PAPER – 14 : STRATEGIC FINANCIAL MANAGMENT

SUGGESTED ANSWERS

SECTION – A

1.

(i) (A)

(ii) (B)

(iii) (D)

(iv) (A)

(v) (C)

(vi) (B)

(vii) (A)

(viii) (B)

(ix) (A)

(x) (D)

(xi) (D)

(xii) (D)

(xiii) (C)

(xiv) (C)

(xv) (B)

SECTION – B

2. (a)

(i) Annual Cash Savings = ₹ 744275

Present Value of Cash inflows = ₹ 3625989

NPV of the Proposal = ₹ (58811)

(ii) Advice:

Since Net present Value (NPV) of Project is Negative (-₹ 58811), it is not viable. So the replacement of the existing Machine with a new replacement should not be considered.

2. (b)

(i) Net Present Value of Cash Outflows = ₹ 3790482

(ii) Justification:

Since the Net present Value (NPV) of Leasing is lower than the cost of purchase and Net Benefit of Leasing amounts to ₹ 209518, ROTN Ltd. should opt for Leasing.

3. (a)

(i) Expected Value of the Project:

X = ₹ 67500

Y = ₹ 72500

Z = ₹ 86000

(ii) Since Expected Value (EV) of Profit of Project Z (₹ 86000) is higher than the other Project X with EV of Profit (₹ 67500) and Project Y with EV of Profit (₹ 72500) Project Z should be undertaken.

(iii) Project Z should be identified if the Minimax regret rule is applicable.

3. (b)

Value of Equity Share is = ₹ 40.32

4. (a)

(i) No. of Shares on Conversion = 20

(ii) The current market price of Share of SONTA Ltd. shall be = ₹ 48 per share

(iii) Straight Value of Bond = ₹ 940 per Bond

4. (b)

(i) NAV per Unit = ₹ 13.22

(ii) NAV, if dividend of ₹ 0.50 is paid = ₹ 12.72

(iii) Annualized Return = 32.20 %

5. (a)

(i) Beta for Smart M. Fund = 0.37

Beta for Growth M. Fund = 0.42

(ii) Risk Free Rate = 0.07 i.e. 7%

(iii) Security Market Line for Smart = $0.07 + 0.05\ \beta$

Security Market Line for Growth = $0.07 + 0.05\ \beta$

5. (b)

(i) The Portfolio Beta = 0.68

(ii) Residual Variances:

BG = 0.01186

BZ = 0.00678

DN = 0.0151

(iii) Portfolio Variance Using Sharpe Index Method = 0.01315

(iv) Portfolio Variance on the basis of Markowitz Theory = 0.0299

6. (a)

(i) Portfolio Beta = 0.849

(ii) Theoretical Value of Future Contract = ₹ 5994.28

(iii) 13 or 14 contracts

(iv) 4 contracts

6. (b)

(i) Value of Call Option= ₹ 50.36

(ii) Value of Put Option = ₹ 12.77

(iii) Expected Value of Option = ₹ 54

Expected Value of Stock Price at the end of three months = ₹ 552

7. (a)

(i) If Investment is made in Index Fund (GBP):

Value of Investment after 6 months in ₹ @ GBP / INR ₹ 302.39 Billion

(ii) If Investment is made in Treasury Bills (Europe):

Value of Investment after 6 months in ₹ @ EURO / INR 0.011 ₹ 311.7000 Billion

Suggestion:

Total amount of Second Option i.e. investment in Treasury Bills (EURO) is higher than that of the First Option i.e. investment in Index Fund (GBP) and Treasury Bills (EURO) is Risk Free also. So investment in Treasury Bills (EURO) is suggested.

7. (b)

Receipts Using Currency Futures:

The number of contracts needed is = 30	
	₹
Receipts under different methods of Hedging	
Forward contract	19512195
Futures	19031044
No hedge	19047619
The most advantageous option would have been to hedge with forward contract.	

8. (a)

The variants of Stable coins are appended as follows:

(i) Flat-collateralized stable coins

This type of stable coin is linked to the sovereign legal tenders of countries. Some of the most well-known flat-collateralized stable coins, for instance, include Tether and TUSD (True USD) However, these stable coins are not created by the central authority. The issuer issues these tokens by depositing an equal amount of fiat in its reserves.

Simply put, the stable coin's value is based on the premise that the issuer behind it has the equivalent amount in hand.

(ii) Commodity-backed stable coins

These are backed by reserved assets other than fiat currencies — by commodities. Real estate, gold, silver, and various other precious metals are examples of commodities. Kitco Gold, for example, is backed by the company's gold reserves, and the token itself is based on the Ethereum - backed ERC-20 block chain ecosystem.

(iii) Crypto-backed Stable coins

This type of stable coins is backed by any other crypto currency. Due to the volatile nature of crypto currencies, these stable coins must be overcompensated in order to be collateralized. For example, to buy $500 worth of the crypto-backed stable coin, Maker DAO's Dai, one needs to deposit $ 1,000 in ETH.

(iv) Algorithmic stable coins

These are primarily non-backed stable coins in which prices, token numbers, and other variables are manipulated with the help of special algorithms, software, and code in order to better manage supply and demand. This strategy allows the company to maintain the reserve peg in the event of price fluctuations.

8. (b)

The major initiatives taken by the World Bank are as follows:

(i) Proverty Reduction :

The Bank's assistance plans are based on proverty reduction strategies, by combining an analysis of local groups with an analysis of the country's financial and economic situation.

(ii) Global Partnerships:

Together with the World Health Organization, the World Bank administers the International Health Partnership (IHP+).

(iii) Protect from the Adversities of Climate Change:

The World Bank doubled its aid for climate change adaptation from $2.3bn (£1.47bn) in 2011 to $4.6 bn in 2012.

(iv) Food Security:

The World Bank also took slew of measures including Global Food Security Program in 2010and also launched Global Food Crisis Response Program.

(v) Clean Air Initiative (CAI):

It is a World Bank initiative to advance innovative ways to improve air quality in cities through partnerships in selected regions of the world by sharing knowledge and experiences.

(vi) Open Data Initiatives (ODI) :

The World Bank collects and process Large amounts of data and generate them on the basis of economic model.

(vii) Open Knowledge Repository (OKR) :

The World Bank hosts the open knowledge Repository (OKR) as an official open access repository for its research outputs and knowledge products.

8. (c)

The following are the Primary participants in the process of Securitization:

(i) Originator:

An originator actually creates a Securitized assets.

(ii) Arranger:

An originator usually appoints a financial Institution to design and set up the Securitization Structure. It is known as arranger.

(iii) Special purpose Vehicle (SPV):

This is an entity established by the originator to specifically purchase the assets.

(iv) Investor:

In a Securitization process, typically, financial Institution, Insurance companies, Pension Funds, Hedge Funds, companies are the investor.

(v) Services :

SPV appoints the Services to administer and collect the underlying receivables.

(vi) Rating Agencies:

Rating Agencies rate Securities.

(vii) Enhancement Provider:

They provide credit enhancement to the asset – backed securities.

(viii) Regulators :

The Regulators issue various regulations that guides securitization process.