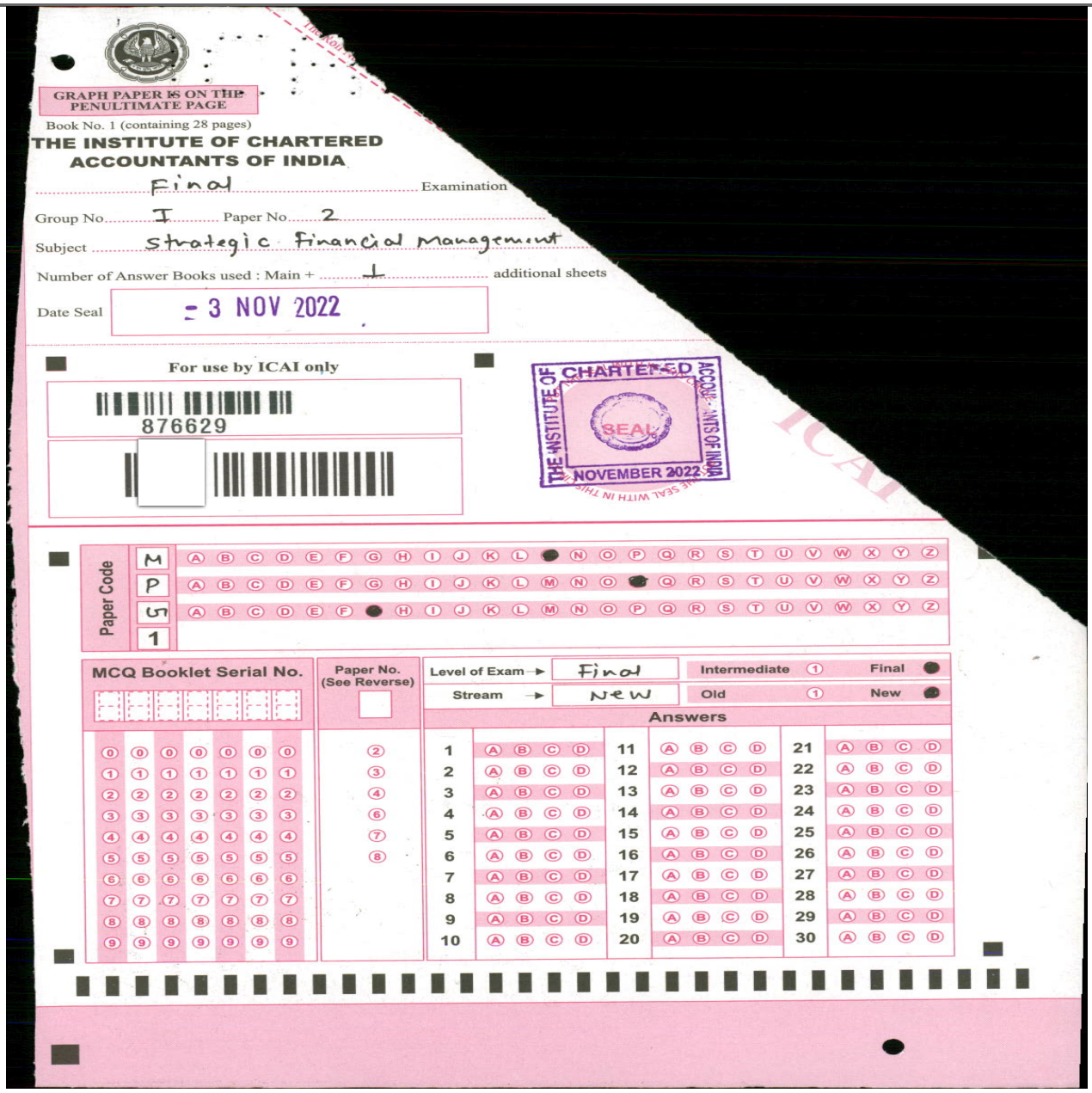
The Institute of Chartered Accountants of India

Code: FN2SM876629 **Total Marks:** 100
Subject : 02 Strategic Financial Management **Marks Obtained :** 77



GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Final Examination

Group No. I Paper No. 2

Subject Strategic Financial Management

Number of Answer Books used : Main + 1 additional sheets

Date Seal - 3 NOV 2022

For use by ICAI only

876629

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA SEAL NOVEMBER 2022

Paper Code: M P 5 1

MCQ Booklet Serial No.

Paper No. (See Reverse)

Level of Exam → Final Intermediate Final

Stream → New Old New

Answers

1	A B C D	11	A B C D	21	A B C D
2	A B C D	12	A B C D	22	A B C D
3	A B C D	13	A B C D	23	A B C D
4	A B C D	14	A B C D	24	A B C D
5	A B C D	15	A B C D	25	A B C D
6	A B C D	16	A B C D	26	A B C D
7	A B C D	17	A B C D	27	A B C D
8	A B C D	18	A B C D	28	A B C D
9	A B C D	19	A B C D	29	A B C D
10	A B C D	20	A B C D	30	A B C D

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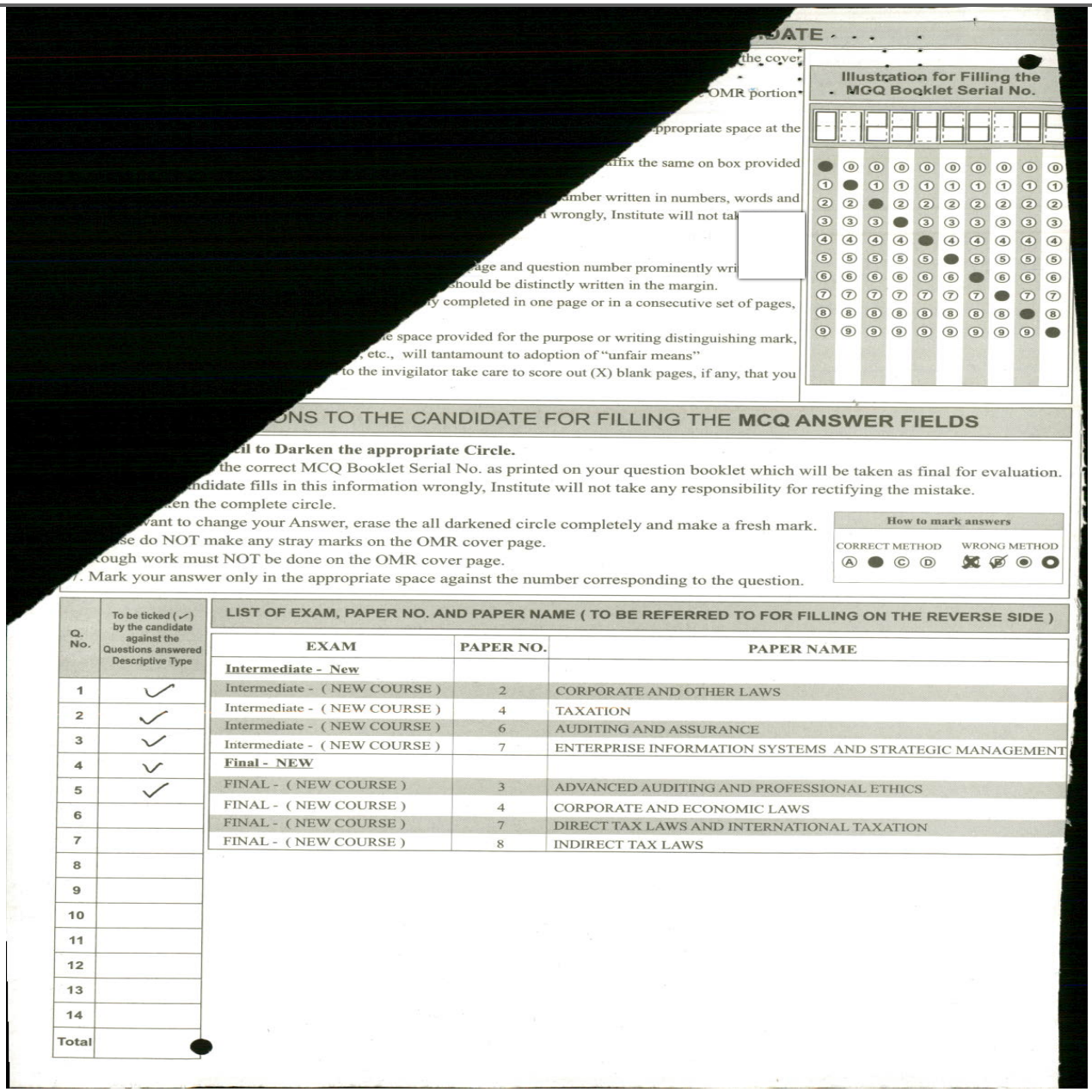

DATE

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OMR portion

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etc., will tantamount to adoption of "unfair means"

to the invigilator take care to score out (X) blank pages, if any, that you

Illustration for Filling the MCQ Booklet Serial No.

ONS TO THE CANDIDATE FOR FILLING THE **MCQ ANSWER FIELDS**

il to Darken the appropriate Circle.

the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final for evaluation.

ndidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.

en the complete circle.

vant to change your Answer, erase the all darkened circle completely and make a fresh mark.

se do NOT make any stray marks on the OMR cover page.

ough work must NOT be done on the OMR cover page.

. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark answers

CORRECT METHOD Ⓐ ● Ⓒ Ⓓ WRONG METHOD ⊗ Ⓑ ◉ ○

Q. No.	To be ticked (✓) by the candidate against the Questions answered Descriptive Type
1	✓
2	✓
3	✓
4	✓
5	✓
6	
7	
8	
9	
10	
11	
12	
13	
14	
Total	

LIST OF EXAM, PAPER NO. AND PAPER NAME (TO BE REFERRED TO FOR FILLING ON THE REVERSE SIDE)

EXAM	PAPER NO.	PAPER NAME
Intermediate - New		
Intermediate - (NEW COURSE)	2	CORPORATE AND OTHER LAWS
Intermediate - (NEW COURSE)	4	TAXATION
Intermediate - (NEW COURSE)	6	AUDITING AND ASSURANCE
Intermediate - (NEW COURSE)	7	ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC MANAGEMENT
Final - NEW		
FINAL - (NEW COURSE)	3	ADVANCED AUDITING AND PROFESSIONAL ETHICS
FINAL - (NEW COURSE)	4	CORPORATE AND ECONOMIC LAWS
FINAL - (NEW COURSE)	7	DIRECT TAX LAWS AND INTERNATIONAL TAXATION
FINAL - (NEW COURSE)	8	INDIRECT TAX LAWS

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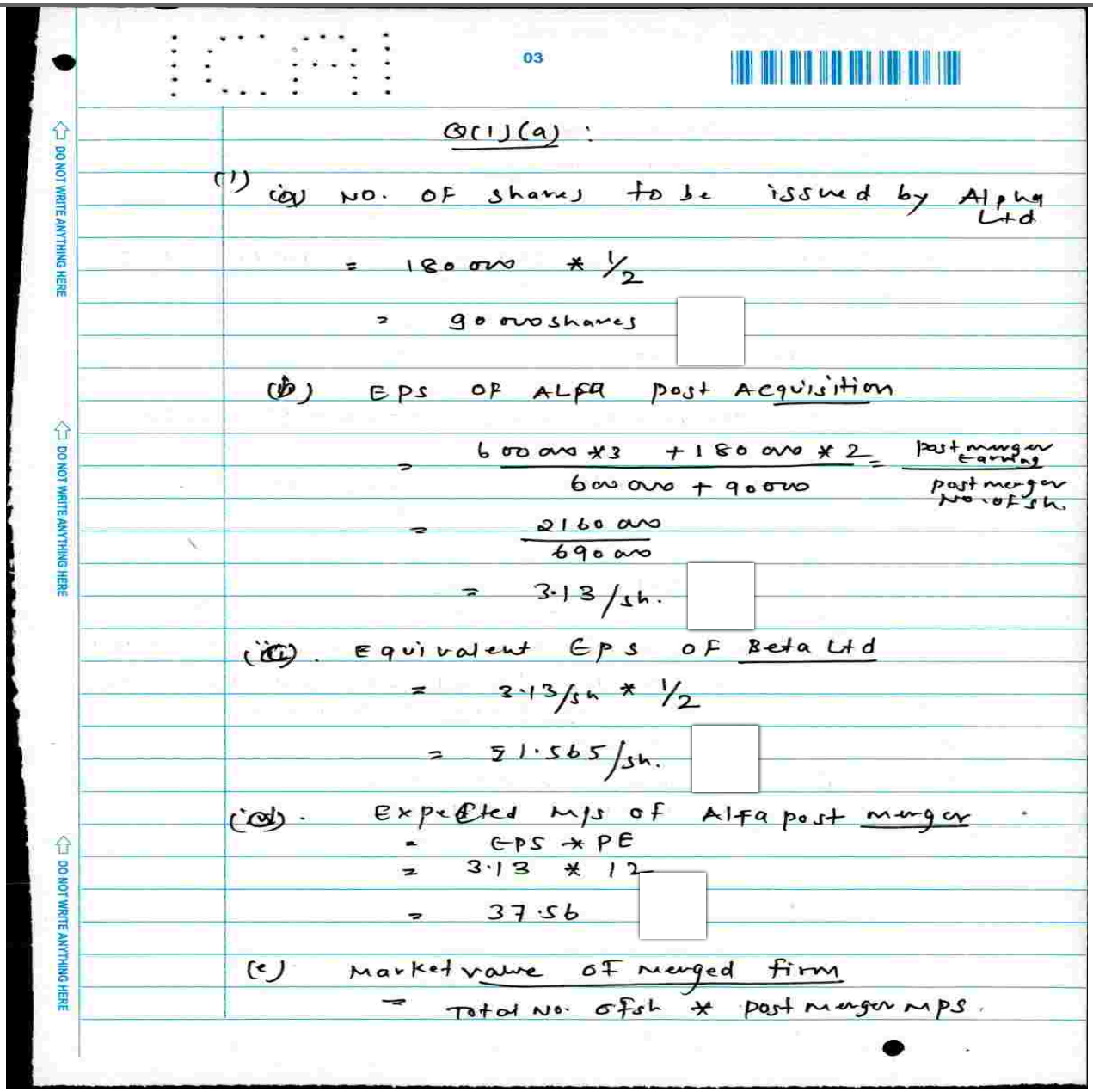

03

Q(1)(a) :

(i) (a) No. of shares to be issued by Alpha Ltd

= 180 000 * 1/2

= 90 000 shares

(b) EPS of ALFA post Acquisition

= (6 00 000 * 3 + 180 000 * 2) / (6 00 000 + 90 000) = post merger earning / post merger No. of sh.

= 2160 000 / 690 000

= 3.13/sh.

(c) Equivalent EPS of Beta Ltd

= 3.13/sh * 1/2

= ₹ 1.565/sh.

(d) Expected M/s of Alfa post merger

= EPS * PE

= 3.13 * 12

= 37.56

(e) Market value of merged firm

= Total No. of sh * post merger MPS.

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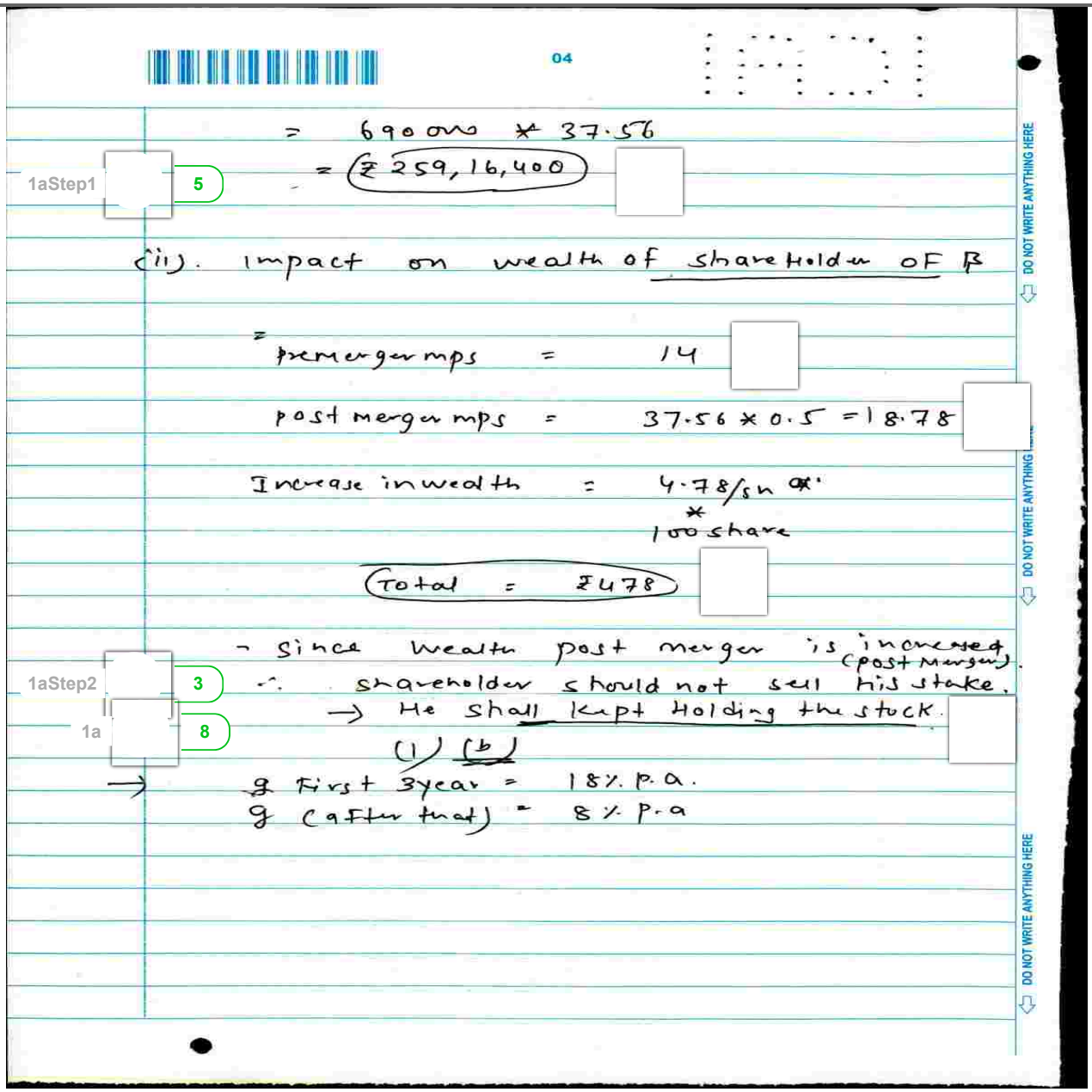

04

= 690 ons * 37.56

= ₹ 259, 16,400

1aStep1 5

(ii). Impact on wealth of shareHolder OF B

= premerger mps = 14

post merger mps = 37.56 * 0.5 = 18.78

Increase in wealth = 4.78/sh *
100 share

Total = ₹478

- Since wealth post merger is increased (post Merger).
∴ shareholder should not sell his stake.
→ He shall kept Holding the stock.

