

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

**UG –VI SEMESTER**

**SEMESTER EXAMINATION: APRIL 2023**

**BCIFA 6419: ADVANCED FINANCIAL MANAGEMENT-II**

**(For current batch students only)**

**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. Indicate, whether the following statements concerning credit rating are true or **f**alse**.** 
   1. A credit rating indicates the rating agency’s opinion on the probability of default on the rated instrument.
   2. Credit spreads are generally calculated by the companies and banks, which aids the rating agencies for further processing their rating.
2. The current spot exchange rate between USD and GBP 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/GBP at the end of year-1?
3. What is Interest rate guarantee (IRG)?
4. Give the meaning of Translation risk.
5. List out any four methods of business valuation.
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)**

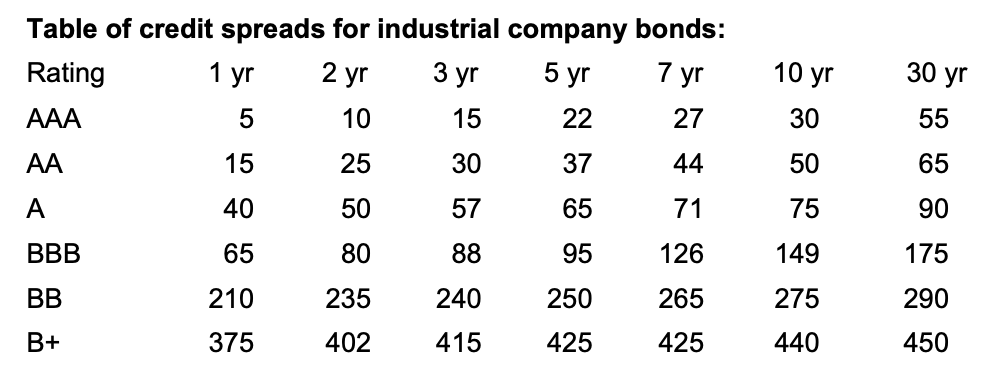
1. Write a short note on ‘The housing bubble’ and its impact on the international capital-flow
2. Explain various internal methods of hedging transaction risk
3. Better-Luck is a project carried out by an Australian subsidiary of a UK company which is expecting to receive the revenues of $200m in Sidney with estimated cost of $120m. $50m will be paid by the Australian subsidiary to UK as part of patent right which is held by the parent company. Tax to be paid at 25% in Australia and 33% in UK. Assuming the forecasted £/$ spot rate of $1.45/1£. Calculate the cashflow and tax to be paid by the parent company.
4. Describe the various components of the International Capital Markets.

**SECTION C**

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

1. Explain in detail various types of trade barriers, trade agreements and common markets. Discuss their impact on the international business.
2. Answer the following;
   1. IOC 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. KJ 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 KJ 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 KP. KP 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)**
3. Answer the following;
   1. Choke Co has an AA credit rating. It has $30m of 2 year bonds in issue, which are trading at $90%, and $50m of 8 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 Crisil.



You are required to calculate the company's post-tax cost of debt capital**. (7 Marks)**

* 1. Briefly enumerate the role of credit rating agencies.  **(8 Marks)**

**SECTION D**

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

1. Answer the following:
   1. MG Plus Plc is considering international expansion by taking over Port Company, a manufacturing company based in a foreign country (whose currency is AUD). According to the most recent accounts of Port Co, its revenue are given below

| Particulars | Year-1 | Year-2 | Year-3 |
| --- | --- | --- | --- |
| Revenue (AUD$ m) | 39.75 | 67.42 | 71.46 |

The variable costs and other expenses of company amounts to 40% of the revenue. Capital expenditure in the most recent year was AUD $33m and the depreciation is charged on a straight line method for three years. If MG Plus Plc takes over Port Co, it expects growth in revenue and expenditure to be 3% per annum, and capital expenditure and depreciation to stay constant. The tax rate in the foreign country is 30% per annum.

In any year, the foreign country allows only 50% of the profit earned to be remitted. The blocked funds is released at the end of the project. The current exchange rate is AUD $2 = $1 ($ is the home currency of MG Plus, the US Dollar), and this is expected to stay constant for the foreseeable future. The US tax rate is 30%.

Required: Evaluate the project if MG Plus Plc expects 12% return from this acquisition. **(10marks)**

* 1. What are exchange controls? Explain various strategies to deal with exchange controls. **(5 marks)**

\*\*\*\*\*\*\*\*\*\*\*\* End of Question Paper \*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*\*