

**41<sup>ST</sup> SESSION PROGRESS TEST  
STRATEGIC FINANCIAL MANAGEMENT**

**Total Marks: 75**

**Time Allowed: 2Hrs**

**Questions 1 -15 carry 1 mark each and 16-35 carry 3 marks each**

**Workings are to be shown as a part of the answer**

**All Answers must be done only in the answer book**

**This Question Paper must be returned along with the Answer Book  
upon completion of the Test**

**State True or False and give reasons (Question 1 to 10)**

1. When calculating sensitivity for each variable, the lower the percentage, the less sensitive is the NPV to that project variable.
2. MM theory states that managers should adopt as low a dividend policy as possible.
3. Under the Certainty Equivalent Approach and the Risk Adjusted Discount rate method the cash flows are discounted at the risk free rate of return.
4. Coupon rate and YTM are the same.
5. Volatility of 3% indicates that a 1% increase in YTM would lead to A 3% increase in the price of the bond.
6. 1.52 SGD per USD is a direct quote in Singapore.
7. A quote which is direct for any European country is said to be European terms
8. If INR per AUD rates are: Spot 29.45 and 3 month forward is 29.36, Depreciation percentage of INR is 1.22%
9. If the US\$ rate per £ is 1.4325 – 1.4330, the rate applicable for a customer buying US\$ is 1.4330.
10. Under the residual approach, capital expenditure commitments are met out of profits remaining after payment of dividends.

**Choose the correct answer**

11. Which of the following would cause the required return on a bond to increase, everything else held equal?
  - a. Bond's credit rating improves
  - b. The bond is callable
  - c. Bond is convertible
  - d. All of the above
12. Which of the following causes a lower required return on a bond?
  - a. Bond's credit rating decreases
  - b. The bond is callable
  - c. Bond is convertible
  - d. All of the above

13. Which of these approaches guarantee a minimum dividend
- Constant dividend
  - Constant pay out
  - Residual approach
  - None of the above
14. Which of the following models cannot be used to compute market price of the share
- Walter's model
  - Gordon's model
  - Graham & Dodd model
  - Lintner's model
15. Risk in capital budgeting means
- Possibility of negative NPV
  - Not knowing the outcomes
  - Possibility that the actual outcome differs from the expected outcome
  - All of the above
16. Goldilocks Ltd. was started a year back with Equity Capital of Rs.40 Lakhs. The other details are: Earnings of the Company Rs. 4,00,000 Price Earnings Ratio 12.5 Dividend paid Rs. 3,20,000 Number of Shares 40,000. Compute cost of equity and return on investment
- Ke = .....
- R = .....
17. Find the Current Market Price of the Share in Q.16. Use Walter's Model.
- Cannot be computed
  - Rs.100
  - Rs.131.25
  - RS.96
18. The following information is collected from the Annual Reports of J Ltd.
- Profit before Tax Rs. 2.50 Crores
  - Number of Outstanding Shares 50,00,000
  - Tax Rate 40 percent
  - Equity Capitalization Rate 12 percent
  - Retention Ratio 40 percent
  - Rate of Return on Investment 15 percent
- What is the growth rate?
- 4.8%
  - 6%
  - 7.2%
  - 9%
19. What is the value of share as per Gordon model in Q.18?
- Rs.41.67
  - Rs.50
  - Rs. 53
  - Rs.31.80

**Use the following data for Question 20-23**

On 31st March 2013, the following information about Bonds is available:

Name of Security	Face Value (Rs)	Maturity Date	Coupon Rate	Coupon Date(s)
Zero Coupon	10,000	31 <sup>st</sup> March 2013	N.A	N.A
T-Bill	1,00,000	20 <sup>th</sup> June 2013	N.A	N.A
10.71% GOI 2023	100	31 <sup>st</sup> March 2023	10.71	31 <sup>st</sup> March
10% GOI 2018	100	31 <sup>st</sup> March 2018	10.00	31 <sup>st</sup> March & 01 <sup>st</sup> October

Name of Security Face Value Maturity Date Coupon Rate Coupon Date(s) Zero Coupon 10,000 31<sup>st</sup> March 2023 N.A. N.A. T-Bill 1,00,000 20<sup>th</sup> June 2013 N.A. N.A. 10.71% GOI 2023 100 31<sup>st</sup> March 2023 10.71 31<sup>st</sup> March 10% GOI 2018 100 31<sup>st</sup> March 2018 10.00 31<sup>st</sup> March & 31<sup>st</sup> October [PVAF for 10 years: 4% = 8.11; 8% = 6.71; 7.5% = 6.864 PVIF for 10<sup>th</sup> year: 4% = 0.6756; 8% = 0.4632 7.5% = .4852]