1aStep2 3

1a 8

(1) (b)

→ g First 3year = 18% p.a.
g (after that) = 8% p.a

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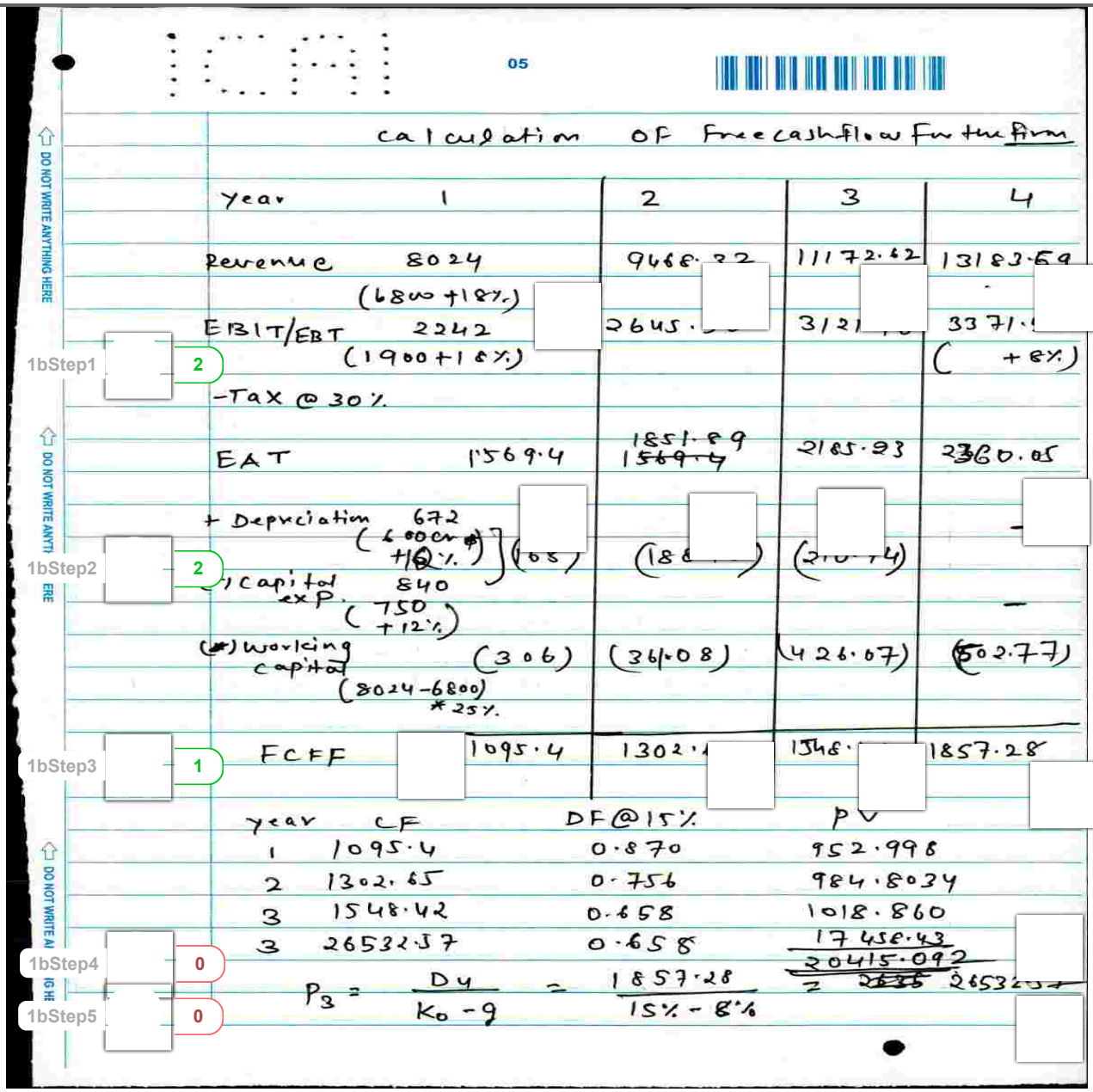

05

calculation of Free cash flow for the firm

Year	1	2	3	4
Revenue	8024 (6800 +18%)	9468.32	11172.62	13183.69
EBIT/EBT	2242 (1900+18%)	2645.[illegible]	3121.[illegible]	3371.[illegible] (+6%)
-Tax @ 30%				
EAT	1569.4	1851.89 ~~1569.4~~	2185.23	2360.05
+ Depreciation	672 (600 +12%)	(188)	(210.74)	
-Capital exp.	840 (750 +12%)			
(*) working capital	(306) (8024-6800) *25%	(361.08)	(426.07)	(502.77)
FCFF	1095.4	1302.[illegible]	1548.[illegible]	1857.28

year	CF	DF@15%	PV
1	1095.4	0.870	952.998
2	1302.65	0.756	984.8034
3	1548.42	0.658	1018.860
3	26532.37	0.658	17456.43
			20415.092
			= 2653[illegible]

$P_3 = \frac{D_4}{K_o - g} = \frac{1857.28}{15\% - 8\%}$

1bStep1 2
1bStep2 2
1bStep3 1
1bStep4 0
1bStep5 0

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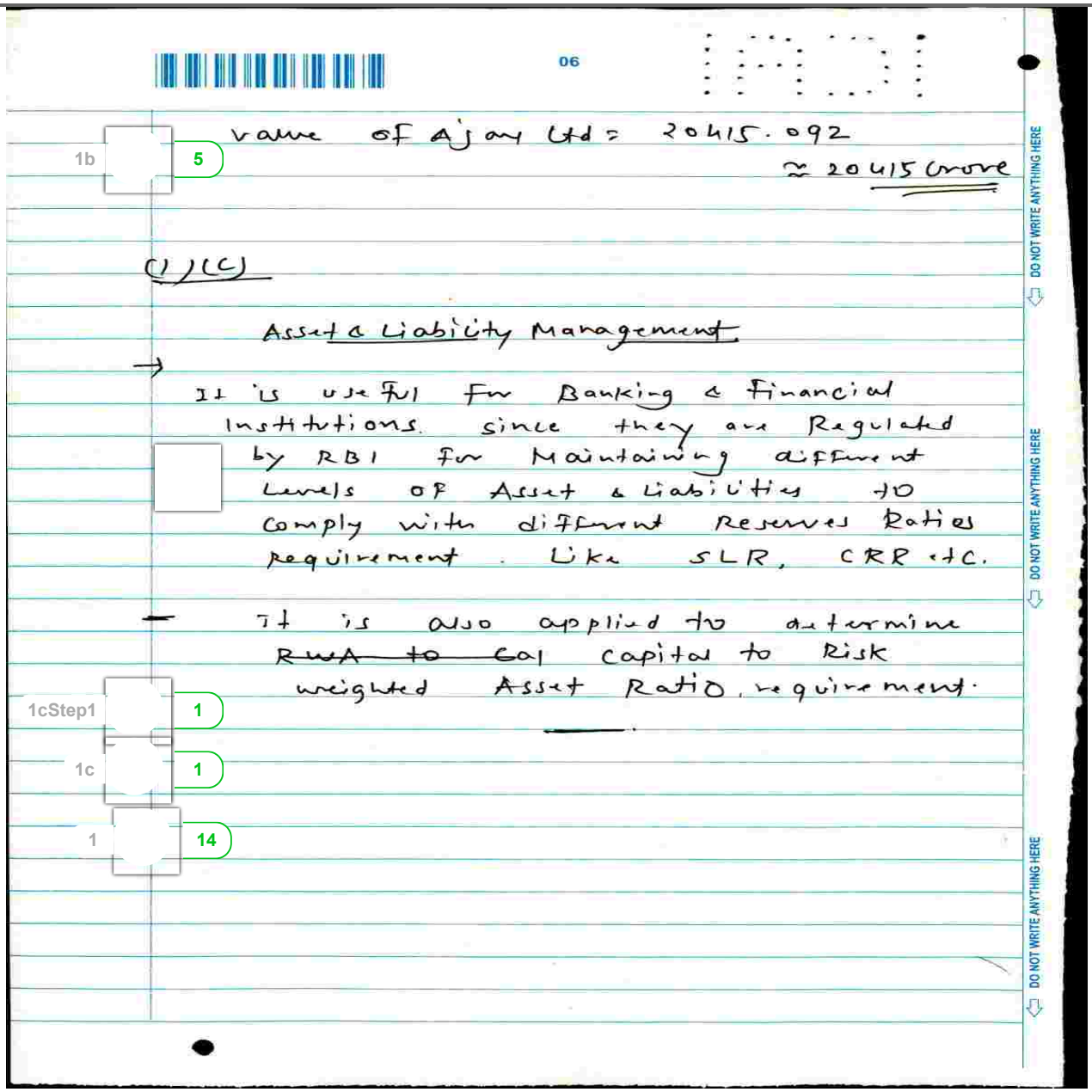

06

value of Ajay Ltd = 20415.092
≈ 20415 Crore

1b 5

(1)(c)

Asset & Liability Management

→ It is useful for Banking & financial institutions since they are Regulated by RBI for Maintaining different Levels of Asset & Liabilities to comply with different Reserves Ratios requirement. Like SLR, CRR etc.

It is also applied to determine ~~RWA to Cal~~ capital to Risk weighted Asset Ratio requirement.

1cStep1 1

1c 1

1 14

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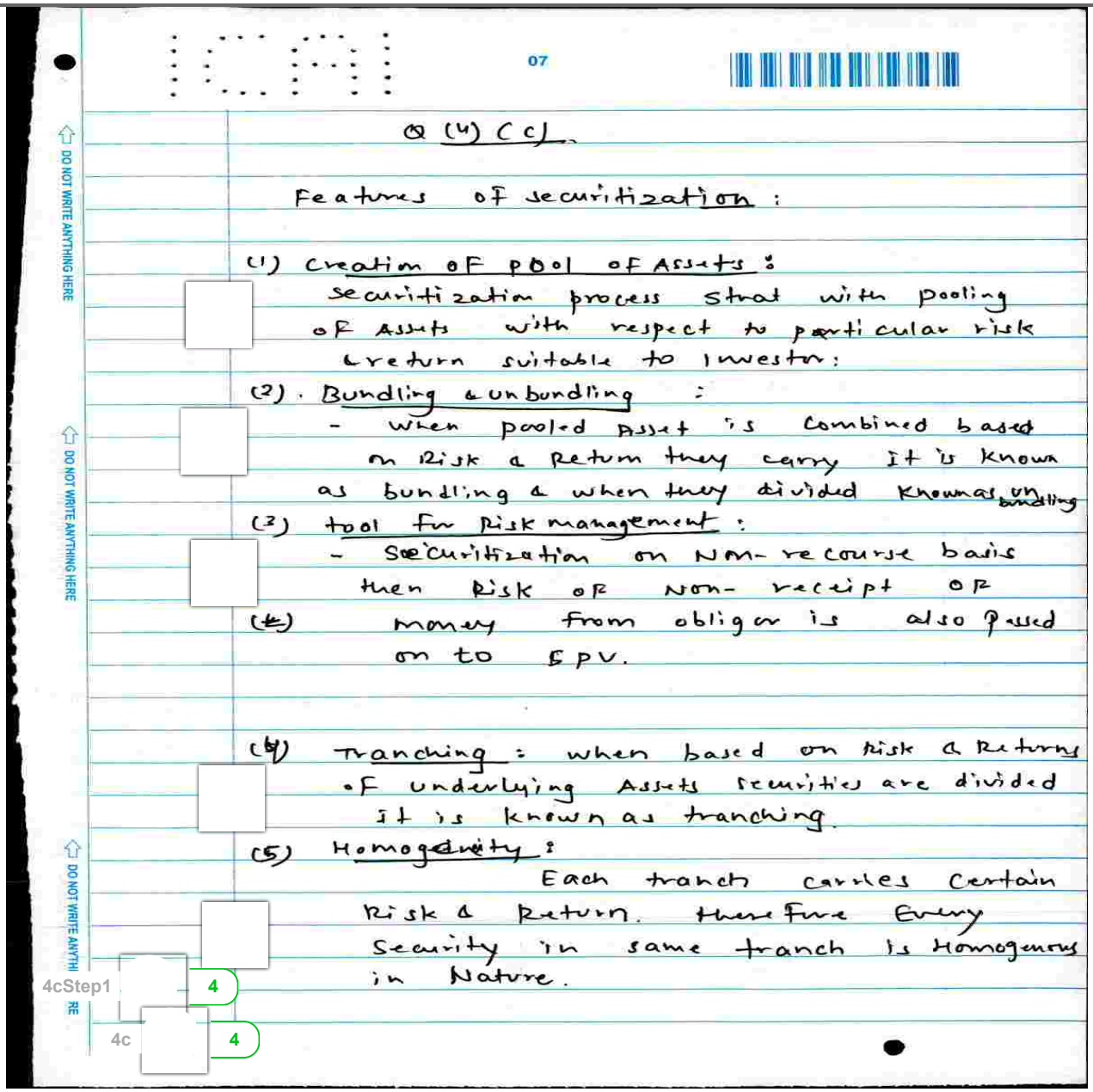

07

Q (4) (c)

Features of securitization :

(1) Creation of pool of Assets :
securitization process strat with pooling of Assets with respect to particular risk & return suitable to investor.

(2) Bundling & unbundling :
- when pooled Asset is combined based on Risk & Return they carry it is known as bundling & when they divided known as unbundling

(3) tool for Risk management :
- Securitization on Non-recourse basis then Risk of Non-receipt of money from obligor is also passed on to SPV.

(4)

(5) Tranching : when based on Risk & Returns of underlying Assets securities are divided it is known as tranching.

(6) Homogeneity :
Each tranch carries certain Risk & Return. therefore Every Security in same tranch is Homogenous in Nature.

