

Register Number:

DATE:

**ST. JOSEPH’S COLLEGE (AUTONOMOUS), BANGALORE-27**

**UG –VI SEMESTER**

**SEMESTER EXAMINATION: APRIL 2022**

(Examination conducted in July-August 2022)

 **BC IFA 6319: Advanced Financial Management - II**

**TIME: 21/2 Hour MAX. MARKS: 70 Marks**

**This paper contains \_\_\_\_\_ printed pages and four parts**

**SECTION A**

**Answer any FIVE of the following questions. Each question carries two marks. (5x2=10)**

1. Which of the following describes the financial instrument of ‘Ijara’?
	1. A joint venture
	2. A form of credit sale
	3. A lease agreement
	4. An Islamic bond
2. The current spot exchange rate between USD and INR is 77.4325/$1. The US annual interest rate is 3.75% pa and the Indian annual interest rate is 6.75% pa. What should be the forward rate for USD/INR the end of year-1?
3. Examples of political risk does not include;
	1. Invasion by powerful neighbours
	2. Restricted access to local borrowings.
	3. Potentially increased exposure to foreign currency risk.
	4. Restricted access to local borrowings.
4. Indicate, whether the following statements concerning currency risk are true or false.
	1. An interest rate collar is where options are used to set both a maximum and a minimum range for the interest paid or earned.
	2. An interest rate floor can be used to hedge an expected increase in interest rates.
5. Which of the following statement are correct with regard to business valuation;
	1. Market based models are difficult to apply because of the problem of finding similar companies to provide a basis for comparison.
	2. The market understands the business properly and estimates the expected returns.
	3. A major advantage with the asset valuation model is that it takes account of the true value of intangibles.
	4. Valuing start-up businesses presents a different challenge from valuing an existing business
6. Match the following and choose the correct option given below;
	1. Free trade area
	2. Customs Union
	3. Multi-lateral agreement
	4. Single Market
7. ECOWAS
8. AFTA
9. NAFTA
10. MERCOSUR

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 1 | 2 | 3 | 4 |
| Option-1 | a | b | c | d |
| Option-2 | d | a | b | c |
| Option-3 | b | d | c | a |
| Option-4 | c | a | b | d |

**SECTION B**

**Answer any THREE of the following questions. Each question carries five marks. (3x5=15)**

1. What is trade barrier? Explain various types.
2. Briefly enumerate the role of credit rating agencies.
3. Tikto Co has an A credit rating. It has $30m of 2 year bonds in issue, which are trading at $90%, and $50m of 10 year bonds which are trading at $108%. The risk free rate is 2.5% and the corporation tax rate is 30%. The following is the credit spread given by S&P on corporate bonds.



Required to calculate the company's post-tax cost of debt capital.

1. Open Co is US based company. It is considering a project in Europe. The project will generate revenue of €250m with associated cost of €70m in Europe at the end of year. The company also pays royalty of $50m to its parent company. Assume tax is paid at 25% in US and 30% in Europe. The forecasted exchange rate for end of year 1 is $1.26/€1. Calculate total tax to be paid in US by the Open Co.

**SECTION C**

**Answer any TWO of the following questions. Each question carries ten marks. (2x15=30)**

1. Discuss various strategic issues for MNCs in International finance
2. Explain various internal and external methods of hedging transaction risk
3. Answer the following;
	1. Ck Co has just paid a dividend of 25 cents per share. The return on equities in this risk class is 20%. Calculate the value of the shares assuming:
		1. no growth in dividends
		2. constant growth of 5% pa **(5 Marks)**
	2. JK operates in the advertising industry. The directors are keen to value the company for the purposes of negotiating with a potential purchaser and plan to use the CIV method to value the intangible element. In the past year JK made an operating profit of $137.4 million on an asset base of $307 million. The company WACC is 4.5%. A suitable competitor for benchmarking has been identified as PK. PK made an operating profit of $315 million on assets employed in the business of $1,583 million. Corporation tax is 35%. Calculate the value of JK, including the CIV. **(10 Marks)**

**SECTION D**

**Answer the following compulsory question. The question carries Fifteen marks. (1x15=15)**

1. Answer the following:
	1. Ela Inc is a US based company. It is considering a 4 year project in India. The project will require an initial investment of Rs 420m and will have a residual value of Rs 120m. The project's pre-tax net inflows in Rs are expected to be:

Year 1 135m

Year 2 280m

Year 3 250m

Year 4 140m

The US parent company will charge the overseas project with $0.05m for management charges each year. The current spot rate is Rs 77.2450 / $1. US inflation is expected to be 4% per annum, and Indian inflation is expected to be 7% per annum. Indian tax rate is 25% and is paid immediately. Any losses are carried forward and netted off the first available profits for tax purposes. Tax allowable depreciation will be granted on a straight line basis, and any residual value will be taxable at 25%. US tax is 30% and is payable 1 year in arrears. Ela Co recently undertook a similar risk project in India and used 10% as a suitable discount rate. You Required: Calculate the NPV and suggest Ela co whether to accept the project or not. **(10 marks)**

* 1. Discuss various strategies available for parent company against remittance restrictions by the host country. **(5 marks)**

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