the year?
(a) 9.79 %
(b) 2.44 %
(c) 7.50 %
(d) 3.75 %
- (vi) Which of the following does not form a part of company analysis?
(a) A trend analysis of the company’s market share
(b) Life cycle analysis of the industry
(c) Leverage and coverage ratio analysis
(d) Cost structure and break even analysis



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- (vii) A closed-end fund has a portfolio currently worth ₹350 million. The fund has liabilities of ₹5 million and 17 million units outstanding. What is the net asset value of the fund?
- (a) ₹20.28
(b) ₹20.29
(c) ₹20.59
(d) ₹29.17
- (viii) In July, the one-year interest rate is 4% on Swiss Francs and 13% on US dollars. If the current exchange rate SFr 1=\$0.63, what is the expected future exchange rate in one year?
- (a) \$ 0.5561
(b) \$ 0.6845
(c) \$ 0.8542
(d) \$ 0.8283
- (ix) The feature of the general version of the arbitrage pricing theory (APT) that offers the greatest potential advantage over the simple CAPM is the:
- (a) Identification of anticipated changes in production, inflation, and term structure of interest rates as key factors explaining the risk return relationship
(b) Superior measurement of the risk free rate of return over historical time periods
(c) Variability of coefficients of sensitivity to the APT factors for a given asset over time
(d) Use of several factors instead of a single market-index to explain the risk-return relationship
- (x) A portfolio manager realized an average annual return of 15%. The beta of the portfolio is 1.2 and the standard deviation of return is 25%. The average annual return for the market index was 11% and the standard deviation of the market returns is 20%. The risk-free rate is 4%. The Sharpe ratio for the portfolio is
- (a) 0.16
(b) 0.44
(c) 0.55
(d) 0.64
- (xi) Presently, a company's share price is ₹120. After 6 months, the price will be either ₹150 with a probability of 0.8 or ₹110 with a probability of 0.2. A call option exists with an exercise price of ₹130. What will be the expected value of call option at maturity date?
- (a) ₹20
(b) ₹16
(c) ₹12
(d) ₹10
- (xii) A Shares of C Ltd. is traded at ₹1,150. An investor is bullish about the market. He buys two one-month call option contracts (one contract is 100 shares) on C Ltd. with a strike price of ₹1,195 at a premium of ₹35 per share. Three months later, if the share is selling at ₹1240 what will be net profit/loss of the investor on the position?
- (a) ₹1000
(b) ₹1200
(c) ₹1500
(d) ₹2000



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- (xiii) The transaction where the exchange of currencies takes place 2 days after the date of the contract is known as
- (a) Ready transaction
 - (b) Value today
 - (c) Spot transaction
 - (d) Value tomorrow
- (xiv) An Indian Company is planning to invest in USA. The annual rates of inflation are 8% in India and 3% in USA. If the spot rate is currently ₹73.50/1\$, what spot rate can you expect after 2 years, assuming the inflation rates will remain the same over 2 years?
- (a) ₹66.85
 - (b) ₹80.81
 - (c) ₹70.09
 - (d) ₹77.07
- (xv) If ROA is 0.195 and the leverage factor of 1.38, the ROE of the company is
- (a) 0.279
 - (b) 0.283
 - (c) 0.254
 - (d) 0.269

SECTION – B

(Answer any five questions out of seven questions given. Each question carries 14 marks.)

[5 x 14 = 70]

2. (a) X Ltd. has ₹20,00,000 allocated for capital budgeting purposes. The following proposals are available:

Projects	Initial Outlay (₹)	Total PV (₹)
A	6,00,000	7,32,000
B	3,00,000	2,85,000
C	6,00,000	8,40,000
D	9,00,000	10,62,000
E	4,00,000	4,80,000
F	8,00,000	8,40,000

Recommend which of the above investments should be undertaken. Assume that the projects are divisible.

