The Institute of Chartered Accountants of India

Code: FN2SM861031 Total Marks: 100

Subject : 02 Strategic Financial Management Marks Obtained : 91

GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

CA FINAL Examination

Group No. 1 Paper No. 2

Subject SFM

Number of Answer Books used : Main + 7 additional sheets

For use by ICAI only

861031

07 JUL 2021

Q.No.	To be ticked (✓) by the candidate against the Questions answered	Marks Awarded (to be filled by Examiner) a	b	c	d	e	Total
1	✓						
2	✓						
3	✓						
4	✓						
5	✓						
6	✓						
7							
8							
9							
10							
Total							

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JULY, 2021

Use only Blue / Black Ball Point Pen to write and shade the circles. AVOID RED PEN. Write the marks in the boxes before shading the respective circles.

Total Marks awarded

0	0
1	1
2	2
3	3
4	4
5	5
6	6
7	7
8	8
9	9

Total Marks awarded (in words)

Examiner's Signature

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[redacted]

[redacted] INSTRUCTIONS TO THE CANDIDATE

[redacted]nswers are not to be written on this page

[redacted]hould be written in figures and words in the allotted space at the right hand corner of the [redacted]nly and nowhere else including additional answer book/s and graph paper.

[redacted]ber should be written in the box in numbers and darken the appropriate circles of the OMR [redacted]on provided in the right hand corner of the cover page with **Black / Blue** ball point pen.

[redacted]ill particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.

4. Remove the Bar Code sticker of the particular paper from the Attendance sheet and affix the same on the box provided in the right hand corner of the cover page.

5. Since a machine will read the Roll no., please check and ensure that Roll number written in numbers, words and circles darkened are correct. In case any candidate fills this information wrongly, Institute will not take any responsibility for rectifying the mistake.

6. The answers should be written neatly and legibly

7. The answer to each question must be commenced on a fresh page and question number prominently written at the top of each answer. Alternatively, the question number should be distinctly written in the margin.

8. The answer to each question in all parts should be fully completed in one page, or in a consecutive set of pages, before the next question is taken up.

9. Writing of Roll number in place/s other than the space provided for the purpose or writing distinguishing mark, symbols like "OM", "Sri", "Jesus", "786", etc., will tantamount to adoption of "unfair means".

10. Before submission of answer book to the invigilator after completion of the exam, take care to score out (X) blank pages, if any, that you might have left.

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Ans 2(a)

(i)

Investment	Value	β	Product
Equity share	170	1.6	272
Cash	30	0	0
	200		272

Current portfolio β = $\frac{272}{200}$

= 1.36

2aStep1 2

(ii)

Investment		Value (In Lakh)
Equity share	WN1	164.56
Cash	WN2	26
		190.56

2aStep4 2

2aStep5 1

Fall in value of portfolio = $1 - \frac{190.56}{200}$ = 4.72%

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W.N. 1 Value of equity shares

$= 170 \times (100 - 3.2)\%$

$= 164.56$

W.N. 2 closing cash balance

2aStep2 1

Change in market $= \frac{3.2\%}{1.6} = 2\%$ ↓

Loss on future long position $= 200 \times 2\%$
$= 4$ Lakh

2aStep3 1

Cash op bal	30
Less future loss	(4)
Cash closing bal	26

Portfolio β after 3 month = $\frac{\text{change in value of portfolio}}{\text{change in Market value}}$

= $\frac{4.72\%}{2\%}$

2aStep6 1

β after 3 month = 2.36

2a 8

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Ans 2(b)

(I) Semi annual fixed payment = principal × fixed Rate × $\frac{180}{360}$

$= 800000 \times 6\% \times \frac{180}{360}$

2bStep1 3

$= 24000$

(or)

24,133 Taking 181 days

(II) First floating rate payment = ~~800000 × 6% ×~~

$800000 \times 5\% \times \frac{181}{360}$

$= 20,111.111$

2bStep2 3

(III) Settlement amount = ~~24000 − 201~~

Fixed payment − Floating payment

2bStep3 2

$= 24000 - 20,111.111$

$= 3888.889$

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alternatively ☆

Settlement Amount = 24133.333 − 20111.911

2b 8 = 4022.22

Fixed rate payer shall pay the above mentioned amount to floating rate payer

☆ ~~Alternative~~

☆ Alternative is given considering 181 days in 6 month period

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Ans 2(C)

Value at risk

→ VaR is maximum possible loss for a given period.

→ It shows value at risk of the investment.

