

“Together we are Better”

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Strategic Financial Management

“Together we are Better”

If you find any difference in answer & error OR any
Other Query please inform me

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Q.1

[A]

Reward To Volatility Ratio : Return / Risk (Return Per Unit Of Risk

Sharpe Method: $R_p - R_f$ / Standard Deviation

Treynor's Method: $R_p - R_f$ / Beta

<i>security</i>	<i>sharpe</i>		<i>treynor</i>		<i>Rp/risk</i>
A	1.28	II	7.2	II	2.14
B	1.2	III	16	I	1.8
C	1.6	I	5.71	V	2.8
D	1	V	6.12	IV	2
E	1.11	IV	6.66	III	1.78

[B]

ISSUE PRICE @ 16% YIELD

YEAR	CF	PVIF	
		16%	PV
1	80	0.862	68.96
2	80	0.743	59.44
3	80	0.641	51.28
4	80	0.552	44.16
5	90	0.476	42.84
6	90	0.41	36.9
7	90	0.354	31.86
8	90	0.305	27.45
9	130	0.263	34.19
10	1130	0.227	256.51
			653.59

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[C]

Value of Share = 177.38 (working Note)

No of shares = 1200 crores/40 Each = 30 crores (Nos)

EPS = 300 crores/30 Crores = Rs. 10 per share

$$\begin{aligned}\text{FCFE} &= \text{EPS} - [(1-B)(\text{CAPEX} - \text{DEP}) + (1-B)(\text{CHANGE IN WKG CAP})] \\ &= 10 - [(1-0.25)(48-40) + (1-0.25)(3.45)] \\ &= 10 - [(0.75)(8) + (0.75)(3.45)] \\ &= 10 - 8.5875 \\ &= 1.4125\end{aligned}$$

$$\begin{aligned}\text{Ke} &= \text{Rf} + \text{Beta (Risk premium)} \\ &= 8.7 + 0.1(10.3 - 8.7) \\ &= 8.86\%\end{aligned}$$

$$\begin{aligned}\text{Value per share} &= 1.4125 (1+g) / 8.86-g \\ &= 1.5255 / 0.86\% \\ &= 177.38\end{aligned}$$

[D]

Investor bought call : 1 lot(50) strike price 52 Premium Paid Rs.2
(total=Rs 100 50 x 2)

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Investor Bought Put : 1 lot(50) Strike Price 50 Premium Paid Rs 1
(total =50 50x1)

	(1) share price UP				(2) share price down			
	CALL OPTION		PUT OPTION		CALL OPTION		PUT OPTION	
CMP		53		53		46		46
STRIKE PR		52		50		52		50
CALL		EXERCISE		NE		NE		EXRC
GAIN		1		0		0		4
TOTAL GAIN	50	50	50	0		0		200
PREMI. (PAID)		-100		-50		-100		-50
NET		-50		-50		-100		150
TOTAL NET		-100				50		

Q.2

[A]

The Risk free Rate of interest and risk factor for each of the project are given.the Risk Adjusted discount rate for different project can be found on the basis of CAPM .(HERE RISK INDEX IS CAN BE TREATED LIKE beta OF PROJECT)

CAPM = RF + BETA (MARKER RETURN – RISK FREE RETURN)

∴ RRR = Rf + Risk factor (ke-rf)

AB = 10 + 1.8 (15-10) = 19 %

BC = 15 % (RISK INDEX IS ONE NO NEED TO ADJUST)

CD = 10 + .06 (15-10) = 13 %

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YEAR	AB	PVIF	PV	BC	PVIF	PV	CD	PVIF 13%	PV
0	-1E+06	1	-1E+06	-1E+06	1	-1E+06	-2E+06	1	-2E+06
1	500000	0.8	420168	500000	0.87	434783	400000	0.885	353960
2	500000	0.7	353082	400000	0.76	302400	500000	0.783	391550
3	500000	0.6	296700	500000	0.66	328500	600000	0.693	415800
4	500000	0.5	249350	300000	0.57	171300	1E+06	0.613	613300
		NPV	119300		NPV	236983		NPV	274610

PROJECT CD : HIGHEST NPV = BEST PROJECT

[B]

NET ASSETS VALUE (NAV)

PARTICULARS	(RS CRORES)	ADJ. VALUE
LISTED SHARES	30	38.028169
CASH	0.75	0.75
BOND & DEB.		
NOT LISTED BOND	1	1
OTHER	1.3	10
OTHER FIXED INTEREST SECURITY	2.5	2.6625
DIVIDEND	0.8	0.8
AMOUNT PAYABLE		-8.32
EXPS		-1
NET ASSETS		43.920669
NO OF UNITS (CRORE)		0.3
NAV		146.40223

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Q.3 (WILL UPDATE SOON) - 😊 SORRY

Q.4

[A]

$D_0 = \text{Rs } 2$

$g = 40\%$ for five years and 15% thereafter

$R_f = 11\%$

Risk premium = 7% ($18-11$)

$R_m = 18\%$

Market = Variance 24%

Cov (stock Mkt) = 30%

Beta = cov(mkt stock) / variance mkt

= $30/24$

= 1.25

Required rate of return = $R_f + B$ (Risk premium)