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4cStep1 4

4c 4

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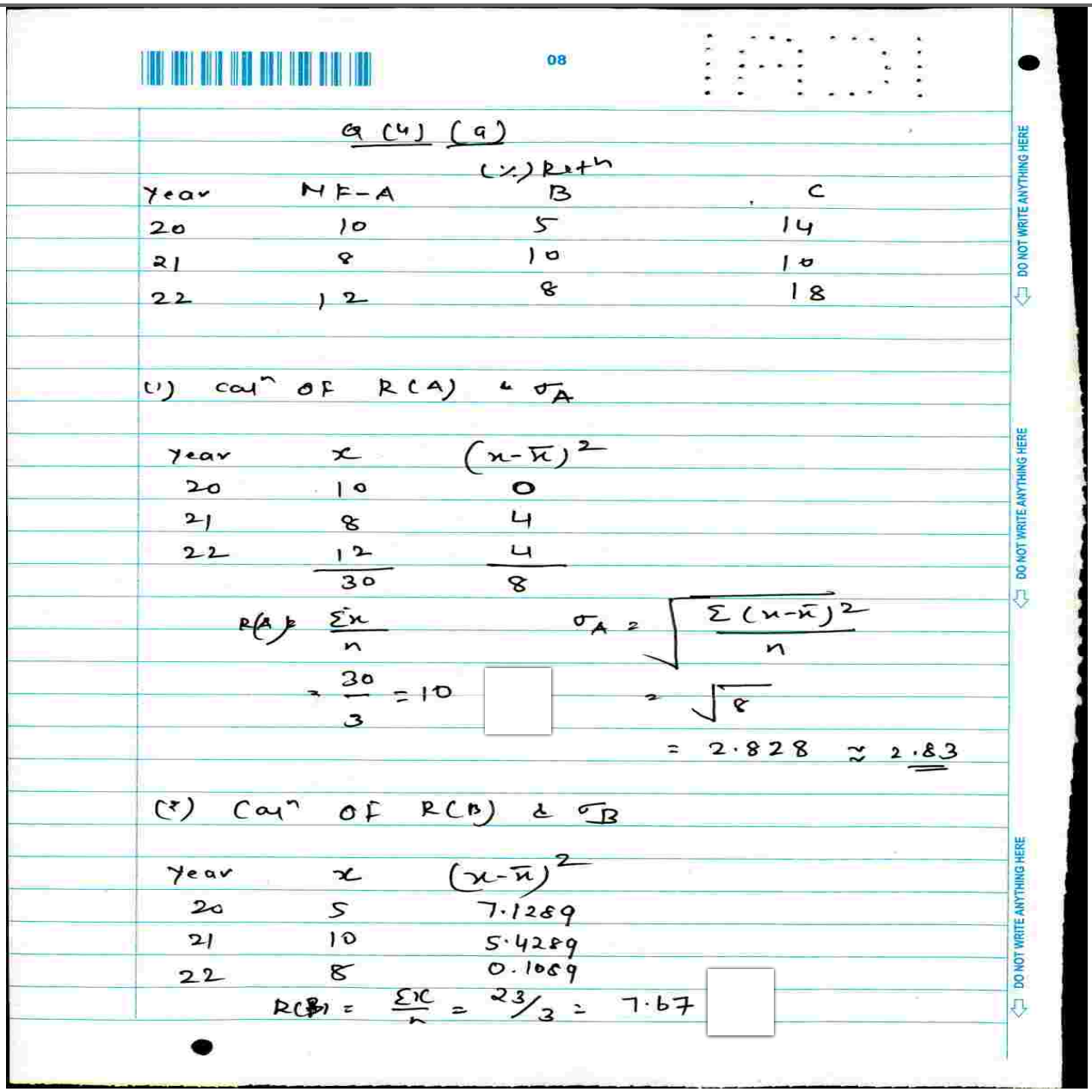

08

Q (4) (a)

(i) Risk

Year	MF-A	B	C
20	10	5	14
21	8	10	10
22	12	8	18

(1) Calⁿ of R(A) & σ_A

Year	x	$(x-\bar{x})^2$
20	10	0
21	8	4
22	12	4
	30	8

$R(A) = \frac{\Sigma x}{n} = \frac{30}{3} = 10$

$\sigma_A = \sqrt{\frac{\Sigma (x-\bar{x})^2}{n}} = \sqrt{8}$

$= 2.828 \approx 2.83$

(2) Calⁿ of R(B) & σ_B

Year	x	$(x-\bar{x})^2$
20	5	7.1289
21	10	5.4289
22	8	0.1089

$R(B) = \frac{\Sigma x}{n} = \frac{23}{3} = 7.67$

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$\sigma_A = \sqrt{12.6117} = 3.559 \approx 3.56$

(3) Cal^n of R(C) & σ_C

Year	x	$(x-\bar{x})^2$
20	14	0
21	10	16
22	18	16
	42	32

$R(C) = \frac{\Sigma x}{n} = \frac{42}{3} = 14$

$\sigma_C = \sqrt{32} = 5.656 \approx 5.66$

→ Cal^n of β_A β_B & β_C

$\gamma * \frac{\sigma_A}{\sigma_m}$

β_A	β_B	β_C
$0.45 * \frac{2.83}{3}$	$0.25 * \frac{3.56}{3}$	$0.65 * \frac{5.66}{3}$
$= 0.4245$	$= 0.297$	$= 1.226$

$\sigma_m = \sqrt{\sigma_m^2} = \sqrt{9} = 3$

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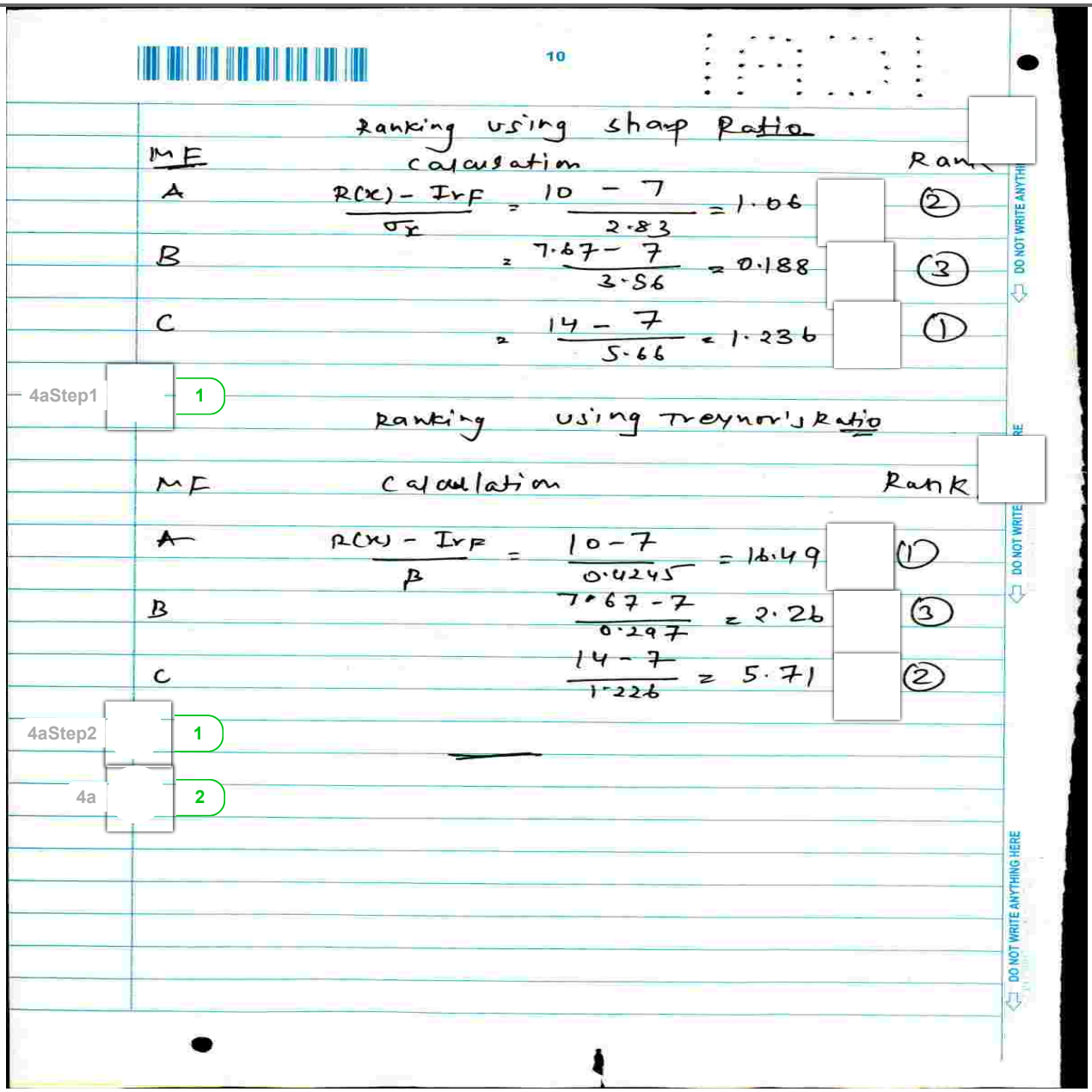

10

Ranking using sharp Ratio

MF	calculation	Rank
A	$\frac{R(x) - I_{rf}}{\sigma_x} = \frac{10 - 7}{2.83} = 1.06$	(2)
B	$= \frac{7.67 - 7}{3.56} = 0.188$	(3)
C	$= \frac{14 - 7}{5.66} = 1.236$	(1)

4aStep1 1

Ranking using Treynor's Ratio

MF	Calculation	Rank
A	$\frac{R(x) - I_{rf}}{\beta} = \frac{10 - 7}{0.4245} = 16.49$	(1)
B	$\frac{7.67 - 7}{0.297} = 2.26$	(3)
C	$\frac{14 - 7}{1.226} = 5.71$	(2)

4aStep2 1

4a 2

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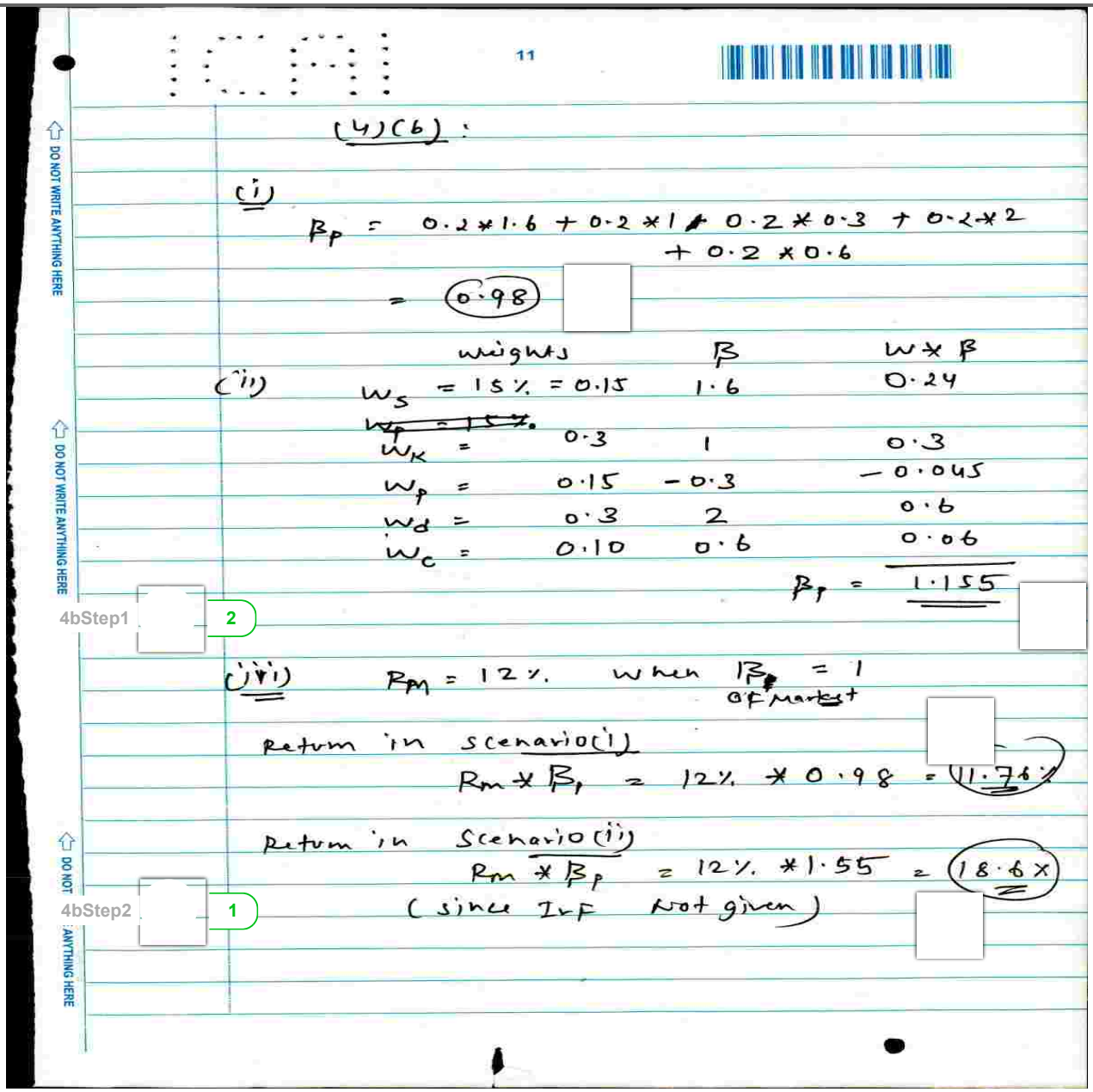

11

(4)(6) :

(i)

$\beta_p = 0.2*1.6 + 0.2*1 + 0.2*0.3 + 0.2*2 + 0.2*0.6$

$= 0.98$

(ii)

	weights	β	W * β
W_S	= 15% = 0.15	1.6	0.24
~~W_D = 15%~~			
W_K	= 0.3	1	0.3
W_P	= 0.15	-0.3	-0.045
W_d	= 0.3	2	0.6
W_C	= 0.10	0.6	0.06
		β_p =	1.155

4bStep1 2

(iii) $R_M = 12\%$ when β_p = 1 of market

Return in scenario (i)

$R_m * \beta_p = 12\% * 0.98 = 11.76\%$

Return in Scenario (ii)

$R_m * \beta_p = 12\% * 1.55 = 18.6\%$

(since Inf not given)

4bStep2 1

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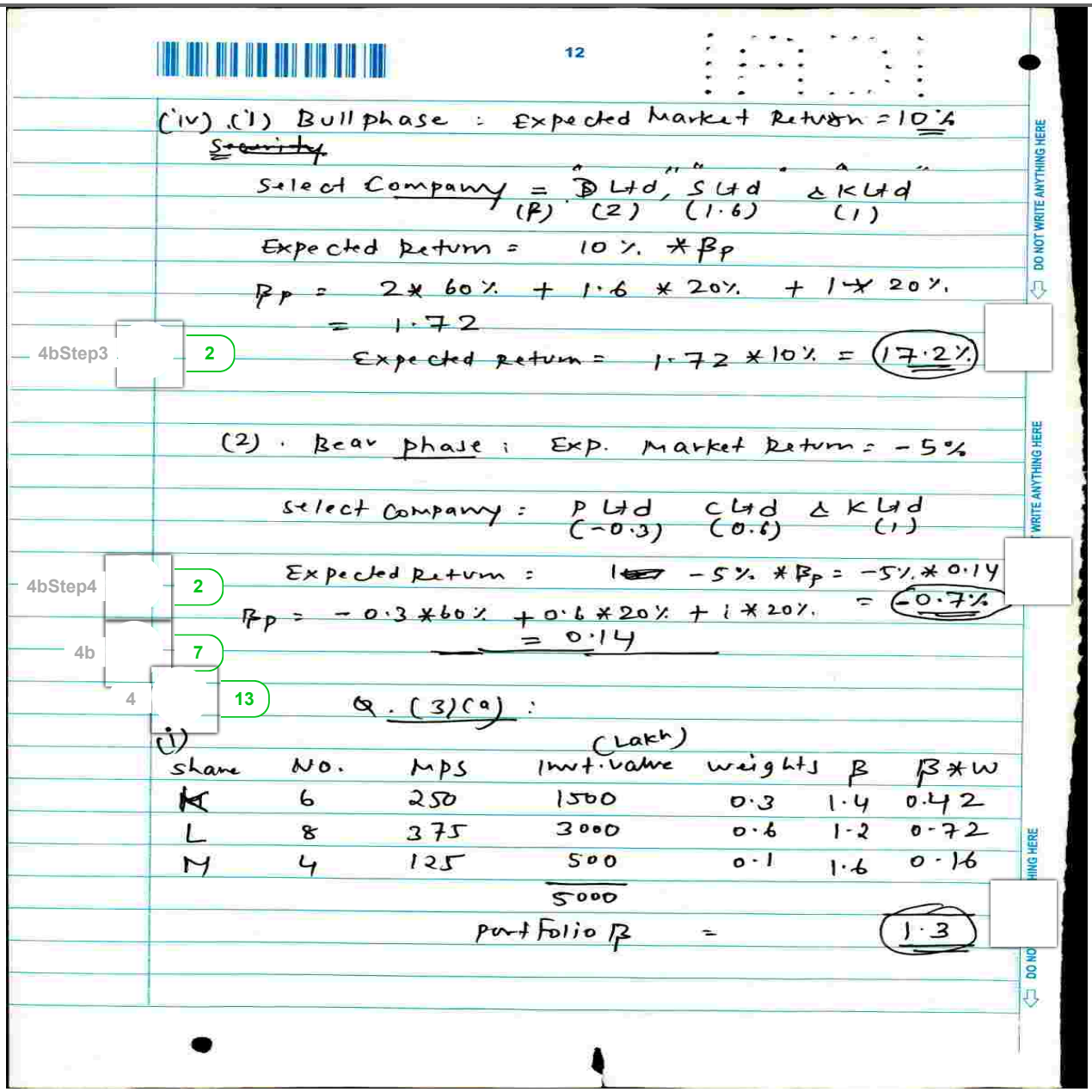

12

(iv) (1) Bull phase : Expected Market Return = 10%

~~Security~~

Select Company = B Ltd, S Ltd & K Ltd
(β) (2) (1.6) (1)

Expected Return = 10% * β_p

β_p = 2 * 60% + 1.6 * 20% + 1 * 20%
= 1.72

4bStep3 2 Expected return = 1.72 * 10% = (17.2%)

(2) Bear phase : Exp. Market Return = -5%

Select Company : P Ltd (-0.3), C Ltd (0.6), & K Ltd (1)

4bStep4 2 Expected Return : -5% * β_p = -5% * 0.14
= (-0.7%)

β_p = -0.3 * 60% + 0.6 * 20% + 1 * 20%
= 0.14

4b 7

4 13 Q. (3)(a) :

(i)