→ It answers the following condition

(a) what is the worst case scenario?

(b) what will be the loss?

→ It's the maximum amount that an investment can loose for a given period, say 10 days

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→ Features of value at risk

(a) Components in calculation

It's calculation is based on following

- confidence level – eg. 99% z score
- Loss in value or percentage eg $\sigma_x = 1\%$
- Time – eg. 1 day etc.

(b) Time horizon

Var depends on time horizon of investment

(c) Z-Score

Z-Score is used to Calculate loss at different confidence level.

(d) Statistical tools

Standard deviation or variance is used as measure of loss.

(e) Probability of loss

VaR considers the probability of maximum loss.

2cStep1 3

(f) Control factors

It's also influence by various control factor

2c 3

Q2 19

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Ans 6 (a)

~~to~~ particular	Long	Tall Ltd.
Expected EPS	12	5
Expected DPS	10	3
Mkt price	180	50
growth		6%
No. of share	30 00 000	18 00 000
Value	5400 Lacs	900 Lacs

Existing
K_e of Tall Ltd. $= \frac{3}{50} + 6\%$

$= 12\%$

12

New Ke after investment $= \frac{3}{50} + 8\%$

$= 14\%$

Valuation	Existing Ke	Alternative New Ke
expected Dividend (D_1)	3	3
Ke	12%	14%
g	8%	8%
Value of Hall Ltd. per share	75	50
No. of share	1800000	1800000
Value of Hall Ltd.	1350 Lacs	900 Lacs

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(1) Calc of Net cost of Acquisition

particular	Assumption 1 Existing ke	Assumption 2 New ke
per share value	75	50
Amount paid	60	60
Net cost per share	(₹ 15)	(₹ 10)
Total Net cost of acquisition	270 Lacs	-180 Lacs
Total Amount paid	1080 Lacs	1080 Lacs

OR

Net cost of acquisition = (60 - 50) x 18 00 000

= 1 80 00 000

6aStep1 1

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(ii) Exchange ratio = 1 : 3

Total Share to issue by Long = 18 00 000 × 1/3 = 6 00 000 Share

Total Shares after issue = 30 00 000 + 6 00 000

= 36 00 000

6aStep2 1

value of firm after acquisition = 5400 Lacs + 1350 Lacs

= 6750 L

Step4 1

value of share issued to Tall Ltd = $\frac{6}{36} \times 6750$

= 1125 Lacs

15

Net cost = 1125 − 1080

6aStep3 0

= 45 Lacs

or

Net Cost = $\frac{6}{36} \times 6300 - 1080$

6aStep5 0

= 30 Lacs saving

6aStep6 0

OR

$\boxed{\text{Net cost} = 6300 \times 1/6 - 900 = 150 \text{ Lacs}}$

(iii) gain from acquisition

If ₹ 60 per share paid

= 15 × 18,00,000 = 270,00,000

6aStep7 0

If shares issued

= 50% (5400 + 1350) × $\frac{30}{36}$ − 5400

6aStep8 0

6a 3

= 225,00,000

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Ans 6(b)

(I)

Amount to be Distribute to shareholder $= 150 \times 30\%$
$= 45$ lacs

Let buy back price be x

No. of share buy back $= \frac{45 \text{ lacs}}{x}$

Remaining share $= 15 - \frac{45}{x}$ lacs

Share price after buy back $= x \times 1.15 = 1.15x$

hence

$\left(15 - \frac{45}{x}\right) 1.15x = 400$

6bStep1 3

$x = 26.188$

18

price of buy back = 26.188 per share

~~(ii)~~

(ii) No. of share buy back = $\frac{45\,00\,000}{26.188}$

= 171834.428

= 171834 Shares

6bStep2 1

(iii) Total earning = 15 00 000 × 4

= 60,00,000

No. of share outstanding post buy back = 15 00 000 − 171834

1 = 13 28 166

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$$EPS = \frac{60\,00\,000}{13\,28\,166}$$

$$= 4.518 \text{ per share}$$

6bStep4 2

6bStep5 1

EPS will increase by $= 4.518 - 4$

$= 0.518$ per share

6b 8

Ans 6 (C)

Interest rate swaption

→ It refers to the option on interest rate swap transaction.

→ It's the combination of option & swap (Interest).

→ There are 3 types of swaption

(a) Cap - ser[illegible] of call option
(b) floor - series of put option
(c) Collar - combination of call & put.

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Principal feature

→ Interest rate swaptions are use to entring & exiting fixed or floating rate payment on principal.