[7]

- (b) The Sharda Beverages Ltd has taken a plant on lease, valued at ₹20 crores. The lease arrangement is in the form of a leveraged lease. The Kuber Leasing Limited is the equity participant and the Hindusthan Bank Ltd. (HBL) is the loan participant. They fund the investment in the ratio of 2:8. The loan from HBL carries a fixed rate of interest of 19 percent, payable in 6 equated annual instalments. The lease term is 6 years, with lease rental payable annually in arrears.
- A) Calculate the equated annual instalment from the point of view of HBL.
 - B) If the lease rate is unknown, and HBL's per-tax yield is 25 percent, calculate the minimum lease rent that must be quoted.

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3. (a) Cyber Company is considering two mutually exclusive projects. Investment outlay of both the projects is ₹5,00,000 and each is expected to have a life of 5 years. Under three possible situations their annual cash flows and probabilities are as under:

Situation	Probabilities	Cash Flow	
		Project A	Project B
Good	0.3	6,00,000	5,00,000
Normal	0.4	4,00,000	4,00,000
Worse	0.3	2,00,000	3,00,000

The cost of capital is 9 per cent, recommend which project should be accepted and explain with workings. [7]

- (b) From the following Trial Balance for the year ending 31 March 2024 and other relevant information, calculate the value of the business on the basis of values of equity shares of Bhakti Ltd. as on 1st April, 2024 assuming the PE ratio to be 10.

Particulars	Dr. (₹)	Cr. (₹)
Fixed Assets (Cost Price)	1,00,000	
Equity Share Capital (₹10)		3,00,000
Reserve and Surplus		1,80,000
Provision for Depreciation		30,000
Purchase/sales	8,00,000	10,00,000
Opening stock	1,00,000	
Salaries	80,000	
Rent and rates	11,000	
Fixed selling expenses	10,000	
Variable selling expenses	9,000	
Debtors /Creditors	2,60,000	80,000
Bank	2,10,000	
Bad debts	10,000	
Total	15,90,000	15,90,000

Stock is ₹1,50,000 as on 31 March, 2024.

Depreciation is provided at 10 per cent p.a. on cost price, ₹10,000 worth of fixed assets is to be added during the middle of 2024. During the year ended 31st March, 2025:

- (i) Sales are likely to go up by 10 per cent at the same price
- (ii) The purchase price may go up by 2 per cent
- (iii) Stock holding is likely to increase by ₹65,000
- (iv) Bad debts are expected to go up by 50 per cent
- (v) Salaries and fixed selling expenses are likely to grow up by 10 per cent and 5 per cent respectively and
- (vi) The Variable selling expenses are estimated to be higher by 10 per cent per unit, Ignore tax.

[7]



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4. (a) You have been reading about Software Ltd. which currently retains 90 per cent of its earnings (₹5 a share this year). It earns a ROE of almost 30 percent.
- (i) Assuming a required rate of return of 14 percent, calculate the amount you pay for the share on the basis of earnings multiplier model.
- (ii) Calculate the amount you pay for the stock if its retention rate was 60 percent and its ROE was 19 percent. [7]
- (b) Four friends S, T, U, and V have invested equivalent amount of money in four different funds in tune with their attitude to risk, S prefers to play aggressive and is keen on equity-funds, T is moderately aggressive with a desire to invest upto 50% of his funds in Equity, whereas U does not invest anything beyond 20% in Equity. V, however, relies more on movement of market, and prefers any fund which replicates the market portfolio.

Their investment particulars, returns therefrom and Beta of the fund are given below —

Fund Invested	Return for the year	Beta Factor
Money Multiplier Fund (100% Equity)	23.50%	1.80
Balanced Growth Fund (50% Equity - 50% Debt)	16.50%	1.25
Safe Money Fund (20% Equity and 80% Debt Funds)	12.50%	0.60

If the Market Return was 16% and the Risk Free Return is measured at 7%, examine which of the four friends is/ are rewarded better per unit of risk taken. [7]

5. (a) Tea Ltd., has been enjoying a substantial net cash inflow, and until the surplus funds are needed to meet tax and dividend payments, and to finance further capital expenditure in several months' time, they have been invested in a small portfolio of short-term equity investments.