Share	No.	MPS	Inv. value (Lakh)	weights	β	β * w
K	6	250	1500	0.3	1.4	0.42
L	8	375	3000	0.6	1.2	0.72
M	4	125	500	0.1	1.6	0.16
			5000			

Portfolio β = (1.3)

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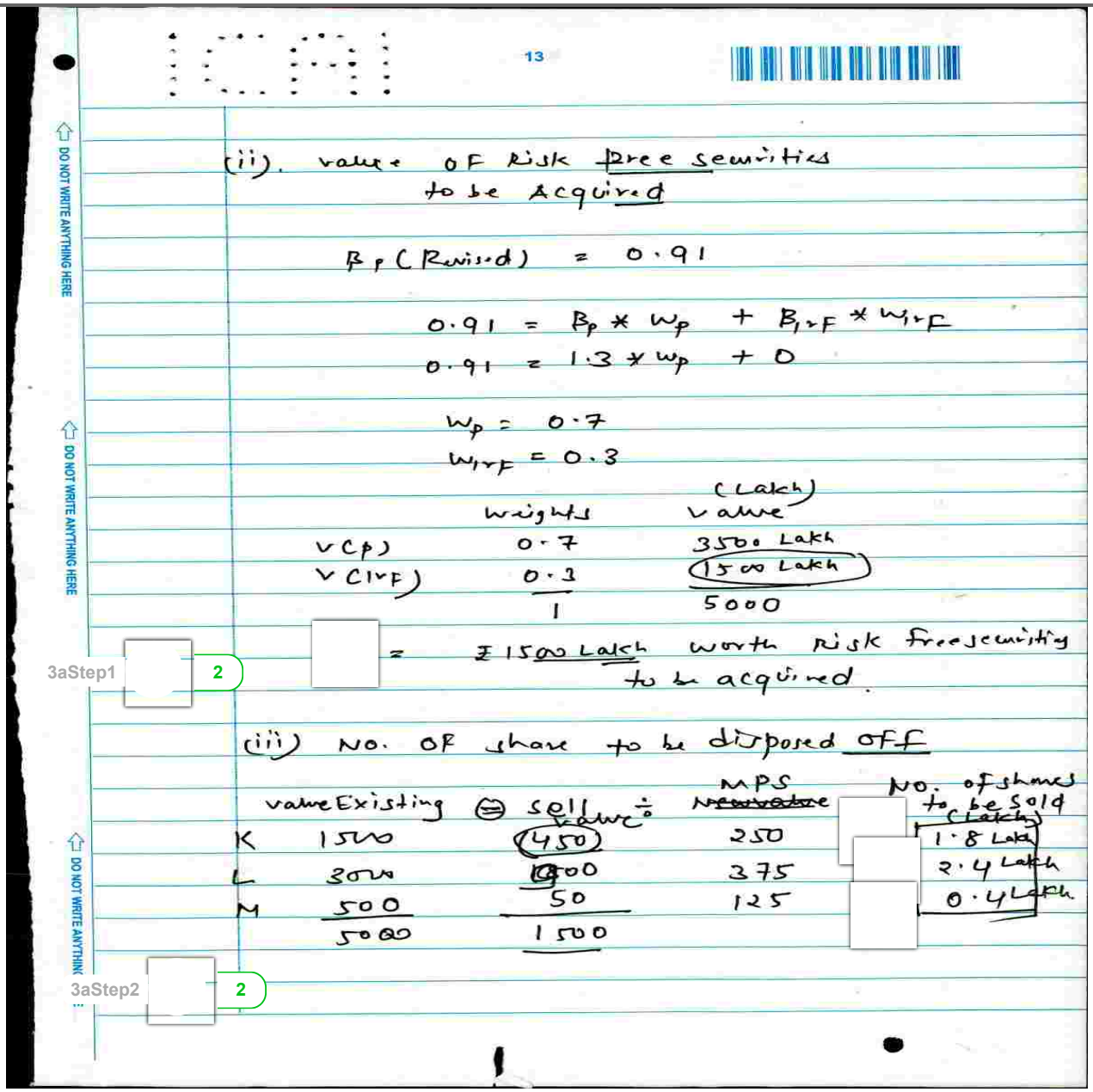

13

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(ii). value of Risk free securities to be Acquired

B_p (Revised) = 0.91

$0.91 = B_p * W_p + B_{rF} * W_{rF}$

$0.91 = 1.3 * W_p + 0$

$W_p = 0.7$

$W_{rF} = 0.3$

	Weights	Value (Lakh)
V(P)	0.7	3500 Lakh
V(rF)	0.3	1500 Lakh
	1	5000

3aStep1 2 = ₹1500 Lakh worth Risk free securities to be acquired.

(iii) No. of share to be disposed off

	value Existing	⊖ sell value ÷	MPS	No. of shares to be sold (Lakh)
K	1500	(450)	250	1.8 Lakh
L	3000	900	375	2.4 Lakh
M	500	50	125	0.4 Lakh
	5000	1500		

3aStep2 2

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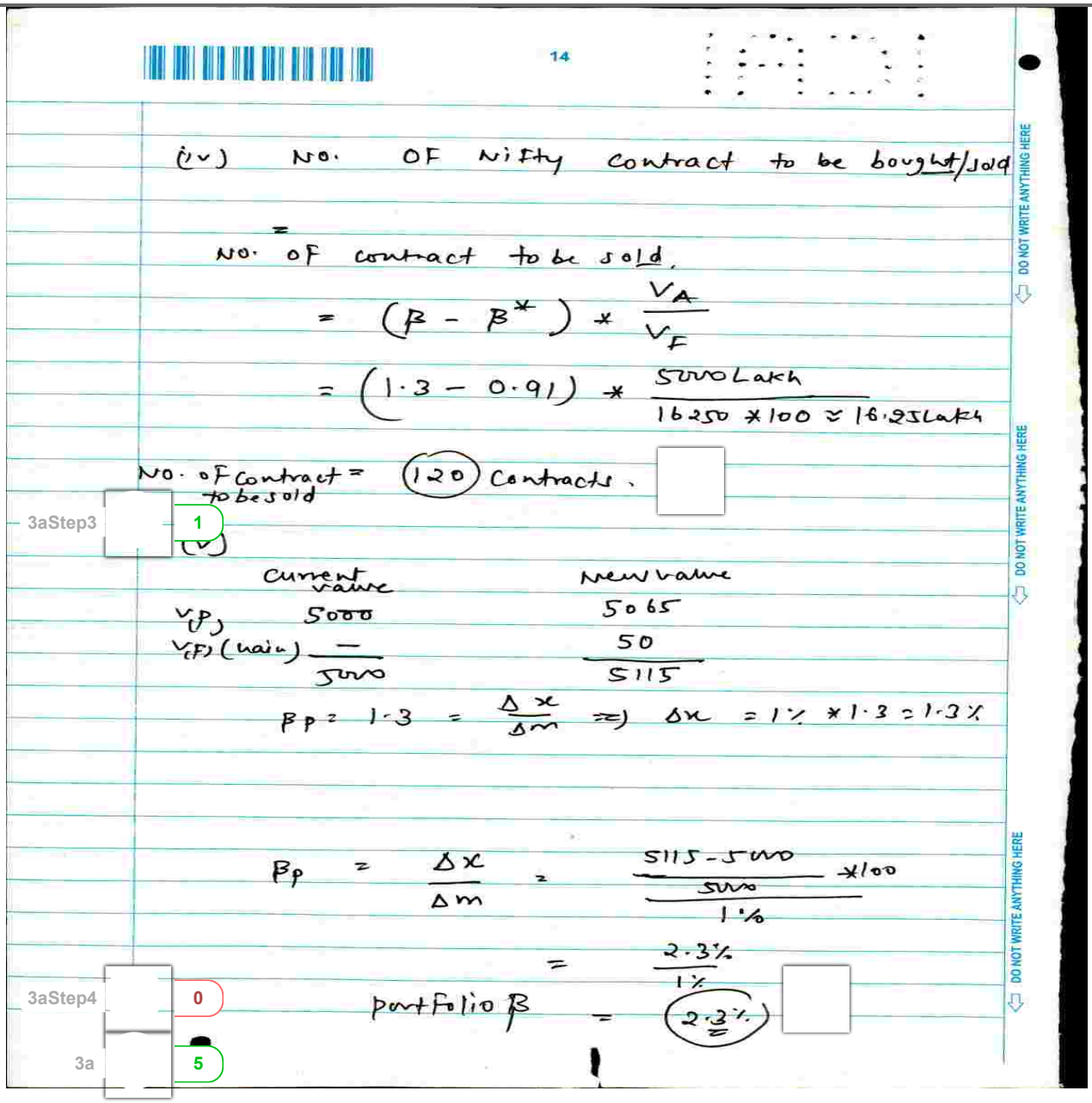

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(iv) No. of Nifty contract to be bought/sold

No. of contract to be sold,

$= (\beta - \beta^*) * \frac{V_A}{V_F}$

$= (1.3 - 0.91) * \frac{5000 \text{ Lakh}}{16250 * 100 \approx 16.25 \text{ Lakh}}$

No. of Contract to be sold = (120) Contracts.

3aStep3 — 1

(v)

	Current value	New value
V_P	5000	5065
V_F (nain)	—	50
	5000	5115

$\beta_P = 1.3 = \frac{\Delta x}{\Delta m} \Rightarrow \Delta x = 1\% * 1.3 = 1.3\%$

$\beta_P = \frac{\Delta x}{\Delta m} = \frac{\frac{5115 - 5000}{5000} * 100}{1\%}$

$= \frac{2.3\%}{1\%}$

portfolio β = (2.3%)

3aStep4 — 0

3a — 5

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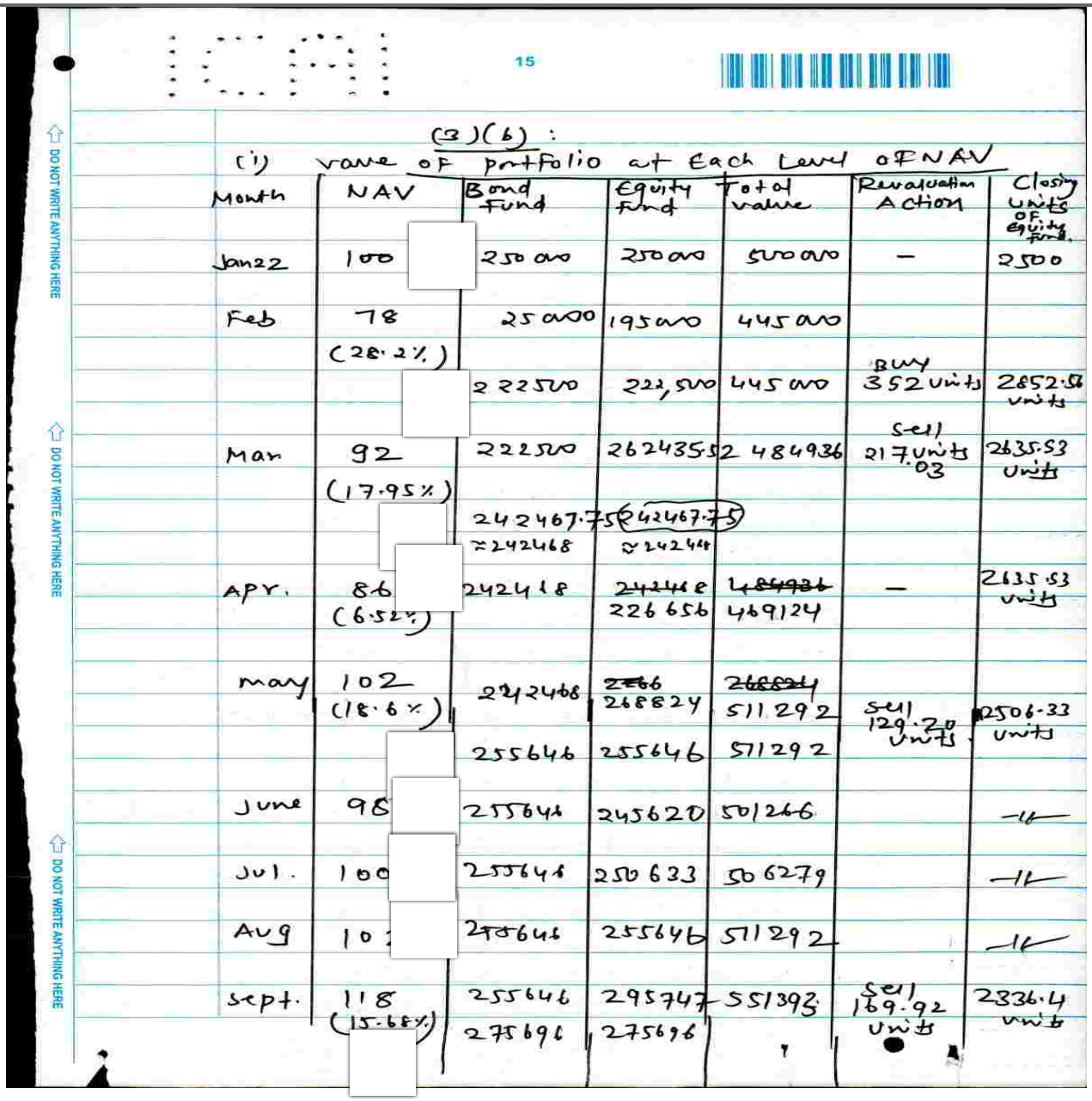

(3)(b) :

(i) value of portfolio at Each Level of NAV

Month	NAV	Bond Fund	Equity Fund	Total value	Revaluation Action	Closing Units of equity fund.
Jan22	100	250 000	250 000	500 000	—	2500
Feb	78 (28.2%)	250000	195000	445 000		
		222500	222,500	445 000	Buy 352 units	2852.58 units
Mar	92 (17.95%)	222500	262435.52	484936	Sell 217.units .03	2635.53 units
		242467.75 ≈242468	242467.75 ≈242468			
APR.	86 (6.52%)	242418	242468 226656	484936 469124	—	2635.53 units
may	102 (18.6%)	242468	2666 268824	268824 511292	Sell 129.20 units	2506.33 units
		255646	255646	571292		
June	98	255646	245620	501266		— " —
Jul.	100	255646	250633	506279		— " —
Aug	101	255646	255646	571292		— " —
sept.	118 (15.68%)	255646 275696	295747 275696	551393	Sell 169.92 units	2336.4 units

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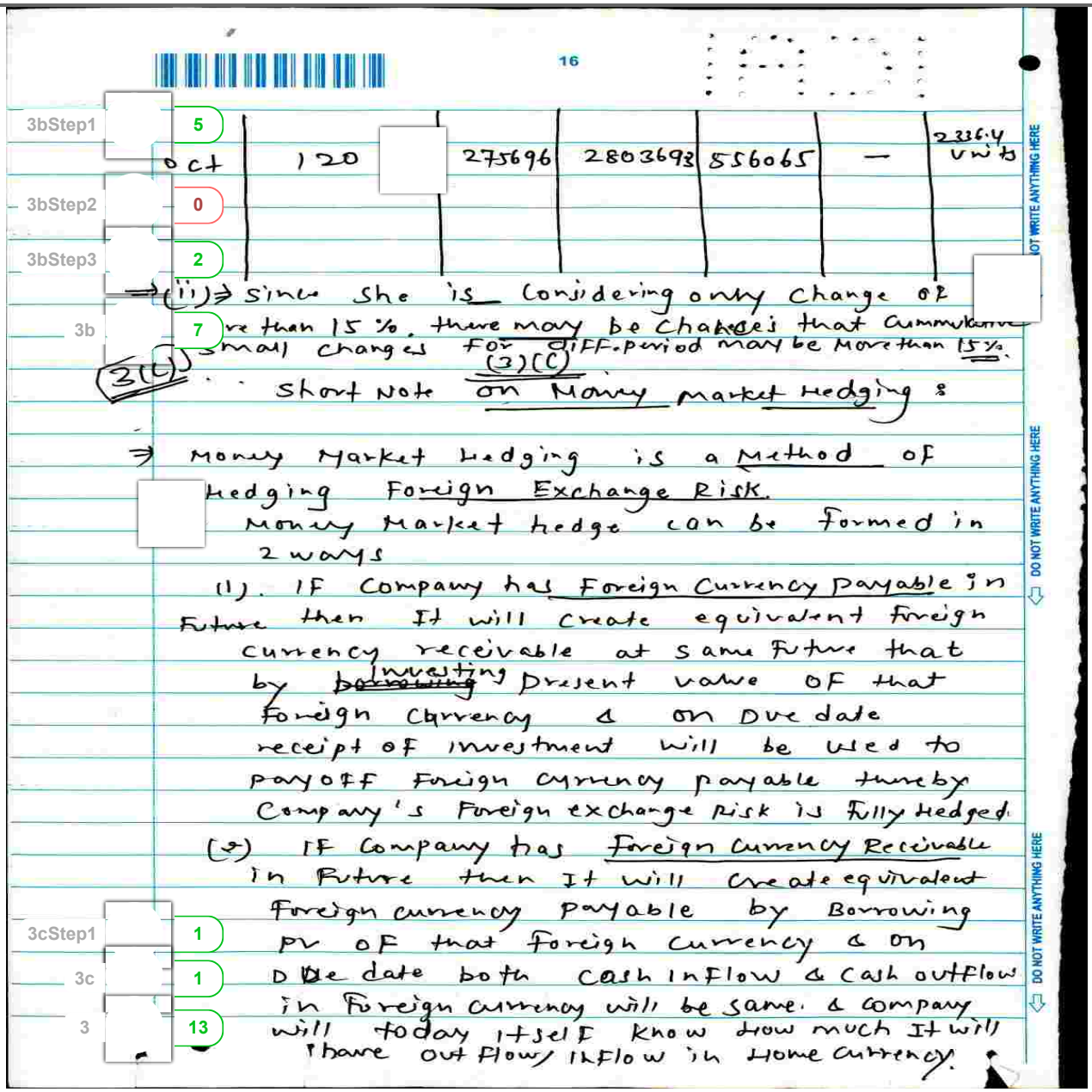

16

3bStep1	5						
	Oct	120	275696	2803693	556065	—	2336.4 units
3bStep2	0						
3bStep3	2						

3b 7

⇒ (ii) ⇒ Since she is considering only change of more than 15 %, there may be chances that cummulative small changes for diff. period may be more than 15%.