6c Step1 1

→ It's used to achive the desired level of interest rate.

→ It's used by borrower to hedge the risk of increase in interest rate

6c Step2 0

→ It's used by lender to ensure minimal rate of return on investment

6c 1

→ Also used by investors for speculation.

Q6 12

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Ans 5 (a)

(i)

	₹ in Lakh
PAT	154
Add tax	66
aStep1 1 PBT	220
Add extra. loss	20
Less extra income	(16)
aStep2 1 PBT Adjusted	224
Less Tax	(67.2)
PAT	156.8
Capitalisation rate	14%
value befor New product	1120 Lacs

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~~Adjusted PBT 224~~

~~New~~

Value After New product (₹ in Lakhs)

Sales	140
Material	(40)
Labour	(24)
Fixed	(20)
	56
Less Tax	(16.8)
PAT	39.2
Existing PAT	156.8
	196
Capitalisation rate	14%
Value of business	1400 Lakhs

5aStep3 1

5aStep4 1

5aStep5 1

(ii)

PAT before new product	156.8
less pref. Dividend 2 × 13% × 100	(26)
~~EA~~ Earning to equity	130.8
No. of share	100
EPS	1.308
PE	12
Mkt price before New product	15.696

PAT After New product	196
Less pref dividend	(26)
	170
No. of share	100
EPS	1.7

5aStep6 1

5aStep7 1

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PE ratio 12

Mkt price 20.4
of equity share
after New product

5aStep8 1

5a 8

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Ans 5(b)

PLAN I β

MF	Investment	β	Product
A	20%	1.5	0.3
B	20%	1	0.2
C	20%	0.8	0.16
D	20%	2	0.4
E	20%	0.7	0.14

5bStep1 3

β = 1.2

★ alternatively
It may be assumed that Co. invest 20% equally between A & B.

then β = (0.2 × 1.25) + (0.8 × 1.167)

★ = 1.183

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PLAN II

M Fund	Investment	β	product
A	15 %	1.5	0.225
B	15 %	1	0.15
C	10 %	0.8	0.08
D	30 %	2	0.6
E	30 %	0.7	0.21

5bStep2 1

β = 1.265

Calculation of expected return

Plan I = 12 % × 1.2/1 = 14.4

or

Plan I 12 % × 1.183/1 = 14.196 %

5bStep3 1

Plan II = 12 % × 1.265/1 = 15.18 %

5b 5

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Ans 5 (C)

problems faced in growth of securitisation instrument in India

(1) Stamp duty value

In India a high stamp duty value of upto [illegible]% is charged

(2) Accounting

There is n[illegible] proper method of accounting is prescribed related to securitisation.

2

(3) Lack of Standardisation

Multiple type of accounting is done for securitisation in absence of any Standard

(4) Taxation

No clear taxation law is available for gain on securitisation transaction.

(5) Inadequate Debt Market

Debt market in India is not fully developed.

(6) Ineffective foreclosure of laws

No proper law governing securitisation is available in India.

5c Step1 3
5c 3
Q5 16

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Ans 4 (9)

Schemes	A	B	C
Date of investment	1/12/18	1/1/19	1/3/19
period of Investment	4 Month	3 Month	1 Month
Amount Invested	500000	10 00 000	500000
No. of units	47619.04	1 00 00[illegible]	5[illegible]000
NAV as on 31/3/19	10.40	10.10	9.80
Closing value	495238	10 10 000	490000
Capital gain	(4762)	10000	(1[illegible]0)
Dividend	9500	15 0[illegible]	5000
Total return	4738	25000	(5000)
Return %	0.948[illegible]	2[illegible]%	([illegible]1%)
Effective yield	2.844%	10%	(-12%)

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	A	B	C
Effective yield (Compounded annually)	2.87%	10.38%	(-11.36%)
Effective yield (in days)	2.859%	10.139%	-11.77%
No. of day	121 day	90 days	31 days

1

1

COMMENT

Highest return is in scheme B so Mr. K shall transfer more funds to scheme B & liquidate investment from schem C & A.

