



The Institute of Chartered Accountants of India

Code: FN2SM861031
Subject : 02 Strategic Financial Management

Total Marks: 100
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. 2 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)					Total
		a	b	c	d	e	
1	✓						
2	✓						
3	✓						
4	✓						
5	✓						
6	✓						
7							
8							
9							
10							
Total							

Total Marks awarded (in words) _____

Examiner's Signature _____

ICAI 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



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INSTRUCTIONS TO THE CANDIDATE

Answers are not to be written on this page

- Answers should be written in figures and words in the allotted space at the right hand corner of the answer book only and nowhere else including additional answer book/s and graph paper.
- Roll number should be written in the box in numbers and darken the appropriate circles of the OMR bubbles provided in the right hand corner of the cover page with **Black / Blue** ball point pen.
- Write all particulars such as name of Examination, Group No., Paper No. and subject at the appropriate space at the left hand upper corner.
- 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.
- 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.
- The answers should be written neatly and legibly
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- 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".
- 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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03



Ans 2 (9)

<u>(i)</u>	<u>Investment</u>	<u>value</u>	<u>β</u>	<u>Product</u>
	Equity share	170	1.6	272
	Cash	30	0	0
		<u>200</u>		<u>272</u>

$$\text{current portfolio } \beta = \frac{272}{200}$$

2aStep1

2

$$= 1.36$$

(ii)

Investment

in Lakh

value

Equity share

WN1

164.56

2aStep4

Cash

WN2

26

190.56

2aStep5

1

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



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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 = $\frac{3.2\%}{1.6} = 2\% \downarrow$

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

2aStep3

1

cash ep bal	30
less future loss	(4)
cash closing bal	26

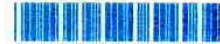


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05



$$\begin{aligned} \text{Portfolio } \beta \text{ after 3 months} &= \frac{\text{change in value of portfolio}}{\text{change in market value}} \\ &= \frac{4.72\%}{2\%} \end{aligned}$$

2aStep6

1

$$\beta \text{ after 3 months} = 2.36$$

2a

8



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06



Ans 2(b)

(i) Semi annual ^{fixed} payment = principal \times Rate $\times \frac{180}{360}$
 $= 800000 \times 6\% \times \frac{180}{360}$

2bStep1

3

24000

68

24,133 Taking 181 days

(ii) First floating rate payment = ~~800000 \times 6%~~
 $800000 \times 5\% \times \frac{181}{360}$

2bStep2

3

20,111.111

(iii) Settlement amount = ~~24000~~ - 20111.111
Fixed payment - Floating payment

2bStep3

2

= 24000 - 20,111.111

= 3888.889

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07



alternatively ★

Settlement Amount = 24133.333 - 20111.711

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 lose 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 $\sigma_k = 1\%$
- 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.



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(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

2c

3

Control factors

Q2

19

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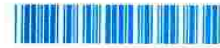


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Ans 6 (9)

<u>particular</u>	<u>Long</u>	<u>Tall Ltd.</u>
Expected EPS	12	5
Expected DPS	10	3
Mkt price	180	50
growth	<input type="text"/>	6%
No. of share	30,00,000	18,00,000
Value	<u>5400 Lacs</u>	<u>900 Lacs</u>

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

$$= 12\%$$

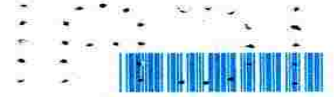


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$$\begin{aligned} \text{New } K_e \text{ after} &= \frac{3}{50} + 8\% \\ \text{Investment} &= 14\% \end{aligned}$$

	Existing <u>K_e</u>	<u>Alternative</u> New <u>K_e</u>
<u>Valuation</u>		
expected Dividend (D_1)	3	3
K_e	12%	14%
g	8%	8%
Value of Jell Ltd. per share	75	50
No. of share	180000	180000
Value of Jell Ltd.	1350 Lacs	900 Lacs



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(1)	particulars	Assumption 1	Assumption 2
		@ existing ke	New ke
	per share value	75	50
	Amount paid	60	60
	Net cost per share	215	210
	Total Net cost of acquisition	270 Lacs	180 Lacs
	Total Amount paid	1080 Lacs	1080 Lacs