(3)(C)

3(C) Short Note on Money market Hedging :

⇒ Money Market Hedging is a Method of Hedging Foreign Exchange Risk.

Money Market hedge can be formed in 2 ways

(1). If Company has Foreign Currency payable in Future then It will create equivalent foreign currency receivable at same Future that by ~~borrowing~~ investing present value of that Foreign Currency & on Due date receipt of investment will be used to payoff Foreign currency payable thereby Company's Foreign exchange Risk is fully Hedged.

(2) If Company has Foreign Currency Receivable in Future then It will create equivalent Foreign currency payable by Borrowing PV of that Foreign Currency & on Due date both cash inflow & cash outflow in Foreign currency will be same. & company will today itself know how much It will have out flow/ inflow in Home currency.

3cStep1 1
3c 1
3 13

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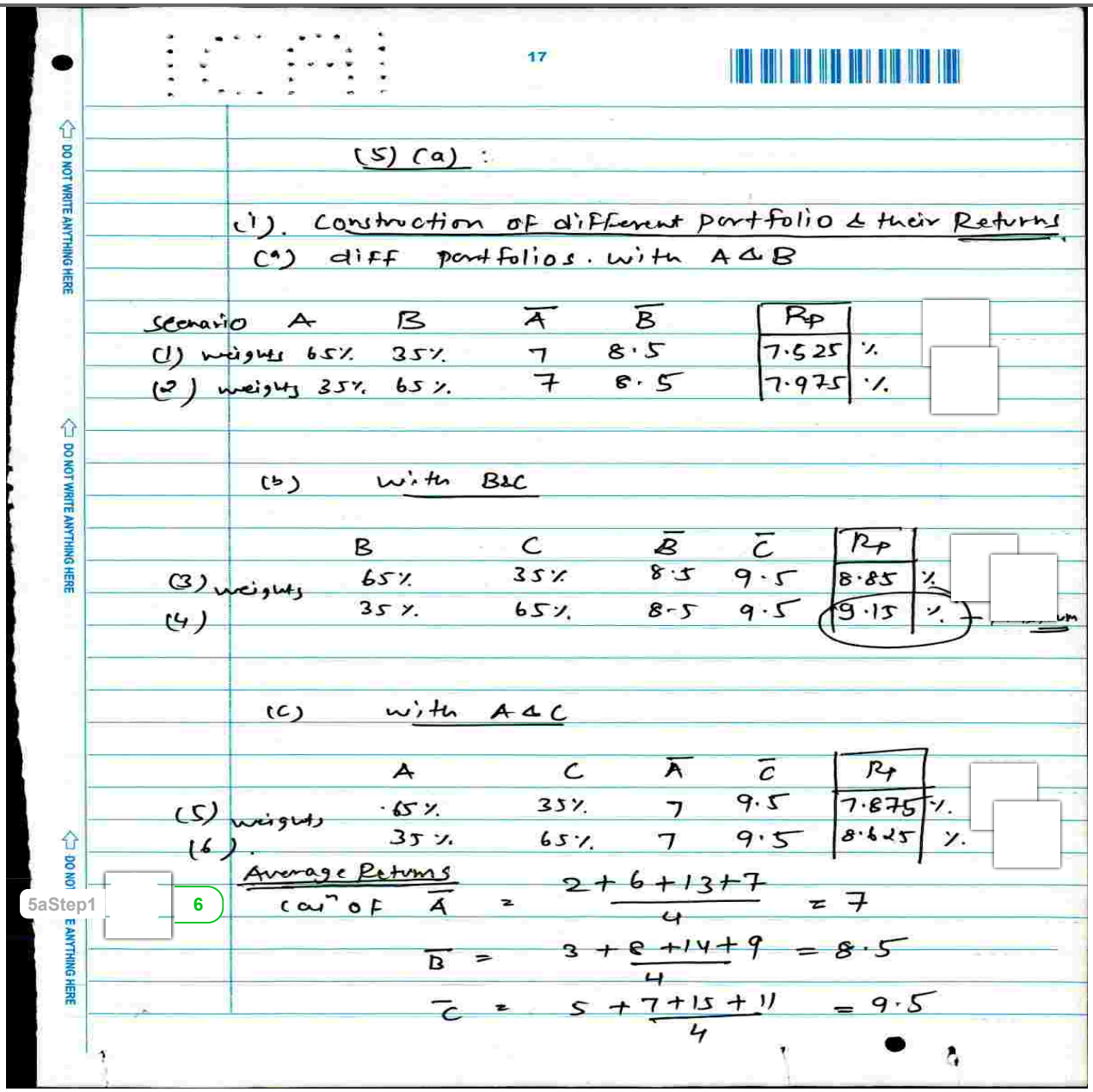

17

(5) (a) :

(i). Construction of different portfolio & their Returns

(a) diff portfolios. with A & B

Scenario	A	B	$\bar{A}$	$\bar{B}$	R_p	
(1) weights	65%	35%	7	8.5	7.525	%
(2) weights	35%	65%	7	8.5	7.975	%

(b) with B&C

	B	C	$\bar{B}$	$\bar{C}$	R_p	
(3) weights	65%	35%	8.5	9.5	8.85	%
(4)	35%	65%	8.5	9.5	9.15	%

(c) with A & C

	A	C	$\bar{A}$	$\bar{C}$	R_p	
(5) weights	65%	35%	7	9.5	7.875	%
(6).	35%	65%	7	9.5	8.625	%

Average Returns

cal^n of $\bar{A} = \frac{2+6+13+7}{4} = 7$

$\bar{B} = \frac{3+8+14+9}{4} = 8.5$

$\bar{C} = \frac{5+7+15+11}{4} = 9.5$

5aStep1 6

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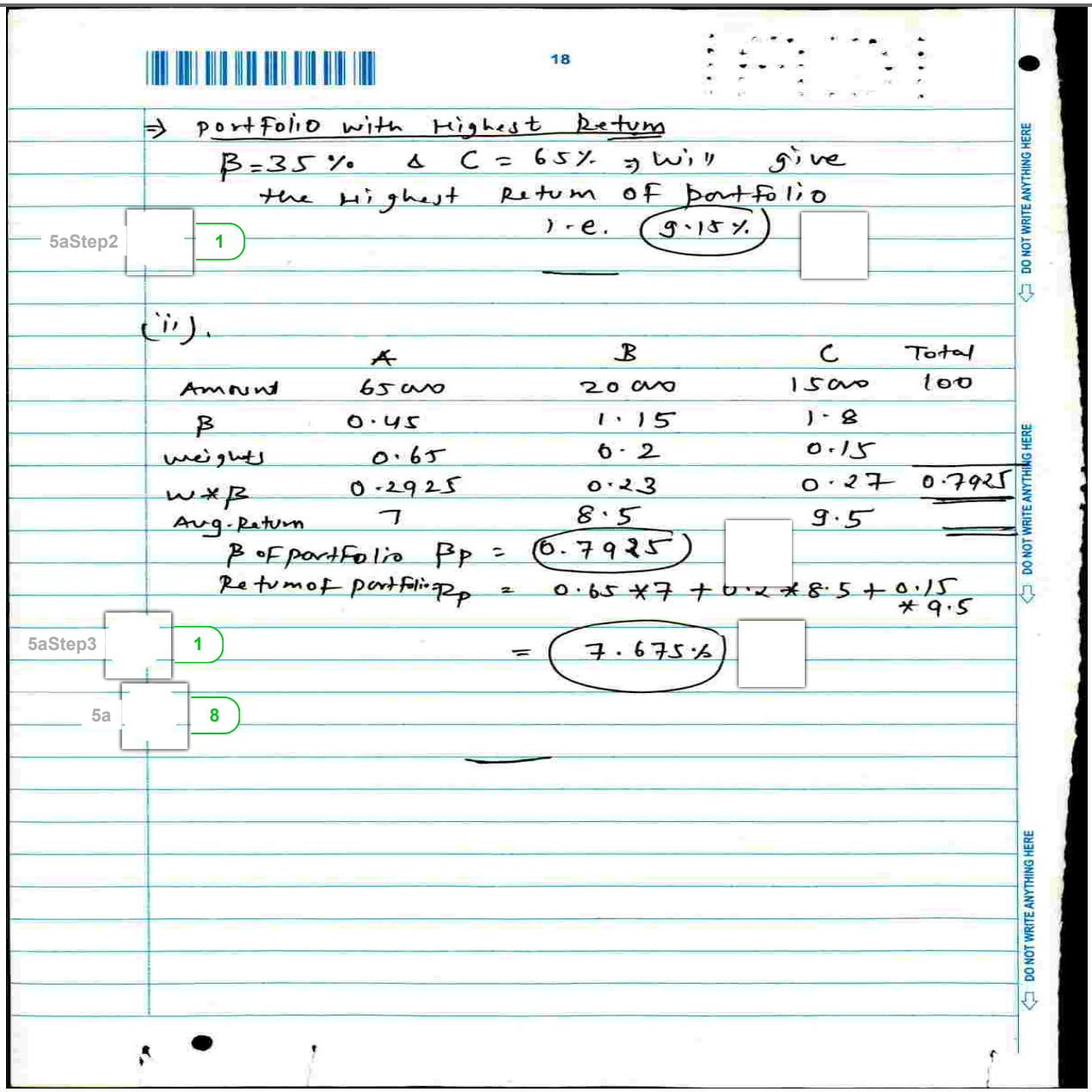

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⇒ portfolio with Highest Return

B = 35% & C = 65% ⇒ will give the Highest Return of portfolio i.e. 9.15%

5aStep2 1

(ii).

	A	B	C	Total
Amount	65 000	20 000	15 000	100
β	0.45	1.15	1.8	
weights	0.65	0.2	0.15	
w*β	0.2925	0.23	0.27	0.7925
Avg. Return	7	8.5	9.5	

β of portfolio β_p = 0.7925

Return of portfolio R_p = 0.65 * 7 + 0.2 * 8.5 + 0.15 * 9.5

= 7.675%

5aStep3 1

5a 8

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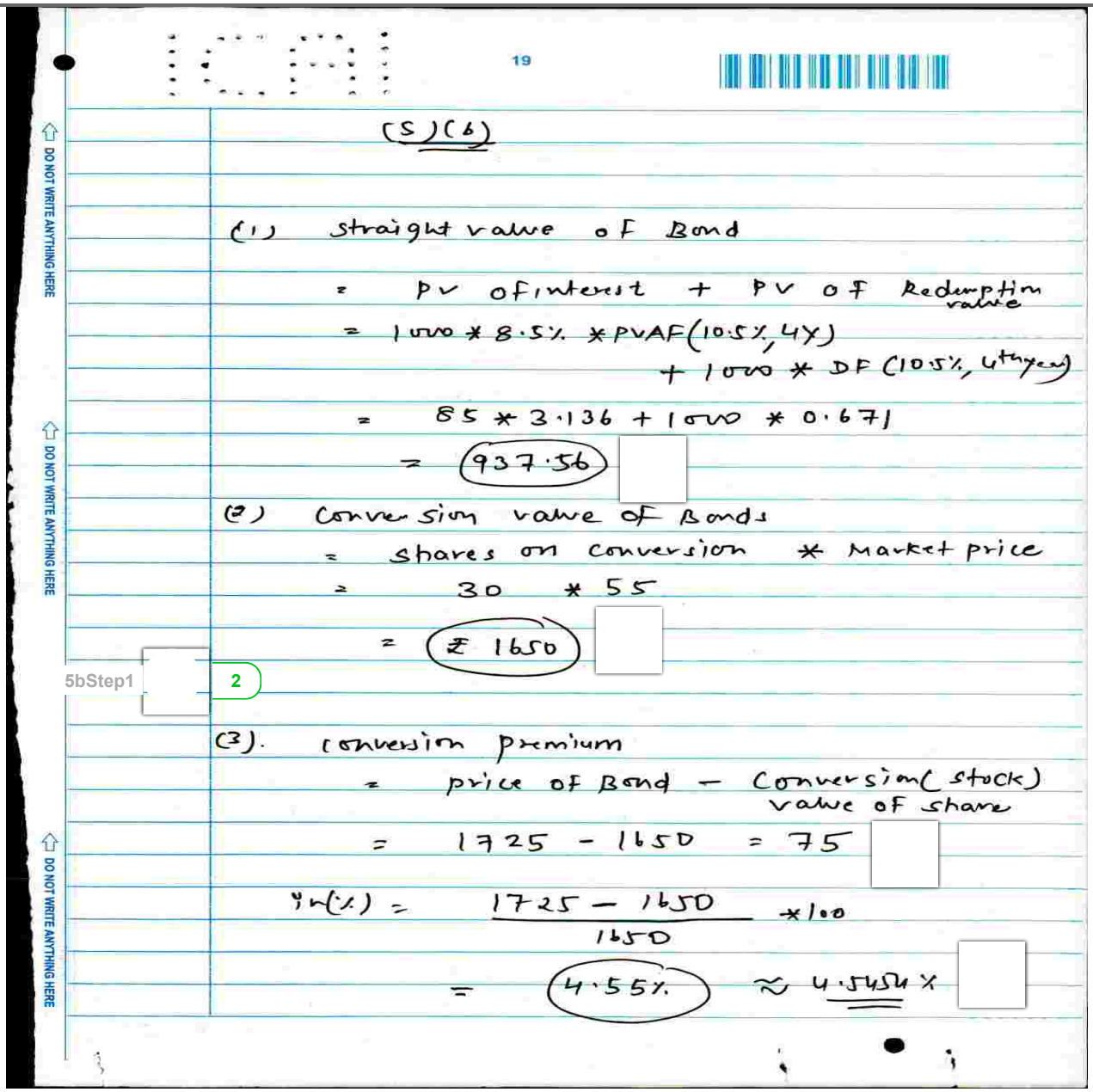

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(5)(6)

(1) Straight value of Bond

= PV of interest + PV of Redemption value

= 1000 * 8.5% * PVAF(10.5%, 4Y) + 1000 * DF(10.5%, 4th year)

= 85 * 3.136 + 1000 * 0.671

= 937.56

(2) Conversion value of Bonds

= Shares on conversion * Market price

= 30 * 55

= ₹ 1650

5bStep1 2

(3). Conversion premium

= price of Bond − Conversion(stock) value of share

= 1725 − 1650 = 75

% = (1725 − 1650)/1650 * 100

= 4.55% ≈ 4.5454 %

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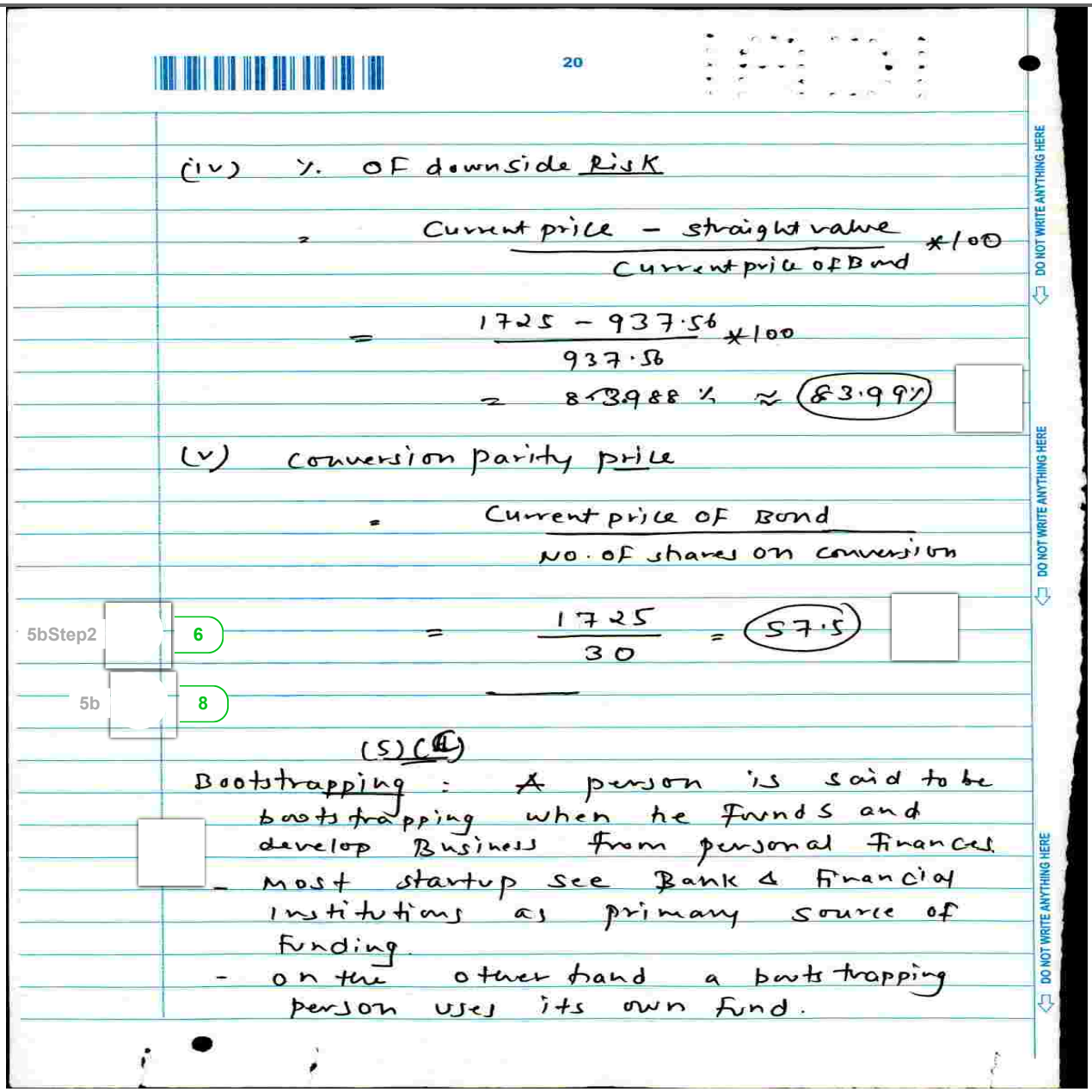

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(iv) % of downside Risk

$$= \frac{\text{Current price} - \text{straight value}}{\text{Current price of Bond}} * 100$$

$$= \frac{1725 - 937.56}{937.56} * 100$$

$$= 83.9888\% \approx 83.99\%$$

(v) Conversion parity price

$$= \frac{\text{Current price of Bond}}{\text{No. of shares on conversion}}$$

$$= \frac{1725}{30} = 57.5$$

5bStep2 6

5b 8

(5)(c)(ii)

Bootstrapping : A person is said to be bootstrapping when he funds and develop Business from personal finances.