Scheme C giving negative returns hence should be discontinue

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Scheme B gives highest return Invest
scheme A gives normal return liquidate or Invest
4aStep7 2
Scheme C gives negative return
Shall be discontinue. in short run

4a 7

2

Ans 4(b)

(1) Conversion value of bond

= No. of share × Mkt price per share

= 20 × 120

4bStep1 1

= 2400

(2) percentage of downside risk

$= \frac{2650 - 2350}{2650} = \frac{\text{Mkt} - \text{straight}}{\text{Mkt price}}$

= 11.32%

08

$= \frac{2650 - 2350}{2350}$

4bStep2 2

12.77%

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(iii) Conversion premium

= Conv. value − Mkt value

= 2400 − 2650

= 250 per bond ~~10.46%~~ 10.41%

4bStep3 2

= $\frac{250}{20}$

= 12.5 per share

(iv) Conversion parity price

= Market value / No. of share

= $\frac{2650}{20}$

4bStep4 2

= 132.5

Interpretation

→ Conversion parity price shows Implied value of ~~bond~~ share based on Market price of bond.

→ Conversion parity > Market price of share

→ hence conversion option is not beneficial / considerable (~~not beneficial~~)

4bStep5 1

Bond is trading at high percentage of downside risk hence overvalued.

→ Investor shall take short position

→ High price of bond is justified because of option premium (to convert)

4b 8

Q4 19

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Ans 5(c)

PITCH PRESENTATION

→ It refers to a brief presentation (not more than 20 minutes) of business model of st[...]p or borrower.

ep1 1

→ It's given to investor to attract them towards company.

~~Methods for approa~~

It consist of following

(a) Introduction

Summary Int[...]uction of the business

(b) Team

These are the people who are going to perform

2

(c) Problem

Define what problem are going to be tackeled business

(d) Solution

Solutions to the problems described

(e) Milestone

Milestone company wants to achive & strategy for the same

(f) Marketing & Sales

Various technique used to reach the customer

4cStep2 3

(g) Business Model

Business Model on which startup is going to work

(h) Financing

source & mode of financing relevant to business

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3

Methods for approaching

(a) Social media

(b) Network

(c) venture capitalist

(d) Angel investor.

(e) private equity funds

(f) crowd funding etc.

4c 4

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Ans 1(a)

W.N. 1 Initial Investment

	$
plant & M/C	490 million
working capital	60 million
Less Recovery of existing	(25)
	525 million

Step1 1

W.N 2 Terminal cashflow

working capital	60
Less existing working capital	(25)
	35 million

W.N 3 Depreciation

$= \frac{490}{5} = 98$ Million

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ans. 4 existing cash flow (in $)

units expected	1.5 Million
Sale	90
(-) variable cost	(50)
contribution	40
~~tax~~ Total PBT	60 million
less tax	(21)
Net cash flow	39 million per year.

1aStep3 1

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WN5 Cash inflow under setting up subsidiary

	(in $)
Sales units	5 Million
Sale price	90
(−) variable cost	(30)
	60
Total contribution	300 Million
less Fixed cost	(30)
PBT	270
less Depreciation	(98)
PBT	172
less Tax	(60.2)
PAT	111.8
Add Depreciation	98
	209.8

1aStep2 2

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3

WN 6 Incremental Cashflow

Cashflow after setting up subsidiary		209.8
Less Existing		(39)
		170.8

1aStep4 1

Calculation of present value

		PVF	\$ In Million PV
Incremental cash flow for 5 year @ PVAF	170.8	3.6048	615.69984
Terminal cashflow	35	0.5674	19.859
present value			635.55884
Less Initial Investment			(525)
Net present value			110.55884 Million \$

Step5 2

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Since Net present value is positive

1aStep6 1

Company Shell Invest fund in subsidiary company setup in India

1a 8

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Ans 1(b)

(1) Price of future contract

$= 25250 \times 50 = 1262500$ per contract

1bStep2 1

Value of Index $= 25000 \times \frac{(9-6)\%}{12} \times 4/12 + 25000$

$= 25250$

or

1bStep1 2

$= 25000\, e^{(9-6)\% \, 4/12}$

$= 25251.2$

No. of contract to be taken $= \frac{5050000 \times 1.5}{1262500}$

1bStep3 1

$=$ 6 contract

2

(ii) gain on Short position

$= 6 \times 50 \times [25250 - 22556.25]$

1bStep5 2

$= 808125$

Value of BSE after 4 Month

$= 22500 \times (9-6)\% \times 1/12 + 22500$

$= 22556.25$

1bStep4 2

gain can be discounted to current year as follow

$= 808125 \times \frac{1}{1.0025} = 806109$

1b 8

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3

Ans 1 (c)

Strategy at Different Hierarchy level

(1) Corporate strategy

It refers to the strategy made by top level management for the smooth functioning of business & achieve strategic goals.