20. If 10 years yield is 7.5% p.a., what price the Zero Coupon Bond would fetch on 31st March 2013?
- Rs.6,864
  - Rs.4,852
  - Rs.14,569
  - Rs.20,610
21. What will be the annualized yield if the T -Bill is traded @ Rs.98,500?
- 9.85%
  - 15%
  - 10.15%
  - 6.86%
22. If 10.71% GOI 2023 Bond having YTM is 8%, what Price would it fetch on 1st April 2013 (after Coupon Payment on 31st March)?
- 118
  - 100
  - 108
  - 134
23. If 10% GOI 2018 Bond having YTM is 8%, what Price would it fetch on 1st April 2013 (after Coupon Payment on 31st March)?
- 118
  - 100
  - 108
  - 134

**Use the following data for Questions 24 to 27**

Buenos Aires Limited has 10 Lakhs Equity Shares Outstanding at the beginning of the year 2013. The Current Market Price per Share is Rs.150. The Company is contemplating a dividend of Rs. 9 per Share. The rate capitalization, appropriate to its risk class, is 10%. The Company is planning to invest Rs.500 Lakhs assuming a Net Income of Rs.200 Lakhs by the end of the year. Use MM Approach.

24. Calculate the Market Price of the Share of the Company when Dividend is declared
- Rs.150
  - Rs.141
  - Rs.174
  - Rs.156
25. Calculate the Market Price of the Share of the Company when Dividend is not declared
- Rs.150
  - Rs.165
  - Rs.174
  - Rs.159
26. How many new shares are to be issued by the Company if dividend is declared?
- 3,33,333
  - 2,50,000
  - 1,81,818
  - 2,00,000
27. How many new shares are to be issued by the Company if dividend is not declared?
- 3,33,333
  - 2,50,000
  - 1,81,818
  - 2,00,000
28. The probability that the NPV in a project will be Rs.11,500, if the expected NPV and standard deviation are Rs.73,600 and 46,000 respectively is.
- 8.85%
  - 91.15%
  - 67.72%
  - 32.28%
29. The standard deviation of a project for years 1 to 3 is 3,674 each year. What is the standard deviation of the project if discount rate is 7% and the cash flows are uncorrelated?
- 3,674
  - 9,642
  - 5,576
  - 8,457

30. A share of Tension-free Economy Ltd is currently quoted at a price earnings ratio of 7.5 times. The retained earning being 37.5% is Rs. 3 per share and return on investment is 12%. The company's cost of equity.
- 13.33%
  - 13.21%
  - 8.33%
  - 12.83%
31. Compute the Market price per share, if the company's cost of capital is 18% and anticipated growth rate is 15% per annum, assuming other conditions remaining the same as in Q.30.
- Rs.191.67
  - Rs.100.00
  - Rs. 115.00
  - Rs. 166.67

**Use the following data for question 32-35**

JKL Ltd, an Indian Company, has an export exposure of JPY 100 Lakhs payable August 31, 2014. Japanese Yen (JPY) is not directly quoted against Indian Rupee. The current Spot Rates are: INR/US \$ = Rs.62.22 JPY/US \$ = JPY 102.34 It is estimated that Japanese Yen will depreciate to 124 level and Indian Rupee to depreciate against US \$ to RS.65. Forward Rates for August 2014 are: INR/US \$ = Rs.66.50 JPY/US \$ = JPY 110.35.