- Most startup see Bank & Financial institutions as primary source of funding.
- on the other hand a bootstrapping person uses its own fund.

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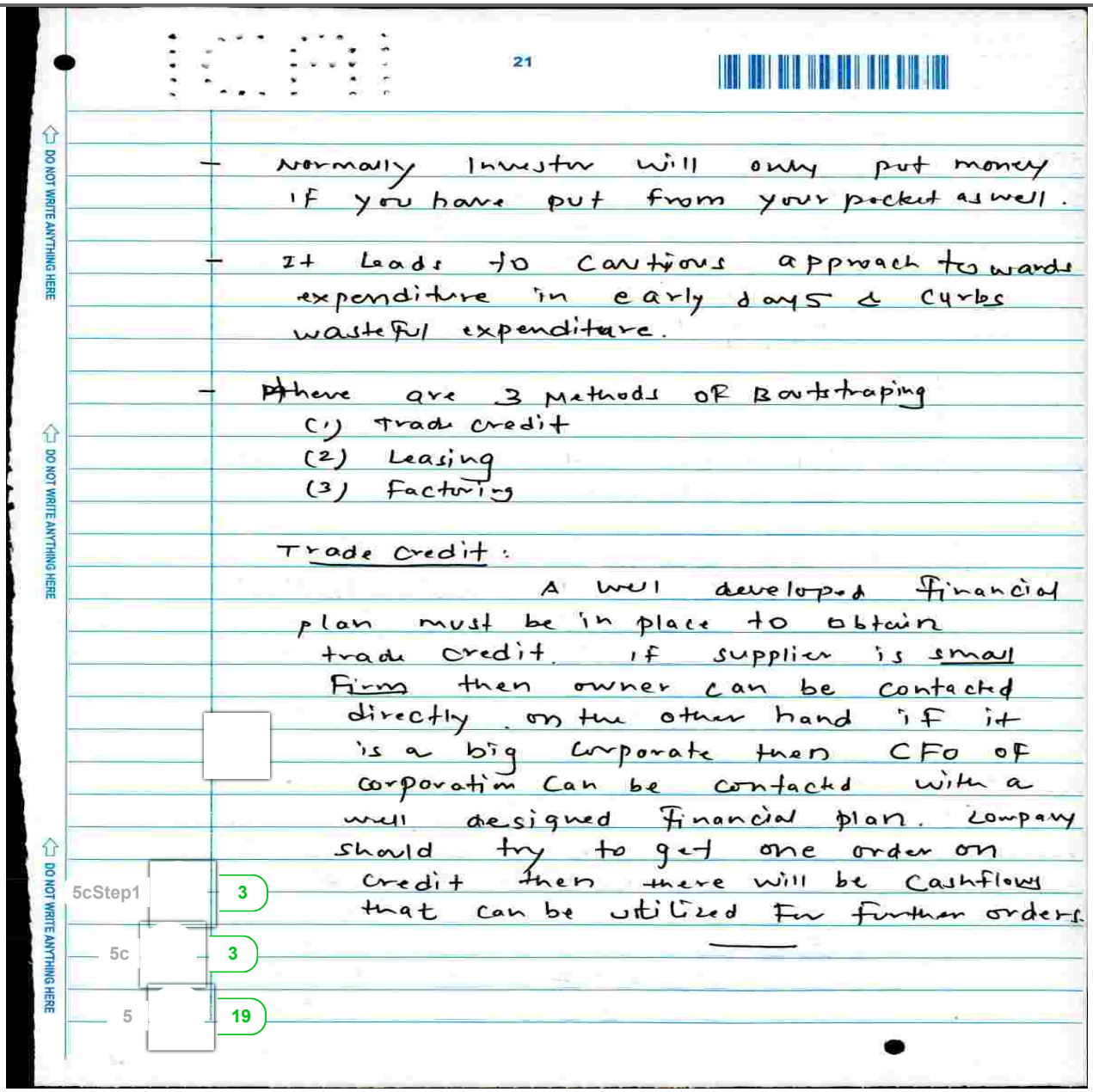

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- Normally Investor will only put money if you have put from your pocket as well.
- It Leads to cautious approach towards expenditure in early days & curbs wasteful expenditure.
- There are 3 methods of Bootstraping
  (1) Trade credit
  (2) Leasing
  (3) Factoring

Trade Credit :

A well developed financial plan must be in place to obtain trade credit. if supplier is small Firms then owner can be contacted directly. on the other hand if it is a big corporate then CFO of corporation can be contacted with a well designed financial plan. Company should try to get one order on credit then there will be cashflow that can be utilized for further orders.

5cStep1 3

5c 3

5 19

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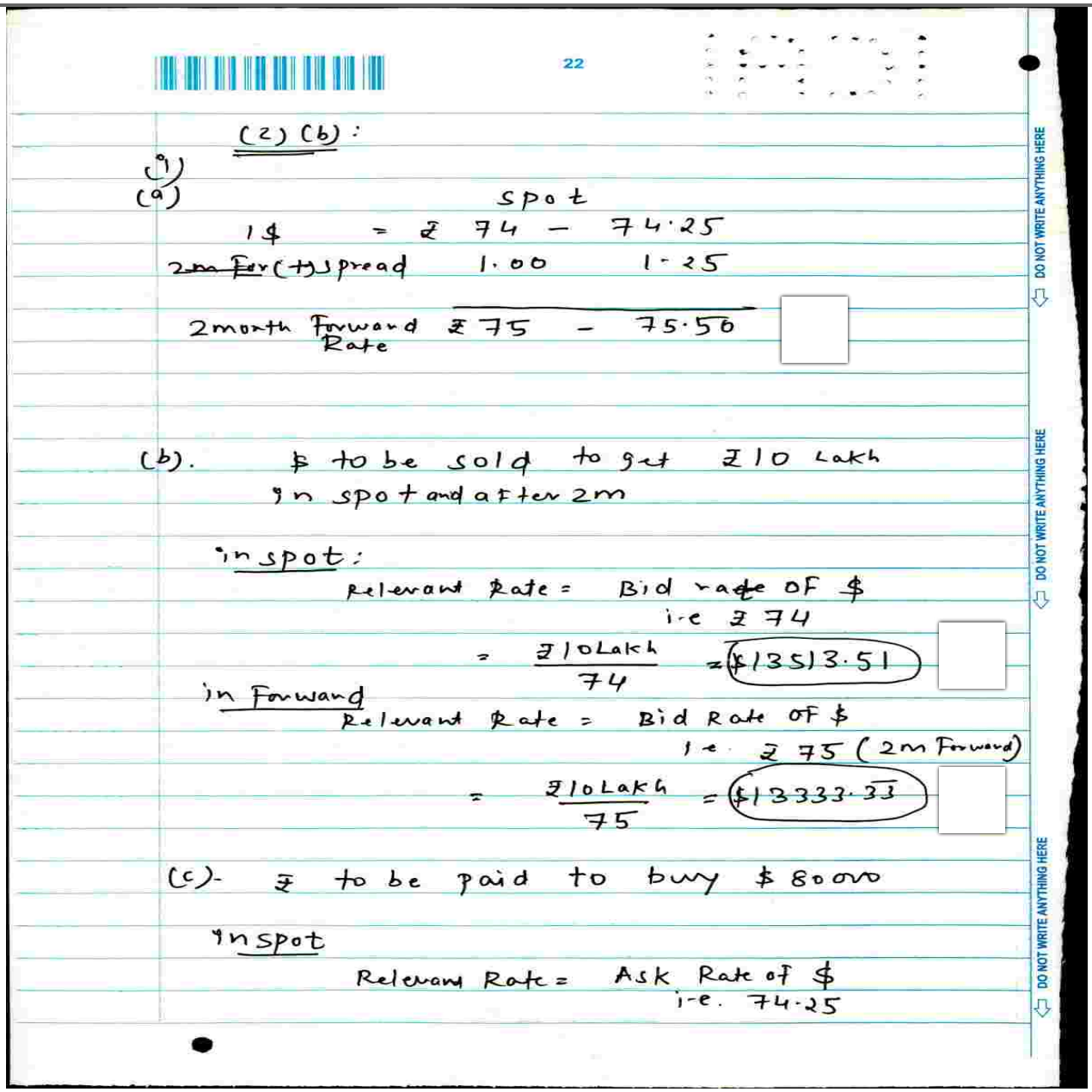

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(2) (b) :

(a) (i)

	Spot	
1 $ =	₹ 74 –	74.25
2m Fwd (+) spread	1.00	1.25
2 month Forward Rate	₹ 75 –	75.50

(b). $ to be sold to get ₹ 10 Lakh in spot and after 2m

In spot:

Relevant Rate = Bid rate of $ i.e ₹ 74

= ₹10Lakh / 74 = $13513.51

In Forward

Relevant Rate = Bid Rate of $ i.e. ₹ 75 (2m Forward)

= ₹10Lakh / 75 = $13333.33

(c)- ₹ to be paid to buy $ 80000

In spot

Relevant Rate = Ask Rate of $ i.e. 74.25

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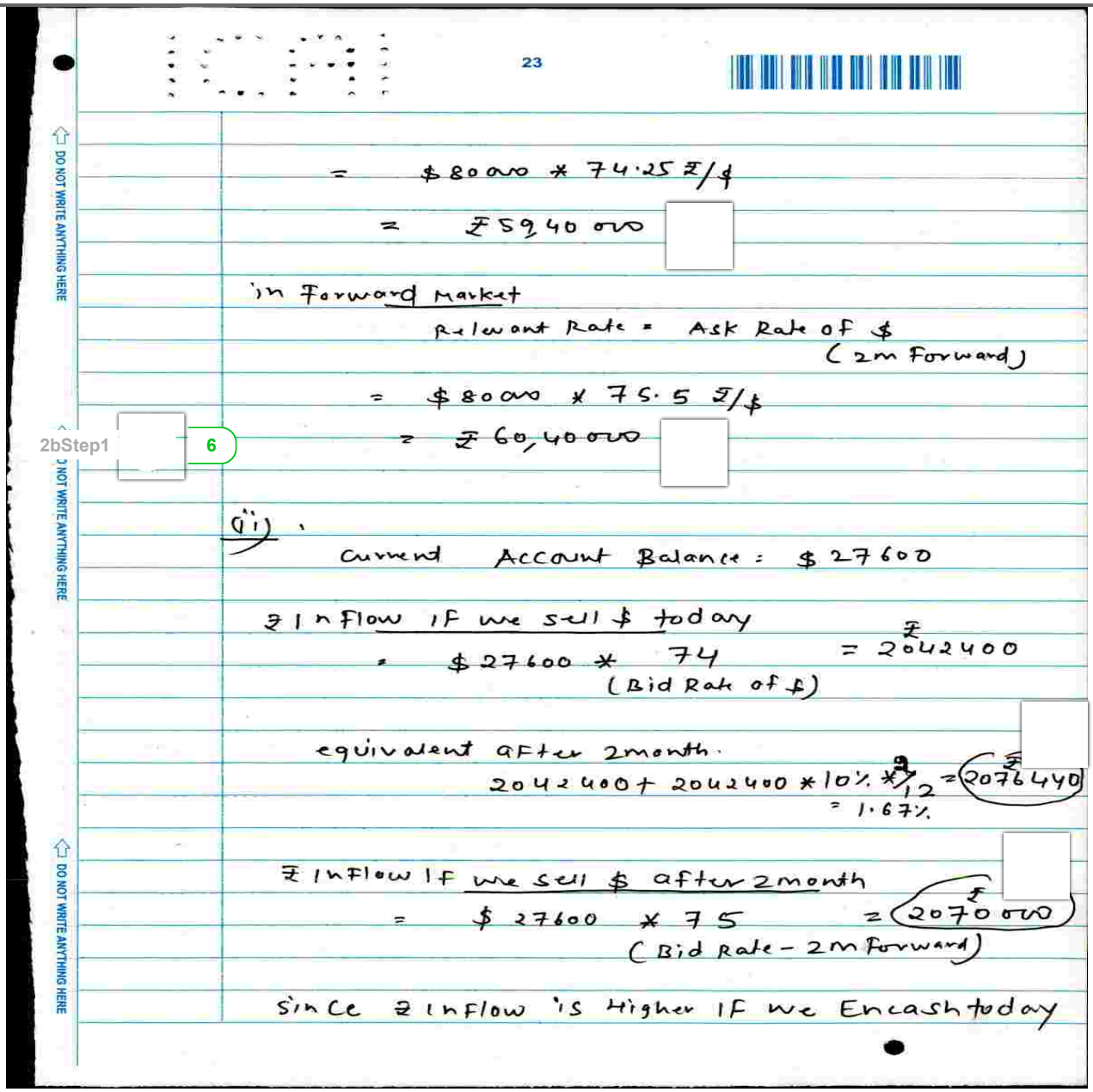

= $80 000 * 74.25 ₹/$

= ₹59,40 000

In Forward Market

Relevant Rate = Ask Rate of $ (2m Forward)

= $80 000 * 75.5 ₹/$

= ₹ 60,40 000

2bStep1 6

(ii).

Current Account Balance : $ 27600

₹ Inflow IF we sell $ today

= $27600 * 74 = ₹ 2042400
(Bid Rate of $)

equivalent after 2month.