OR

Net cost = $(60 - 50) \times 1800000$
of acquisition = 1800000

6aStep1

1



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(11) Exchange ratio = 1 : 3

Total share
to issue = $1800000 \times 1/3$

by long = 600000 share

Total Shares
after issue = 3000000
+ 600000

= 3600000

6aStep2

1

value of
firm after
acquisition = 5400 Lacs
+ 1350 Lacs

ep4

1

= 6750 Lacs

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

to Tall Ltd = 1125 Lacs



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$$\text{Net cost} = 1125 - 1080$$

6aStep3

0

$$= 45 \text{ Lacs}$$

OR

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

6aStep5

0

$$= 30 \text{ Lacs} \quad \text{Saving}$$

6aStep6

0

OR

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

(iii) gain from acquisition

If ₹ 60 per share paid

$$= 15 \times 1800000 = 27000000$$

6aStep7

0

If shares issued

$$= 500 (5400 + 1350) \times \frac{30}{36} - 5400$$

6aStep8

0

$$= 2250000$$

6a

3

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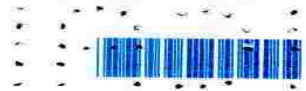


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Ans 6(b)

(1)

$$\begin{aligned} \text{Amount to be} & \\ \text{Distribute} & = 150 \times 30\% \\ \text{to shareholder} & = 45 \text{ Lacs} \end{aligned}$$

Let buy back price be x

$$\begin{aligned} \text{No. of share} & \\ \text{buy back} & = \frac{45 \text{ Lacs}}{x} \end{aligned}$$

$$\begin{aligned} \text{Remaining} & = 15 - \frac{45}{x} \text{ Lacs} \\ \text{share} & \end{aligned}$$

$$\begin{aligned} \text{Share price} & = x \times 1.15 = 1.15x \\ \text{after buy back} & \end{aligned}$$

hence

6bStep1 3 $(15 - \frac{45}{x}) 1.15x = 400$

$$x = 26.188$$



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$$\text{price of buy back} = 26.188 \\ \text{per share}$$

~~(i)~~

(ii)

$$\text{No. of share} = \frac{450000}{26.188}$$

buy back

$$= 171834.428$$

$$= 171834 \text{ shares}$$

6bStep2

1

(iii)

$$\text{Total} = 1500000 \times 4 \\ \text{Earning} = 60,00,000$$

$$\text{No. of share} = 1500000 - 171834$$

1

$$\text{outstanding} = 1328166 \\ \text{post buy back}$$



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

6bStep4

2

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

6bStep5

1

$$\text{EPS will} = 4.518 - 4$$

$$\text{increase by} = 0.518 \text{ per share}$$

DO NOT WRITE ANYTHING HERE

6b

8

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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 - series 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 used to entering & exiting fixed or floating

6c Step 1

rate payment on principal.

DO NOT WRITE ANYTHING HERE

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

→ It's used by borrower to hedge the

6c Step 2

risk of increase in interest rate

→ It's used by lender to ensure

minimal rate of return on investment

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→ Also used by investors for

speculation.

Q6

12



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Ans 5 (9)

(1)

₹ in Lakh

PAT

154

Add tax

66

Step1

1 PBT

220

Add contra. loss

20

less extra income

(16)

Step2

1 PBT Adjusted

224

less Tax

(67.2)

PAT

156.8

Capitalization rate

14%

value before New
product

1120 Lacs



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~~Adjusted PAT~~ 224

~~Value~~
Value After New product 2 M LNS

Sales 140

Material (40)

Labour (24)

Fixed (20)

5aStep3

1

56

less Tax (16.8)

PAT 39.2

Existing PAT 156.8

5aStep4

1

196

Capitalisation rate 14%

5aStep5

1

Value of business 1400 LNS



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(11)	PAT before new product	156.8
	<u>less</u> pref. dividend	(26)
	2 x 13% x 100	
	PA Earning to equity	130.8
	No. of share	100
	EPS	1.308
	PE	12
	Mkt price before New product	15.696
	<hr/>	
	PAT After New product	196
5aStep6	<input type="checkbox"/> <u>less</u> pref dividend	(26)
		170 <input type="checkbox"/>
	No. of share	100
5aStep7	<input type="checkbox"/> EPS	1.7 <input type="checkbox"/>

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25



↑
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5aStep8

1

PE ratio
Mkt price
of equity share
after New product

12

20.4

↑
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5a

8

↑
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Ans 5(b)