32. The value of the receivable Rs.(in Lakhs) at spot rates is:
- 164.47
  - 60.80
  - 63.67
  - 60.00
33. The cash flow at expected rates is Rs.(in Lakhs):
- 52.42
  - 190.77
  - 80.60
  - 50.00
34. The amount receivable Rs.(in Lakhs) if forward cover is taken is:
- 60.26
  - 165.95
  - 73.38
  - 65.00
35. Spot rate: Yen/USD is 140 and 3 months forward rate is 138. If interest rate in Japan is 4% and USA is 7%, what action would follow?
- Invest in USA
  - Borrow in Japan
  - Invest in Japan
  - Both a & b

**Table B-2**  
 (The values in this Table give areas between mean  $\mu$  and  $z$ )

z	00	01	02	03	04	05	06	07	08	09
0.0	.0000	.0040	.0080	.0120	.0160	.0199	.0239	.0279	.0319	.0359
0.1	.0398	.0438	.0478	.0517	.0557	.0596	.0636	.0675	.0714	.0753
0.2	.0793	.0832	.0871	.0910	.0948	.0987	.1026	.1064	.1103	.1141
0.3	.1179	.1217	.1255	.1293	.1331	.1368	.1406	.1443	.1480	.1517
0.4	.1554	.1591	.1628	.1664	.1700	.1736	.1772	.1808	.1844	.1879
0.5	.1915	.1950	.1985	.2019	.2054	.2088	.2123	.2157	.2190	.2224
0.6	.2257	.2291	.2324	.2357	.2389	.2422	.2454	.2486	.2517	.2549
0.7	.2580	.2611	.2642	.2673	.2703	.2734	.2764	.2794	.2823	.2852
0.8	.2881	.2910	.2939	.2967	.2995	.3023	.3051	.3078	.3106	.3133
0.9	.3159	.3186	.3212	.3238	.3264	.3289	.3315	.3340	.3365	.3389
1.0	.3413	.3438	.3461	.3485	.3508	.3531	.3554	.3577	.3599	.3621
1.1	.3643	.3665	.3686	.3708	.3729	.3749	.3770	.3790	.3810	.3830
1.2	.3849	.3869	.3888	.3907	.3925	.3944	.3962	.3980	.3997	.4015
1.3	.4032	.4049	.4066	.4082	.4099	.4115	.4131	.4147	.4162	.4177
1.4	.4192	.4207	.4222	.4236	.4251	.4265	.4279	.4292	.4306	.4319
1.5	.4332	.4345	.4357	.4370	.4382	.4394	.4406	.4418	.4429	.4441
1.6	.4452	.4463	.4474	.4484	.4495	.4505	.4515	.4525	.4535	.4545
1.7	.4554	.4564	.4573	.4582	.4591	.4599	.4608	.4616	.4625	.4633
1.8	.4641	.4649	.4656	.4664	.4671	.4678	.4686	.4693	.4699	.4706
1.9	.4713	.4719	.4726	.4732	.4738	.4744	.4750	.4756	.4761	.4767
2.0	.4772	.4778	.4783	.4788	.4793	.4798	.4803	.4808	.4812	.4817
2.1	.4821	.4826	.4830	.4834	.4838	.4842	.4846	.4850	.4854	.4857
2.2	.4861	.4864	.4868	.4871	.4875	.4878	.4881	.4884	.4887	.4890
2.3	.4893	.4896	.4898	.4901	.4904	.4906	.4909	.4911	.4913	.4916
2.4	.4918	.4920	.4922	.4925	.4927	.4929	.4931	.4932	.4934	.4936
2.5	.4938	.4940	.4941	.4943	.4945	.4946	.4948	.4949	.4951	.4952
2.6	.4953	.4955	.4956	.4957	.4959	.4960	.4961	.4962	.4963	.4964
2.7	.4965	.4966	.4967	.4968	.4969	.4970	.4971	.4972	.4973	.4974
2.8	.4974	.4975	.4976	.4977	.4977	.4978	.4979	.4979	.4980	.4981
2.9	.4981	.4982	.4982	.4983	.4984	.4984	.4985	.4985	.4986	.4986
3.0	.4987	.4987	.4987	.4988	.4988	.4989	.4989	.4989	.4990	.4990
3.1	.4990	.4491	.4991	.4991	.4992	.4992	.4992	.4992	.4993	.4993
3.2	.4993	.4993	.4994	.4994	.4994	.4994	.4994	.4995	.4995	.4995
3.3	.4995	.4995	.4995	.4996	.4996	.4996	.4996	.4996	.4996	.4997
3.4	.4997	.4997	.4997	.4997	.4997	.4997	.4997	.4997	.4997	.4998
3.5	.4998	.4998	.4998	.4998	.4998	.4998	.4998	.4998	.4998	.4998
3.6	.4998	.4998	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999
3.7	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999
3.8	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999	.4999
3.9	.5000	.5000	.5000	.5000	.5000	.5000	.5000	.5000	.5000	.5000