2042400 + 2042400 * 10% * 2/12 = ₹2076440
= 1.67%

₹ Inflow IF we sell $ after 2month

= $ 27600 * 75 = ₹2070 000
(Bid Rate - 2m Forward)

Since ₹ Inflow is Higher IF we Encash today

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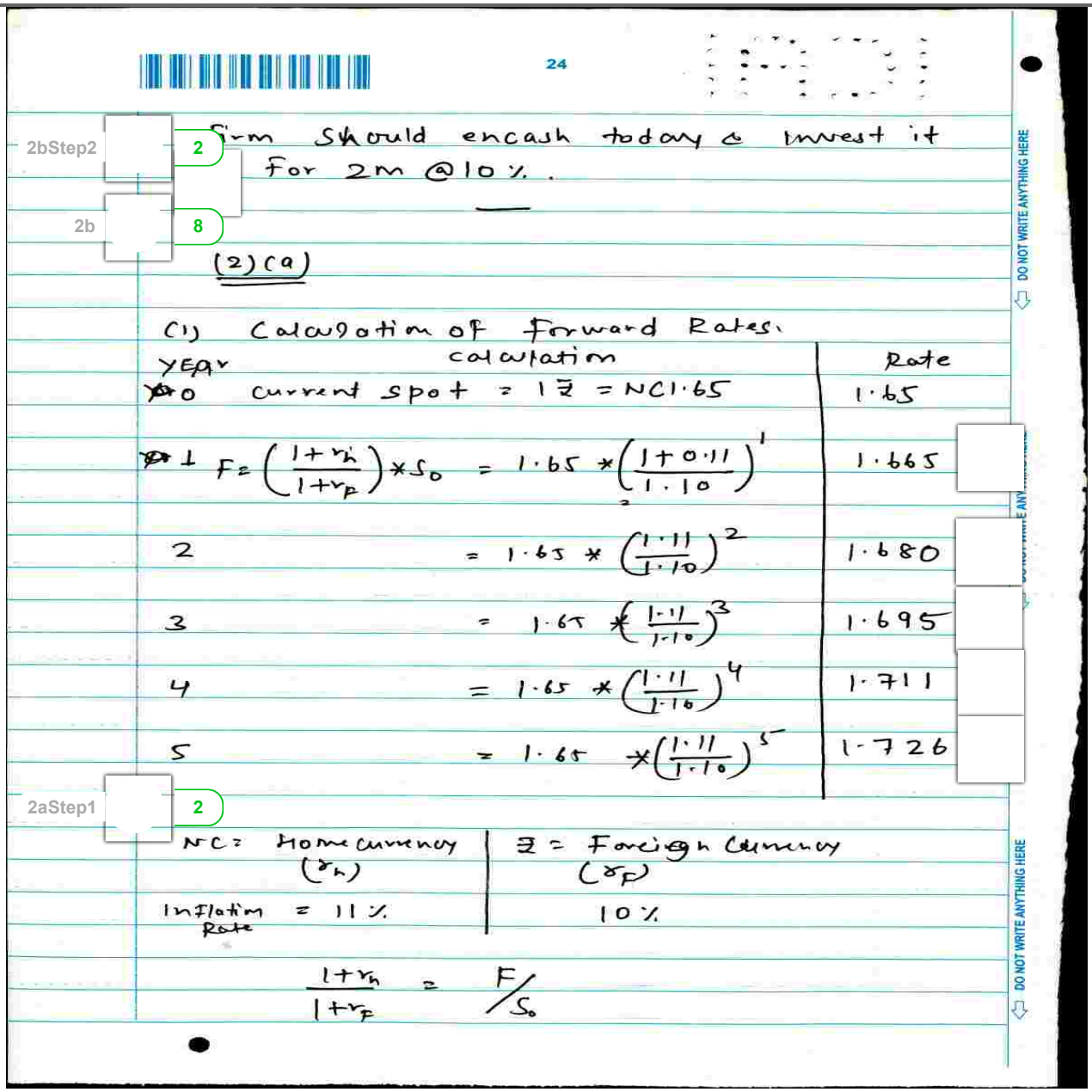

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2bStep2 2

Firm should encash today & invest it for 2m @10%.

2b 8

(2)(a)

(i) Calculation of forward Rates:

Year	calculation	Rate
0	current spot = 1₹ = NC1.65	1.65
1	$F = \left(\frac{1+r_h}{1+r_f}\right) * S_0 = 1.65 * \left(\frac{1+0.11}{1.10}\right)^1$	1.665
2	$= 1.65 * \left(\frac{1.11}{1.10}\right)^2$	1.680
3	$= 1.65 * \left(\frac{1.11}{1.10}\right)^3$	1.695
4	$= 1.65 * \left(\frac{1.11}{1.10}\right)^4$	1.711
5	$= 1.65 * \left(\frac{1.11}{1.10}\right)^5$	1.726

2aStep1 2

NC: Home currency (r_h)	₹ = Foreign Currency (r_f)
Inflation Rate = 11%	10%

$$\frac{1+r_h}{1+r_f} = \frac{F}{S_0}$$

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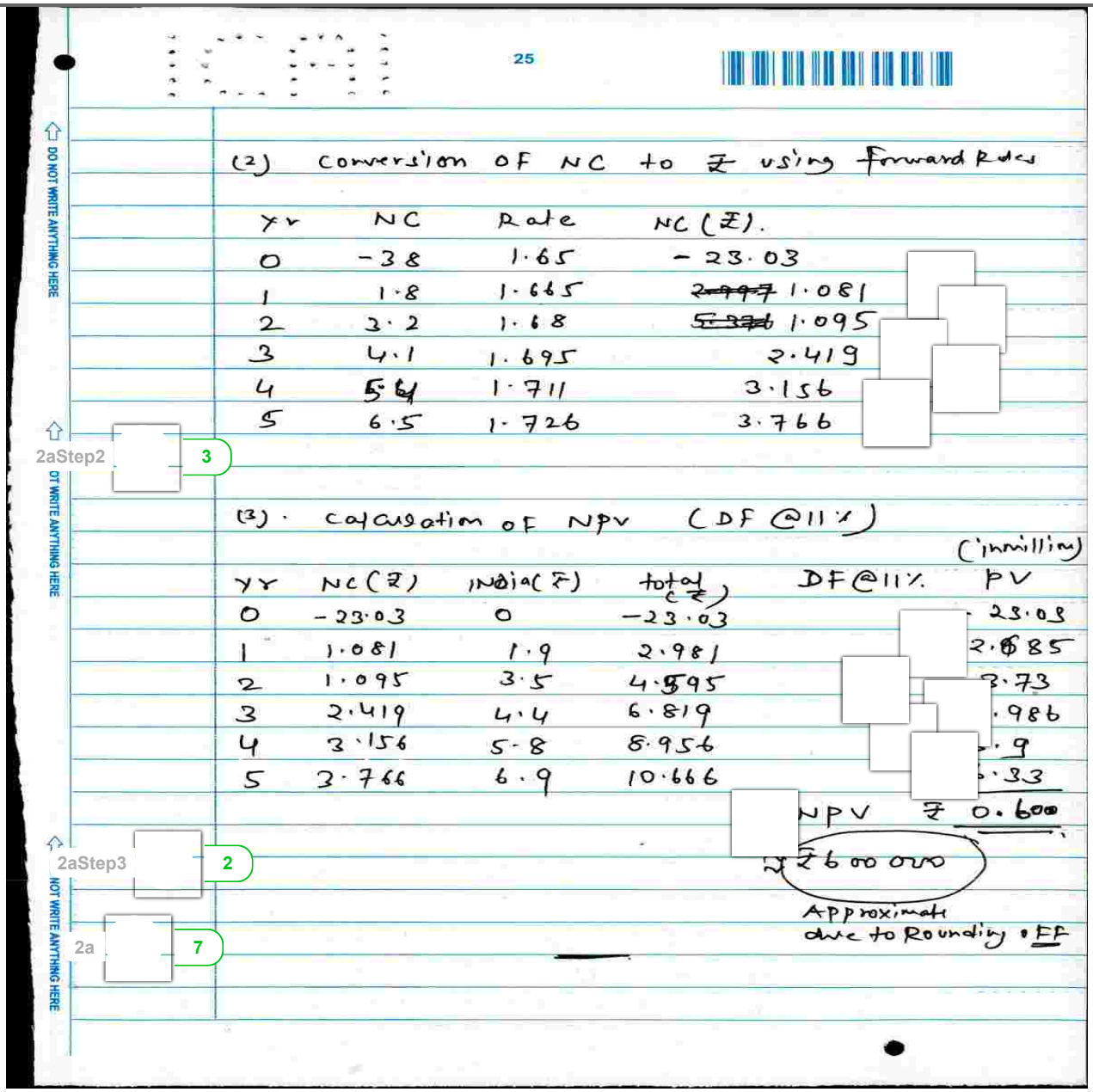

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(2) Conversion of NC to ₹ using forward rates

Yr	NC	Rate	NC (₹).
0	-38	1.65	-23.03
1	1.8	1.665	~~2.997~~ 1.081
2	3.2	1.68	~~5.376~~ 1.095
3	4.1	1.695	2.419
4	5.4	1.711	3.156
5	6.5	1.726	3.766

2aStep2 3

(3). Calculation of NPV (DF @11%)

('in million)

Yr	NC (₹)	INDIA (₹)	total (₹)	DF@11%	PV
0	-23.03	0	-23.03		-23.03
1	1.081	1.9	2.981		2.685
2	1.095	3.5	4.595		3.73
3	2.419	4.4	6.819		.986
4	3.156	5.8	8.956		.9
5	3.766	6.9	10.666		.33

NPV ₹ 0.600

₹ 6 00 000

Approximate due to Rounding off

2aStep3 2

2a 7

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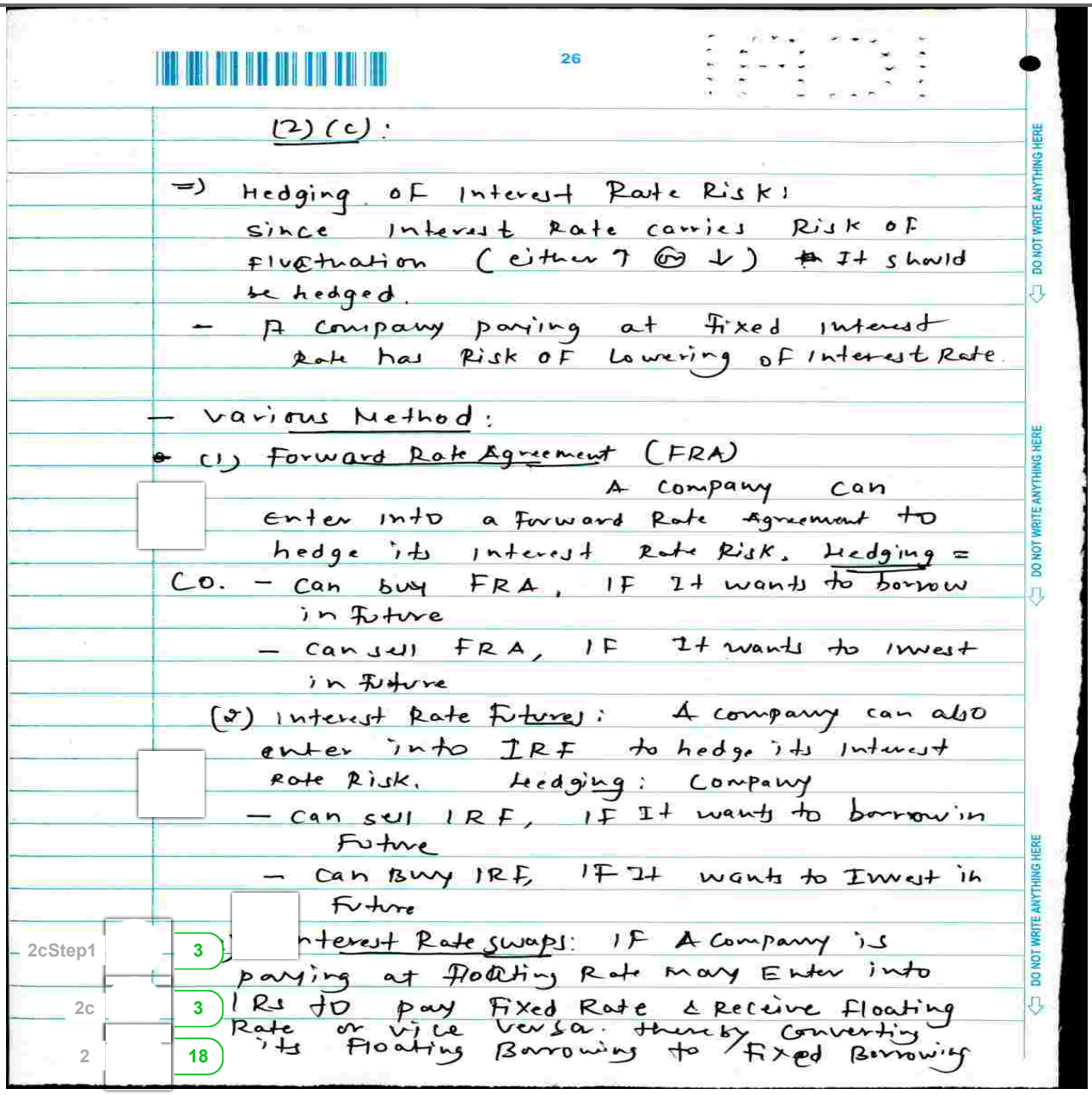

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(2) (c):

=) Hedging of Interest Rate Risk:
since Interest Rate carries Risk of fluctuation (either ↑ or ↓) It should be hedged.
- A Company paying at fixed interest Rate has Risk of Lowering of Interest Rate.

- Various Method:

(1) Forward Rate Agreement (FRA)
A Company can enter into a Forward Rate Agreement to hedge its interest Rate Risk. Hedging =
Co. - Can buy FRA, IF It wants to borrow in future
- Can sell FRA, IF It wants to invest in future

(2) Interest Rate Futures: A company can also enter into IRF to hedge its interest Rate Risk. Hedging: Company
- Can sell IRF, IF It wants to borrow in Future
- Can Buy IRF, IF It wants to Invest in Future

(3) Interest Rate Swaps: IF A Company is paying at floating Rate may Enter into IRS to pay Fixed Rate & Receive floating Rate or vice versa. thereby Converting its floating Borrowing to Fixed Borrowing

2cStep1 3
2c 3
2 18

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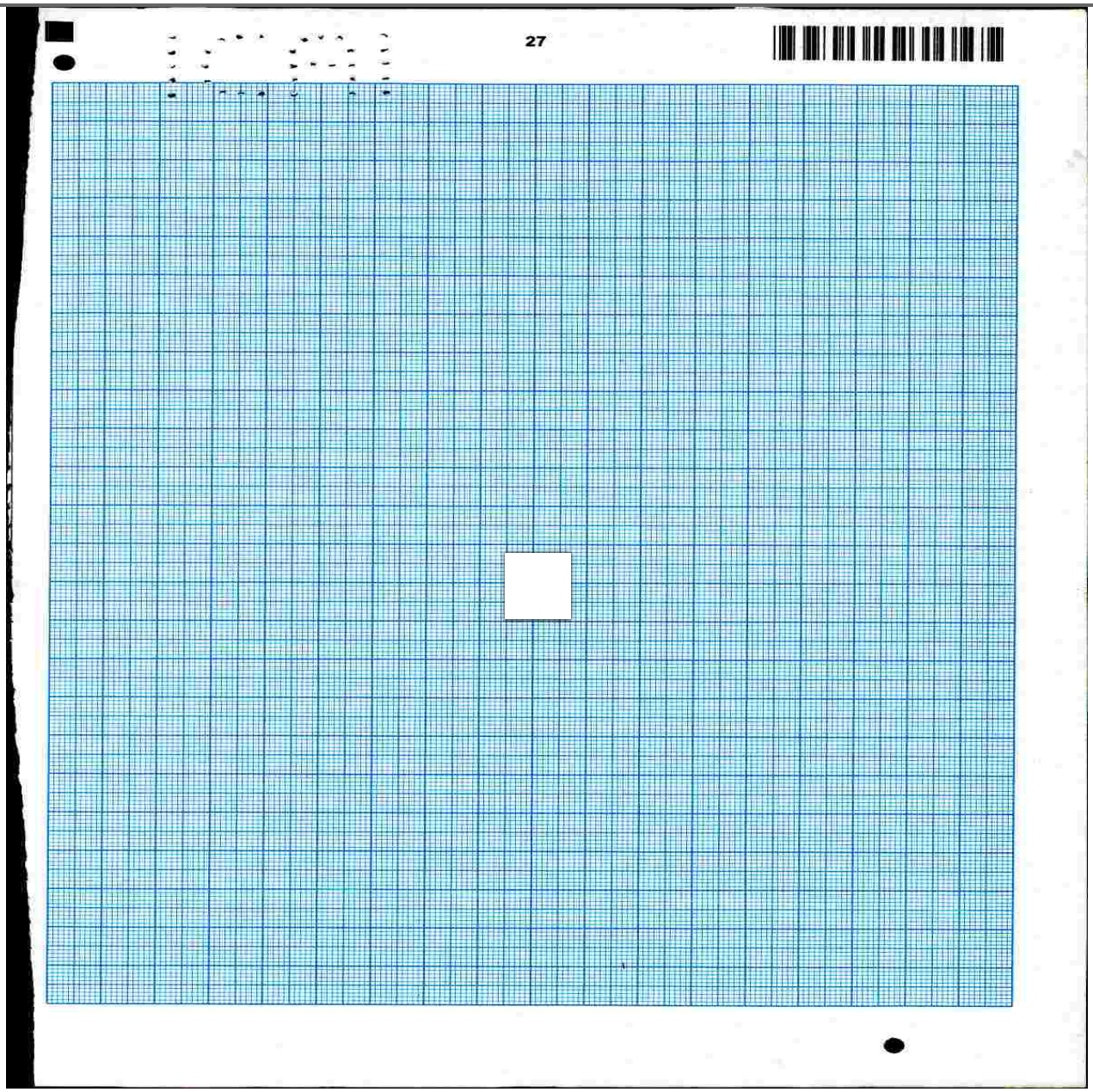