PLAN I \$

MF	Investment	\$	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

$$B = 1.2$$

★ alternatively

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

then
$$B = (0.2 \times 1.25) + (0.8 \times 1.167)$$

$$★ = 1.103$$

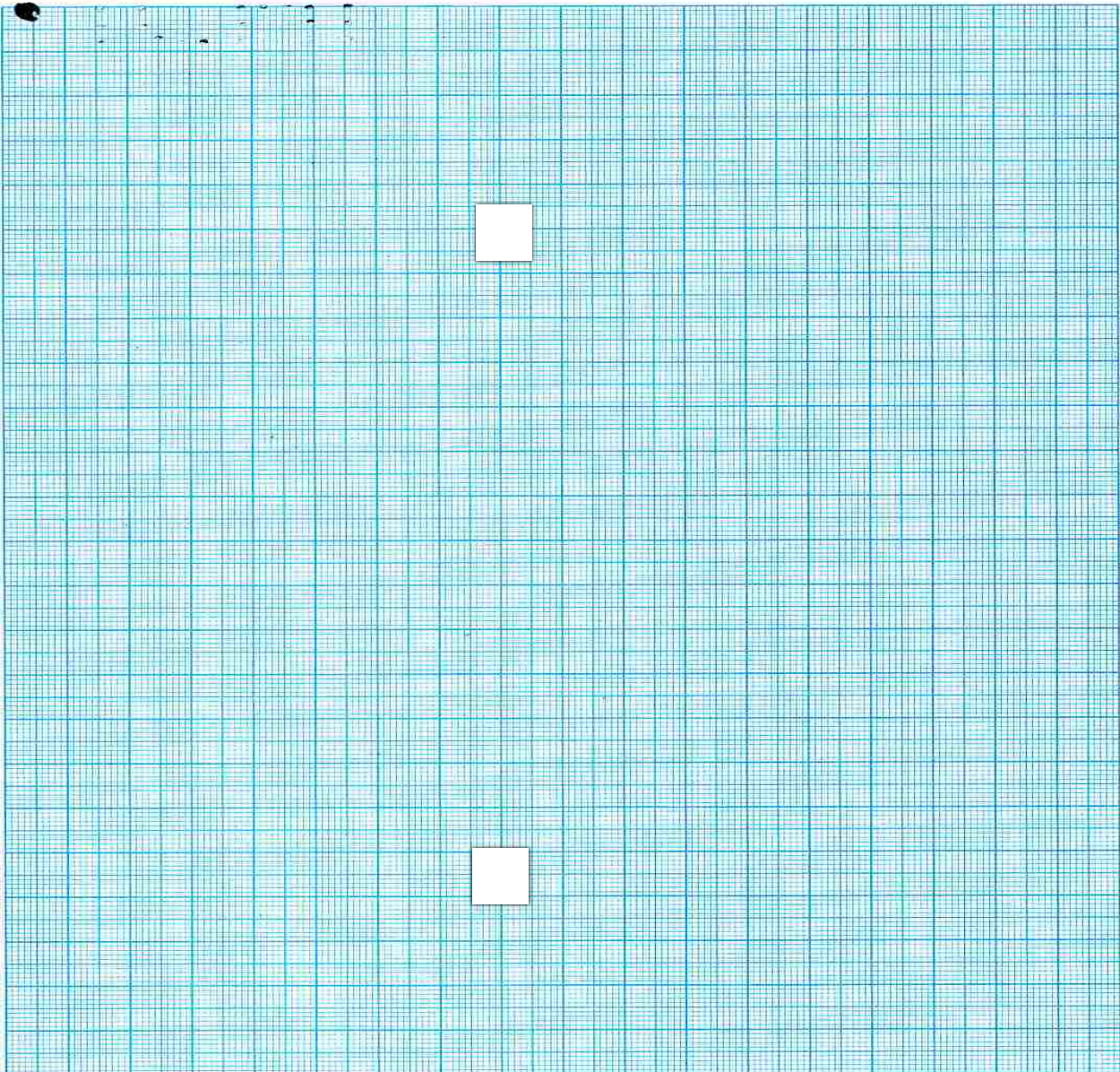


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PLAN II

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
	30 %	0.7	0.21

5bStep2

1

$$\beta = 1.265$$

Calculation of expected return

$$\text{Plan I} = 12\% \times \frac{1.2}{1} = 14.4\%$$

08

$$\text{Plan I} = 12\% \times \frac{1.183}{1} = 14.196\%$$

5bStep3

1

$$\text{Plan II} = 12\% \times \frac{1.265}{1} = 15.18\%$$

5b

5



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Addl. Book No. 1

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ADDL. BOOK

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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 % is charged

(2) Accounting

There is no proper method of
accounting is prescribed related to
securitisation.