(2) Functional strategy

It refers to the strategy made by middle level manager or business needs for achieving organisational goals.

(3) Business strategy

It refers to the strategy developed by Operational level supervision managers for effective & efficient flow of activity

4

(4) Operational Strategy

Strategy made by operational manager for the achievement of output & objective by the workers & lower level staff.

1cStep1 3
1c 3
Q1 19

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Ans 3(a)

(1) Income statement (₹ million)

Turnover	600 x 1.1	660
Less op. expense	90%	(594)
3aStep1 1 EBIT		66
Less Interest	8% (125+50)	(14)
3aStep2 1 PBT		52
Less Tax	40%	(20.8)
3aStep3 1 PAT		31.2
Less Dividend		(5.2)
Retained		26

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2

(ii) Sustainable growth rate

= 7.8% × (1 − 0.1667)

3aStep5 1 = 6.5%

Return of equity = $\frac{31.2}{100 + 300}$

3aStep4 1

= 7.8%

(iii) Fair price

3aStep6 1 = $\frac{0.52 \times (1 + 6.5\%)}{(15 - 6.5)\%}$ = 6.515

3aStep7 1

Dividend per share = $\frac{5.2}{10}$ = 0.52

= $\frac{D(1+g)}{Ke - g}$

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3

(iv) Intrinsic value = 6.515

3aStep8 1

is less than current price

hence share is overvalued

3a 8

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Ans 3(b)

Export order

(A) ₹ option

amount received = ₹ 10 millon

(B) Dollar option

Fwd rate 3m = 67.10 + 1.75% = 68.27

Spot rate = 67.10

Amount received after 3m = $\frac{10}{67.10} \times 68.27$

= $10.175 Millon

(C) Euro option

3bStep1 2

Amount recd = $\frac{10}{63.15} \times 64.148$ = $10.1 Millon

(D) Pound option

Amount recd = $\frac{10}{88.65} \times 89.54$ = $10.125 Millon

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export order shall be invoiced in Dollar as it have maximum cash inflow @ end of 3 year and highest Annualised premium.

(b) IMPORT ORDER

(I) Dollar invoicing

payment = $\frac{5}{67.20} \times 69.552 = 5.175$ Million

(II) Euro Invoicing

Step2 3

payment = $\frac{5}{63.20} \times 65.096 = 5.15$ million

III Pound invoicing

payment = $5/88.75 \times 90.92 = 5.125$ Mil

The Institute of Chartered Accountants of India

Code: FN2SM861031 Total Marks: 100

Subject : 02 Strategic Financial Management Marks Obtained : 91

2

3bStep3 2

3b 7

X P pharma shall asked to invoice imports in pound as it have lowest outflow

1134373

3

Ans 3 (C)

Stages of venture capital funding

(1) Seed Stage (highest high risk)

In this stage company try to prove idea

(2) Start up early (high risk)

~~Company manufacture goods / service~~
Company me s fund for marketing & creating awareness

(3) First stage (Medium risk) Moderate

In this company need ~~working capital funds~~ funds for manufacturing

(4) Second Stage (Medium risk)

Funds are needed for fulfil working capital requirement

(5) Third stage (low risk)

Co. need funds for expansion

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Code: FN2SM861031 | Total Marks: 100
Subject : 02 Strategic Financial Management | Marks Obtained : 91

4

(6) FOURTH STAGE (Lowest risk)

company need fund for bridge finance for Initial public offer

3cStep1 3

3c 3

Q3 18

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Code:	FN2SM861031	Total Marks:	100
Subject :	02 Strategic Financial Management	Marks Obtained :	91

Result Overview

Awarded Marks: 91

Max Marks:100

NA **Not Attempted** O **Optional** M **Marked**

Q1_Compulsory (Score: 19/20)

Question No	Awarded Marks	Maximum Marks	Status
Q1	19	20	M
1a	8	8	M
1b	8	8	M
1c	3	4	M

Q2_Q6 (Score: 72/80)

Question No	Awarded Marks	Maximum Marks	Status
Q2	19	20	M
2a	8	8	M
2b	8	8	M
2c	3	4	M
Q3	18	20	M
3a	8	8	M
3b	7	8	M
3c	3	4	M
Q4	19	20	M
4a	7	8	M
4b	8	8	M
4c	4	4	M
Q5	16	20	M
5a	8	8	M
5b	5	8	M
5c	3	4	M

Q6	12	20	o
6a	3	8	o
6b	8	8	o
6c	1	4	o