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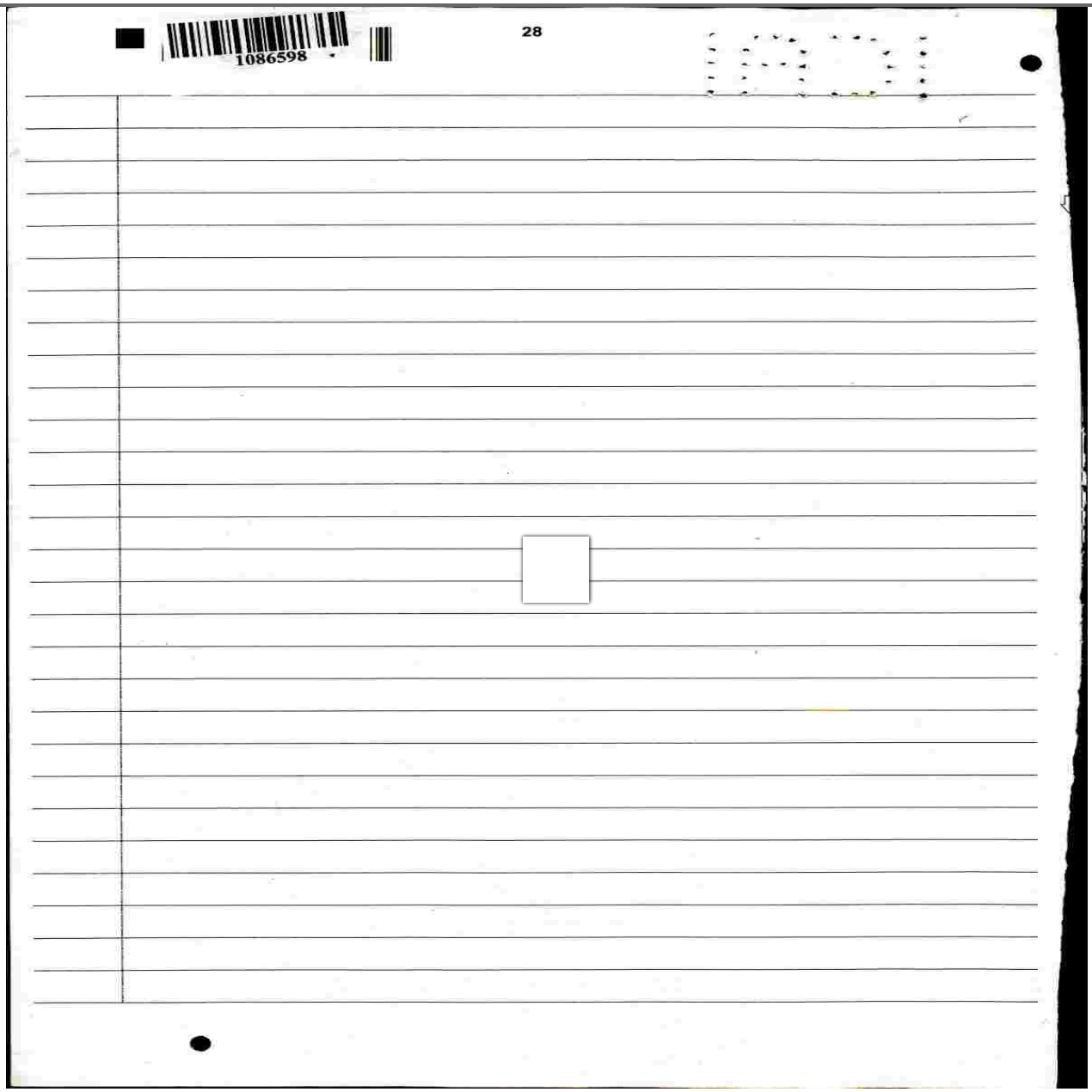

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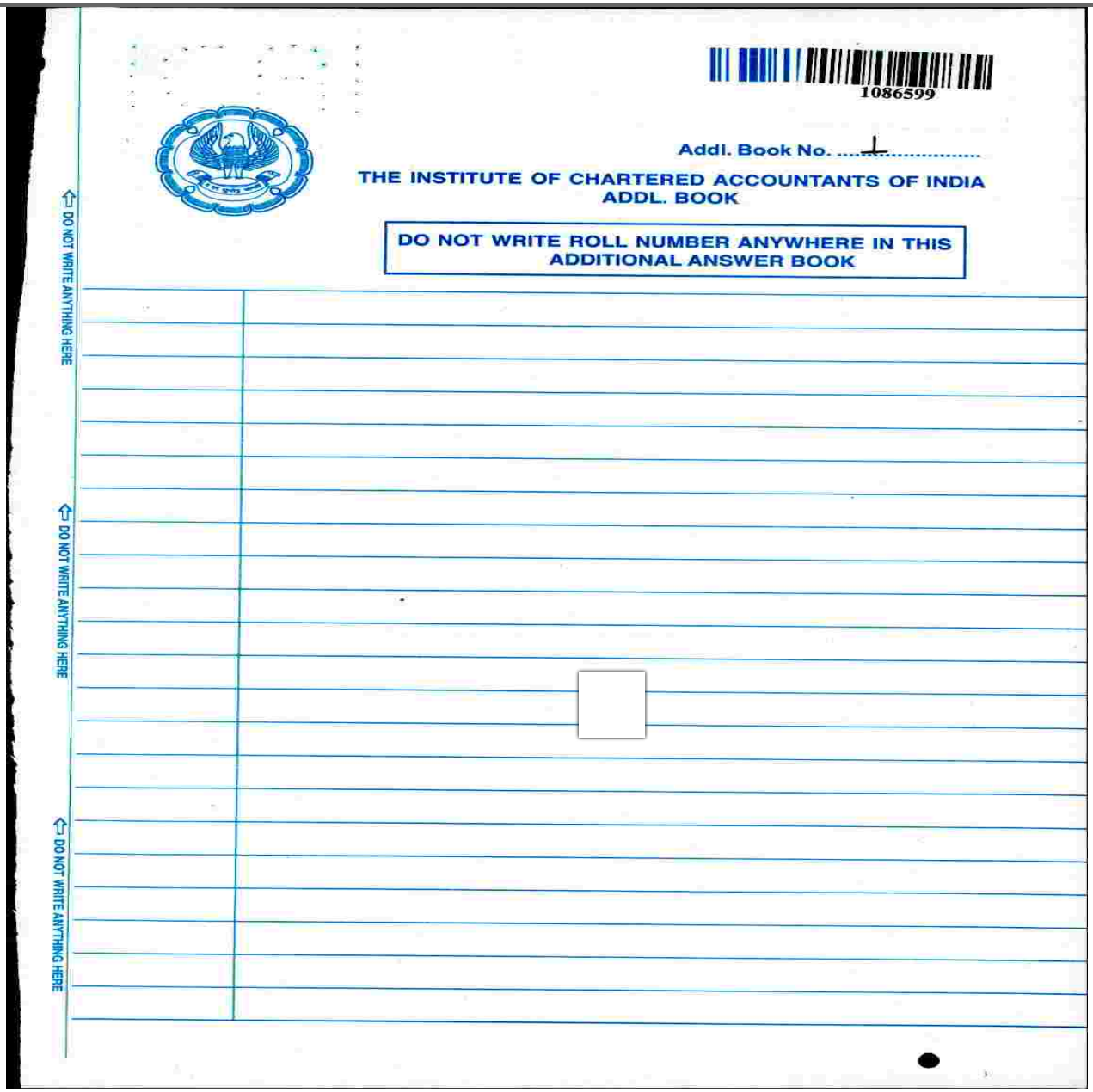

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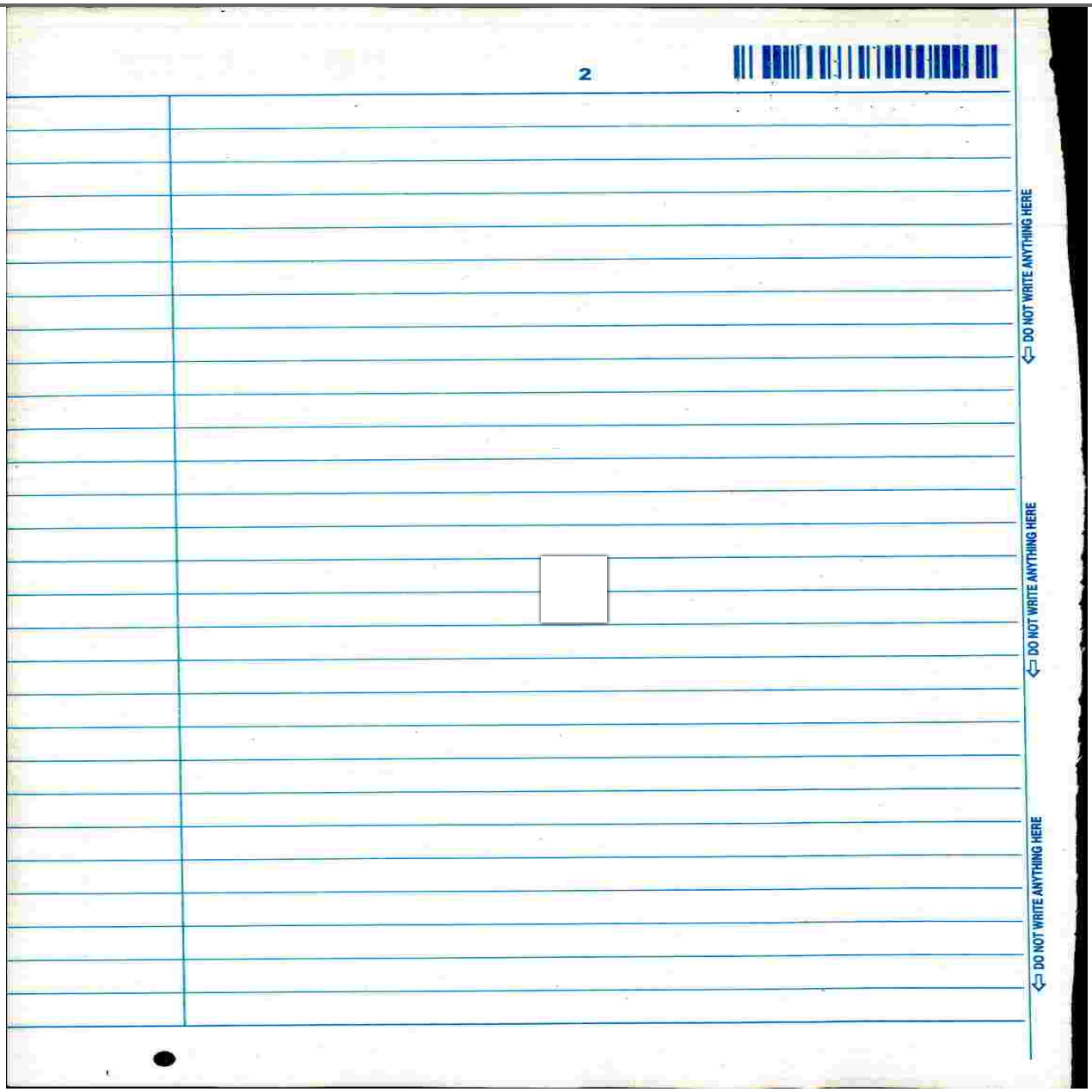

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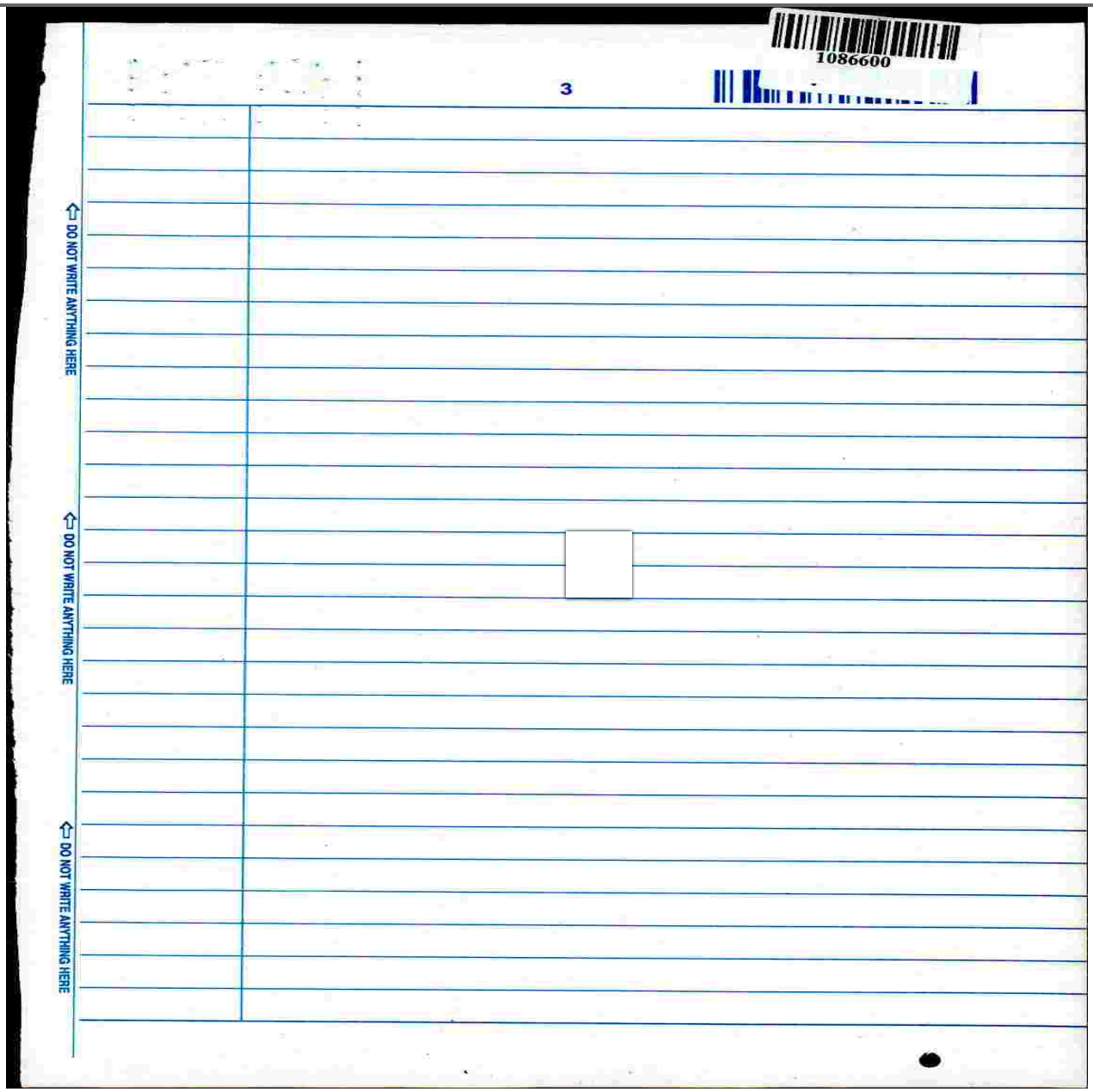

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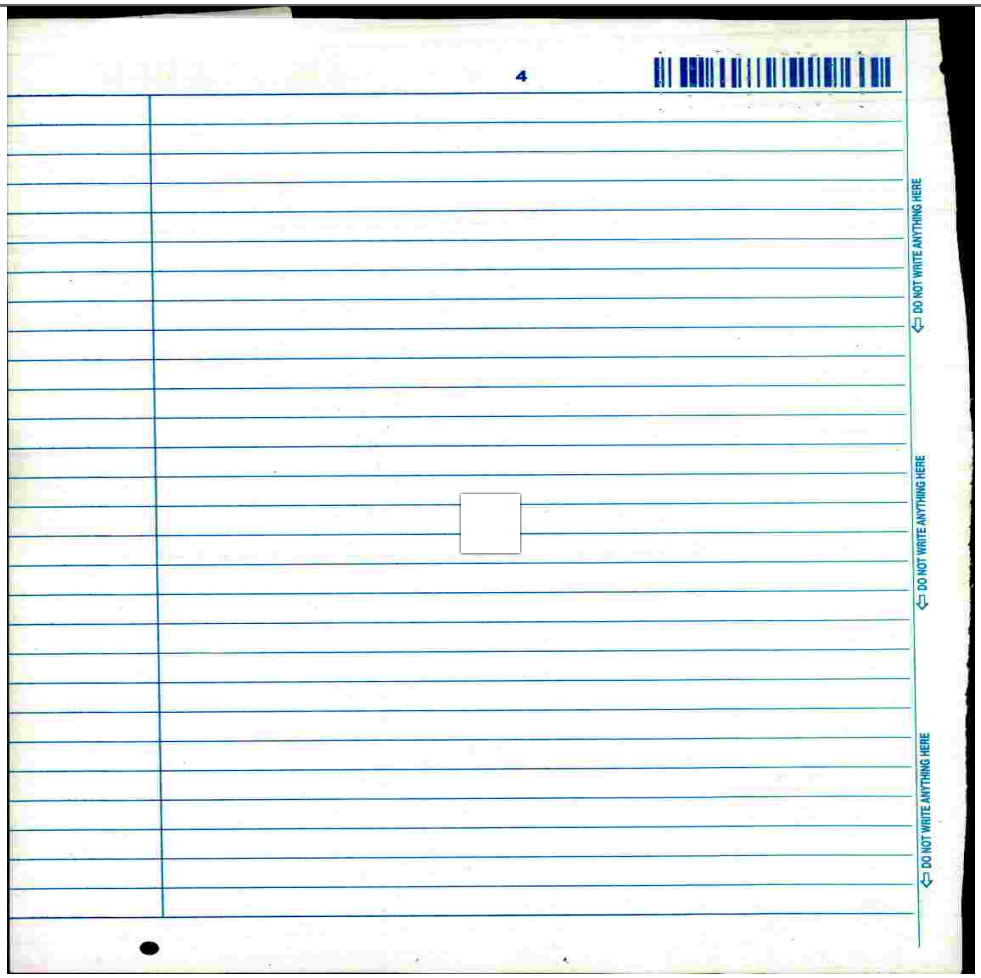
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