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(3) Lack of Standardisation

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

(4) Transition

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

(5) Inadequate Debt Market

Debt market in India is not fully developed.

(6) Ineffective foreclosure of law

5cStep1

3

5c

3

Q5

16

No. proper law governing securitisation is available in India.



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	<u>Ans 4 (9)</u>		
	A	B	C
	Schemes		
<u>Date of investment</u>	1/12/18	1/1/19	1/3/19
<u>period of investment</u>	<input checked="" type="radio"/> 4 Months	<input type="radio"/> 3 Months	<input type="radio"/> 1 Month
<u>Amount Invested</u>	500,000	10,00,000	5,00,000
<u>No. of units</u>	<input checked="" type="radio"/> 47619.04	1,00,000	50,000
<u>NAV as on 31/3/19</u>	10.40	10.10	9.80
<u>Closing value</u>	495238	10,10,000	4,90,000
<u>Capital gain</u>	<input type="radio"/> (4762)	10,000	(10,000)
<u>Dividend</u>	95,000	15,000	5,000
<u>Total return</u>	4738	25,000	(5,000)
<u>Return %</u>	0.948%	2.5%	(1%)
<u>Effective yield</u>	<input checked="" type="radio"/> 2.844%	<input type="radio"/> 10%	<input type="radio"/> (-12%)

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	A	B	C
Effective yield (Compounded annually)	2.87%	10.38%	(-11.36%)
1 Effective yield (in days)	2.859%	10.139%	-11.97%
step5 1 No. of day	121 day	90 days	31 days
<u>COMMENT</u>			
Highest return is in scheme B so Mr. K shall transfer more funds to scheme B & liquidate investment from scheme C & A.			
Scheme C giving negative returns hence should be discontinued.			



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4aStep7

2

Scheme B gives highest return Invest
Scheme A gives normal return Liquid or Invest
Scheme C gives negative return
shall be discontinue - in short run

4a

7



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Ans 4(b)

(1) Conversion value of bond

$$= \text{No. of share} \times \text{Mkt price per share}$$
$$= 20 \times 120$$

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

$$= \text{Conv. value} - \text{Mkt value}$$

$$= 2400 - 2650$$

$$= 250 \text{ per bond}$$

$$\text{10.41\%}$$

4bStep3

2

$$= \frac{250}{20}$$

$$= 12.5 \text{ per share}$$

(iv) Conversion parity price

$$= \frac{\text{Market value}}{\text{No. of share}}$$

$$= \frac{2650}{20}$$

4bStep4

2

$$= 132.5$$



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Interpretation

- Conversion parity price shows implied value of ~~bond~~ based on market price of bond.
- Conversion parity $>$ Market price of share
- hence Conversion option is not beneficial / considerable (~~not beneficial~~)

4bStep5

1 and 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)

Q4

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Addl. Book No. 3



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Ans SCC)

PITCH PRESENTATION

→ It refers to a brief presentation (not more than 20 minutes) of business model of start up or borrower.

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

~~Methods for approach~~

It consist of following

(a) Introduction

Summary and introduction of the business

(b) Team

These are the people who are going to perform



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(c) Problem

Define what problem are going to be
faced by business

(d) Solution

Solutions to the problems described

(e) Milestone

Milestone company wants to achieve &
strategy for the same

(f) Marketing & Sales

Various techniques used to reach the
customers

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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Subject : 02 Strategic Financial Management

Total Marks: 100
Marks Obtained : 91

4

Ans 1(9)

W.M.1 Initial Investment

\$

plant & m/c 490 million

working capital 60 million

less Recovery of existing (25)

525 million

Step 1

1

W.M.2 Terminal cashflow

working capital 60

less existing working capital (25)

35 million

W.M.3 Depreciation

$$= \frac{490}{5} = 98 \text{ million}$$



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Addl. Book No. 4



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	Q.M. 4	existing cash flow	(in ₹)
		units expected	1.5 Million
		Sale	90
		(-) variable cost	(50)
		Contribution	40
		Total PBT	60 million
		less Tax	(21)
1aStep3	1	Net cash flow	39 million per year