= $11 + 1.25 (7)$

= 19.75%

Intrinsic value

Year	$D_0=2$	PVIF @ 19.75%	
1	$D_1 = 2+40\%=2.8$	0.835	2.338
2	3.92	0.697	2.732
3	5.488	0.582	3.194
4	7.6832	0.4862	3.7355
5	10.756	0.4060	4.366
TV5	260.42	0.4060	105.75

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INTRI...VALUE

TOTAL 122.11

(W.N.) $TV_5 = D_6 / (k_e - g) = 10.756 + 15\% / 19.75 - 15$

$= 12.37 / 4.75\% = 260.42$

[B]

EXISTING RATE OF RETURN

CAPM(MODEL)

$K_e = R_F + B (\text{RISK PREMIUM})$

$= 12.5\% + 1.5 (6)$

$= 21.5\%$

REVISED RATE OF RETURN

$K_e = 10 + 1.25(4.8)$

$10 + 6$

$= 16\%$

$P_0 = D + g / (K_e - g)$

$= 5.4 / 10\%$

$= 54$

CURRENT PRICE IS 50 INVESTOR
SHOULD HOLD OR BUY

EXISTING RATE OF RETURN

AS PER DIVIDEND GROWTH MODEL

$P_0 = D_0 (1+g) / (K_e - g)$

$50 = 5 (1+5\%) / (K_e - 0.08)$

$50 = 5.25 / (K_e - 0.08)$

$50K_e = 5.25 + 4$

$K_e = 18.5\%$

By writing note (I think): Answer
can be solved by this Rate ($K_e = 18.5\%$)

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Q.5

[A]

CHECKING POSSIBILITY

$\text{FWD} / \text{SPOT} = (1+r) \text{ OF CAD RATE} / (1+R) \text{ OF DM RATE}$

$\text{FWS} / 0.666 = (1 + 0.095 \times 3/12) / (1 + 0.075 \times 3/12)$

$\text{FWD} / 0.666 = (1.02375) / (1.01875)$

$\text{FWD} = 0.666 \times 1.0049$

$\text{FWD} = 0.669$

THEORITICAL FORWARD RATE CAD 0.669 per DM

ACTUAL FORWARD RATE CAD 0.671 per DM

HERE, DM IS OVERVALUED (SELL/INVEST) AND CAD IS UNDERVALUED (BUY/BORROW)

OPERATION SHOULD BE UNDERTAKEN FOR ARBITRAGE GAIN

(1) BORROW CAD @9.5% P.A. FOR 3 MONTHS (eg. CAD 100000)

(2) CONVERT CAD INTO DM @SPOT RATE ie. CAD 0.666 = 1 DM

CAD 100000 = ?

:> 150150 DM

(3) INVEST DM @ 7.5% P.A. FOR 3 MONTHS

(4) ACTUAL RECEIVED DM WITH INTEREST AFTER 3 MONTH

$150150 + (150150 \times 7.5\% \times 3/12) = 150150 + 2815$

=152965 DM

(5) CONVERT SUCH AMOUNT @ PRE-BOOKED FORWARD RATE

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$$1 \text{ DM} = \text{CAD } 0.671 \quad \therefore 152965 \times 0.671 = 102639.70 \text{ CAD}$$

(6) REPAY BORROWED AMOUNT WITH INTEREST

$$100000 + (100000 \times 9.5\% \times 3/12) = 102375 \text{ CAD}$$

(7) GAIN FROM OPERATIONS : $102639.70 - 102375 = 264.70 \text{ CAD}$

[B]

HOME CURRENCY: GBP

FOREIGN CURRENCY: CAD

RECEIVABLE: CAD 500000 AFTER 6 MONTH

FORWARD RATE: REFLECT PARITY OF INTEREST RATE

FORWARD RATE: (?)

$\text{FWD} / \text{SPOT} = (1+r) \text{ OF CAD RATE} / (1+R) \text{ OF UK RATE}$

$$\text{FWD} / 2.5 \text{ CAD} = (1 + 0.15 \times 6/12) / (1 + 0.12 \times 6/12)$$

$$\text{FWD} / 2.5 \text{ CAD} = (1.075 / 1.06)$$

$$\text{FWD} = 2.5354 \text{ CAD per GBP}$$

(i) Exporter Hedge Through Forward Market

Forward Rate: $2.5354 \text{ CAD} = 1 \text{ GBP}$

$$500000 \text{ CAD} = ? \rightarrow 197207.54 \text{ GBP Receivable Fix}$$

(ii) Gain and Loss To Exporter

NOTE: We should be careful while calculating Currency Appreciate or Depreciate. When question says CAD is declining then due to indirect rate per GBP price of CAD will increase then can say decrease in CAD. same rule (understanding) apply for gain