Details of the portfolio, which consists of shares in four UK listed companies, are as follows.

Company	Number of shares held	Beta equity coefficient	Market price per share (₹)	Latest Dividend yield (%)	Expected return on equity in the next year %
A Ltd.	60,000	1.20	4.29	6.10	19.50
B Ltd.	80,000	2.30	2.92	3.40	24.00
C Ltd.	1,00,000	0.85	2.17	5.70	17.50
D Ltd.	1,25,000	1.28	3.14	3.30	23.00

The current market return is 19% a year and the Risk free rate is 11% a year.

Required:

- On the basis of the data given, calculate the risk of Tea Ltd.'s short term investment portfolio relative to that of the market.
 - Recommend, with reasons, whether Tea Ltd., should change the composition of its portfolio. [7]
- (b) An investor is considering two investment opportunities with the following risk and return characteristics.

Project	P	Q
Expected return	15%	22%
Risk	3%	7%



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The investor plans to invest 80% of its available funds in share P and 20% in Q. the directors believe that the correlation co-efficient between the returns of the shares is +1.0.

Required—

- (1) Calculate the returns from the proposed portfolio of shares P and Q.
- (2) Calculate the risk of the portfolio;
- (3) Suppose the correlation coefficient between P and Q is -1, then analyse how should the company invest its funds in order to obtain a zero risk portfolio. [7]

6. (a) Tripti has two investment opportunities, M and N, carrying an yield of 15% p.a. the tenor of both these investments is 3 years.

M offers continuous compounding facility, whereas N offers yield on the basis of monthly compounding. Advise which offer will Tripti opt for.

If continuous compounding facility comes at a price of ₹180 p.a. per lakh of deposit (chargeable at the end of the period), examine the position.

Recommend at what price, will Tripti be indifferent to Continuous Compounding Facility and Monthly Compounding. [7]

- (b) DY has purchased ₹400 million cap (i.e., call options on interest rates) of 9% at a premium of 0.65% of face value. ₹400 million floor (i.e., put options on interest rates) of 4% is also available at premium of 0.69% of face value.

Calculate the following:

- (A) If interest rates rise to 10%, what is the amount received by DY? What are the net savings after deducting the premium?
- (B) If DY also purchases a floor, what are the net savings if interest rates rise to 11%? What are the net savings if interest rates fall to 3%?
- (C) If, instead, DY sells (writes) the floor, what are the net savings if interest rates rise to 11%? What if they fall to 3%?
- (D) What amount of floors should it sell in order to compensate for its purchases of caps, given the above premium? [7]

7. (a) Proactive Ltd. imports some specialty instruments from Japan and exports the finished product to US. The company has a payable of ¥ 500 million and a receivable of \$10 million three months hence. The following exchange rates are available in the market:

	\$/₹	¥/₹
Spot Rate	46.65/85	0.4065/0.4115
3m forward	46.90/15	0.4218/0.4268

The current interest rate scenario is as follows:

Maturity	Rupee (%)	Dollar (%)	Yen (%)
3-m	8.0/9.0	6.00/6.50	0.4/0.5



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The company is considering to cover the exposures either through the forward market or through the money market.

You are required to advise the company which alternative should be better for covering both the payables and receivables. [7]

- (b) The US dollar is selling in India at ₹55.50. If the interest rate for 6 months borrowing in India is 10% per annum and the corresponding rate in USA is 4%.

You are required to:

- (i) Examine that US dollar will be at a premium or at discount in the Indian Forex Market.
- (ii) Calculate the expected 6-months forward rate for US dollar in India and
- (iii) Calculate the rate of forward premium or discount. [7]

8. (a) Discuss the three dimensions of the Digital Finance Cube. [5]

- (b) Discuss the advantages & disadvantages of American Depositary Receipts (ADR). [5]

- (c) Discuss the several problems of Securitization. [4]