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<u>WMS</u> <u>cashflow under selling</u> <u>up subsidiary</u>		(in \$)
Sales units		5 million
Sale price		90
(-) variable cost		(30)
		<u>60</u>
Total contribution		300 million
less fixed cost		(30)
		<u>270</u>
PB		270
less Depreciation		(98)
		<u>172</u>
PBT		172
less Tax		(60.2)
		<u>111.8</u>
PAT		111.8
Add Depreciation		98
		<u>209.8</u>

1aStep2

2



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Marks Obtained : 91



3

Q16 Incremental cash flow

Cashflow after setting up subsidiary 209.8

less Existing (39)

170.8

1aStep4

1

Calculation of present value

\$
In Million

PVF

PV

Incremental cash flow for 5 years @ PVAF 170.8 3.6048 615.69984

Terminal cashflow 35 0.5674 19.859

present value

635.55884

less Initial investment

(525)

Step5

2

Net present value

110.55884
Million \$



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4

1aStep6

1

Since net present value is positive
company shall invest fund in subsidiary
company setup in India

1a

8



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Total Marks: 100
Marks Obtained : 91



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Addl. Book No. 5



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Ans 1(b)

(1) Price of future contract

1bStep2

1

$$= 25250 \times 50 = 1262500 \text{ per contract}$$

$$\text{Value of Indem} = 25000 \times \frac{(9-6) \times 4}{12} + 25000$$

1bStep1

2

$$= 25000 e^{(9-6) \times \frac{4}{12}}$$

$$= 25251.2$$

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

1bStep3

1

$$= 6 \text{ Contract}$$



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Total Marks: 100
Marks Obtained: 91

2

(11) gain on short position

$$= 6 \times 50 \times (25250 - 22556.25)$$

1bStep5

2

808125

Value of BSE after 4 months

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

$$= 22556.25$$

1bStep4

2

gain can be discounted to current year as follows

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

1b

8



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Total Marks: 100
Marks Obtained : 91



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 organizational goals.

(3) Business strategy

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



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4

(4) Operational Strategy

Strategy made by operational

managers for the achievement of output

1cStep1

3

objective by the workers & lower

1c

3

level staff.

Q1

19



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Total Marks: 100
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Ans 3(9)

(1)

Income statement

₹ million

Turnover 600×1.1

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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Total Marks: 100
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2

(ii) Sustainable growth rate

$$= 7.8\% \times (1 - 0.1667)$$

3aStep5

1

$$= 6.5\%$$

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

3aStep4

1

$$= 7.8\%$$

$$= 7.8\%$$

(iii) fair price

3aStep6

1

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

$$= 6.515$$

3aStep7

1

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

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



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3

(10) Intrinsic value = 6.515

3aStep8

1

is less than current price

hence share is undervalued

3a

8



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Total Marks: 100
Marks Obtained : 91

4

Ans 3(b)

Export order

(A) ₹ option

amount received = ₹ 10 million

(B) Dollar option

_fwd rate 3m = $67.10 + 1.75\% = 68.27$

spot rate = 67.10

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

after 3m

= 10.192 million

(C) Euro option

3bStep1

2

Amount recd = $\frac{10}{63.15} \times 64.148 = 10.16$ million

(D) Pound option

Amount recd = $\frac{10}{66.65} \times 69.54 = 10.12$ million



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

(b) IMPORT ORDER

(I) Dollar invoicing

$$\text{payment} = \frac{5}{67.20} \times 69.552 = 5.125 \text{ million}$$

(II) Euro invoicing

Step2 3

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

(III) Pound invoicing

$$\text{payment} = \frac{5}{88.75} \times 90.92 = 5.125 \text{ million}$$



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Total Marks: 100
Marks Obtained : 91

2

3bStep3

2

X P pharma shell asked to invoice
in pounds in pound as it home

3b

7

lowest outflow



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Total Marks: 100
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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 need fund for marketing &
creating awareness

(3) First stage Medium risk Moderate

In this company need funds for manufacturing
working capital funds

(4) Second stage Medium risk

Funds are needed for full working capital
requirement

(5) Third stage low risk

Co. need funds for expansion



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4

(6)

FOURTH STAGE

Lowest risk

Company need fund for bridge financing

3cStep1

3

for Initial public offer

3c

3

Q3

18

9



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Code: FN2SM861031
Subject : 02 Strategic Financial Management

Total Marks: 100
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	0
6a	3	8	0
6b	8	8	0
6c	1	4	0