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	CAD SPOT RATE CHANGES		
	(i) Decline by 2%	(ii) Gain by 4%	(iii) No change
current spot	1 GBP = CAD 2.5	1 GBP = CAD 2.5	1 GBP = CAD 2.5
3 mo. AFT spot	1 GBP = CAD 2.55	1 GBP = CAD 2.4	1 GBP = CAD 2.5
current rec.amt	(500000 /2.5) = 200000 GBP	200000 GBP	200000 GBP
after effect	(500000/2.55) =196078 GBP	208333 GBP	200000 GBP
WITHOUT HEDGE GAIN (LOSS)	LOSS 3922	GAIN 8333 GBP	NO P/(L)
HEDGE RECEIVABLE	197207.54 GBP	197207.54 GBP	197207.54 GBP
Effect of Hedge (GBP) IN REVENUE	GAIN (197207-196078) =1129	LOSS (208333 - 197207) = 11126	LOSS 2793

Q.6

[A]

Reference que. No 10 (Page 13.14) practice manual SFM

[B]

Break Even EPL = EPS of seller / EPS of purch.co

	PURCH. CO.	SELLER CO.
NET PROFIT	80 LAKHS	15.75 LAKH

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CMP SHARE	42	105
PE RATIO	10.5	10
EPS	4	10.5
No of shares	80 lakh/y=4	15.75 lakh /y=10.5
	20 lakh shares	1.5 lakh shares

To maintain EPS swap ratio = seller's EPS / Buyer's EPS

$$=10.5/4 = \mathbf{2.625}$$

CASH DEAL

Consideration will be

EPS (post) =

Earning pur'co. + Earning Seller + synergy (if any) – Interest (1-t) / No shares of Purchaser

Suppose “y” is Amount of CASH DEAL

Then

$$4 = 80 \text{ lakh} + 15.75 \text{ lakh} + 0 - 0.15 y (1-0.30) / 20 \text{ lakh}$$

$$20 \text{ lakh} \times 4 = 95.75 \text{ lakh} - 0.105 y$$

$$80 - 95.75 = -0.105 y$$

$$Y = 150$$

CASH DEAL VALUE 150 lakh Rs. 100 per share

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Q.7

[A]

Investment banking and commercial banking are two divisions of the banking industry that provide substantially different services. Investment banks expedite the purchase and sales of bonds, stocks and other investments and aid companies in making initial public offerings (IPOs). Commercial banks act as managers for deposit accounts for businesses and individuals, although they are primarily focused on business accounts, and they make public loans through deposit money that they hold

[B]

Horizontal Merger

A horizontal merger takes place when two companies offering similar, or compatible, products or services to the same market combine under single ownership. If the other company sells products similar to yours, your combined sales give you a greater share of the market. If the other company manufactures products complementary to your range, you can now offer a wider range of products to your customers. A merger with a company that offers different products to a different sector of the market enables you to diversify your activities and enter new markets

Vertical Merger

The main aim of a vertical merger is not to increase revenue, but to improve efficiency or reduce costs. A vertical merger takes place when two companies that previously sold to or bought from each other combine under single ownership. The companies are generally at different stages of production. A manufacturer may decide to merge with a supplier of important components or raw materials, for example, or with a distributor or retailer that sells its products.

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[C]

BASIS FOR COMPARISON	MONEY MARKET	CAPITAL MARKET
Meaning	A segment of the financial market where lending and borrowing of short term securities are done.	A section of financial market where long term securities are issued and traded.
Nature of Market	Informal	Formal
Financial instruments	Treasury Bills, Commercial Papers, Certificate of Deposit, Trade Credit etc.	Shares, Debentures, Bonds, Retained Earnings, Asset Securitization, Euro Issues etc.
Risk Factor	Low	Comparatively High
Time Horizon	Within a year	More than a year
Merit	Increases liquidity of funds in the economy.	Mobilization of Savings in the economy.
Return on Investment	Less	Comparatively High

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[D]

Types of Exposures

- (a) **Transaction Exposure:** It measures the effect of an exchange rate change on outstanding obligations that existed before exchange rates changed but were settled after the exchange rate changed. Thus, it deals with cash flows that result from existing contractual obligations.
- (b) **Translation Exposure:** Also known as accounting exposure, it refers to gains or losses caused by the translation of foreign currency assets and liabilities into the currency of the parent company for accounting purposes.
- (c) **Economic Exposure:** It refers to the extent to which the economic value of a company can decline due to changes in exchange rate. It is the overall impact of exchange rate changes on the value of the firm.

[E]

**Note : answer is available in PM (chapter 1)
extra points are as follows**

Sources of finance and capital structure are the most important dimensions of a strategic plan. The need for fund mobilization to support the expansion activity of firm is very vital for any organization. The generation of funds may arise out of ownership capital and or borrowed capital. A company may issue equity shares and/or preference shares for mobilizing ownership capital and debentures to raise borrowed capital. Public deposits, for a fixed time period, have also become a major source of short and medium term finance. Organizations may offer higher rates of interest than banking institutions to attract investors and raise fund.

The overdraft, cash credits, bill discounting, bank loan and trade credit are the other sources of short term finance. Along with the mobilization of funds, policy makers should decide on the capital structure to indicate the desired mix of equity capital and debt capital.

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Please Note:

⇒ *Answers may be incorrect*

⇒ *Please suggest me if you find any difference or error*

“All the *Best* for Results *Hope* for the Best”