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Question Paper	
Strategic Financial Management	Duration: 65
Details: Test – 3	Marks: 35

Instructions:

- All the questions are compulsory
- Properly mention test number and page number on your answer sheet, Try to upload sheets in arranged manner.
- In case of multiple choice questions, mention option number only Working notes are compulsory wherever required in support of your solution
- Do not copy any solution from any material. Attempt as much as you know to fairly judge your performance.

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Q-1 How pricing of the securitized instruments are done?

(4 Marks)

Q-2 Cinderella Mutual Fund, an approved mutual fund, sponsored open -ended equity oriented scheme "Rudolf Opportunity Fund". There are three plans under the scheme viz. 'A' - Dividend Re- investment plan, 'B' - Bonus plan and 'C' - Growth plan

At the time of initial public offer on 1-4-2009, Mr. Amit, Mr. Ashish and Mr. Arun, three investors invested Rs 2,00,000 each at face value of Rs 10 per unit and chosen plan 'B', 'C' and 'A' respectively.

The particulars of the fund over the period are as follows:

Date	Dividend %	Bonus Ratio	Net Asset Value per unit (Rs)		
			Plan A	Plan B	Plan C
31.07.2013	10	-	30.70	31.20	35.40
31.03.2014	35	5:4	58.42	31.05	58.25
30.10.2017	20	-	42.18	26.45	56.45
15.03.2018	12.50	-	46.45	27.72	62.78
31.03.2018	-	1:3	45.20	20.05	67.12
25.03.2019	20	1:4	48.10	19.95	71.42
31.07.2019	-	-	53.75	22.98	82.07

On 31st July, 2019, all the three investors redeemed all the balance units.

a. Consider the following:

- a. Long-term capital gain is exempt from Income-tax.
- b. Short-term capital gain is subject to 10% Income-tax.
- c. Security Transaction Tax is 0.2% only on sale/ redemption of units.
- d. Ignore Education Cess.

b. You are required:

- i. To calculate the Effective Yield per annum (annual rate of return) of each of the investors.
- ii. To suggest the name of investor with the highest Effective Yield per annum with the difference to his nearest investor.

(Show your calculations up to two decimal points)

(8 Marks)

Q-3 The following particulars relate to Gilt Fund Scheme:-

Particulars		Value
1.	Investment in Shares (at Cost)	₹ Cr
	• IT and ITES Companies	28
	• Infrastructure Companies	15
	• Aviation, Transport and Logistics	7
	• Automotive	32

	• Banking/Financial Services	8
2.	Cash and Other Assets in Hand (even throughout the fund period)	2
3.	Investment in Fixed Income Bearing Bonds	
	• Listed Bonds [10,000 10.50% Bonds of RS.10,000 each]	10
	• Unlisted Bonds	8
4.	Expenses payable as on closure date	3
5.	Market Expectation on Listed Bonds	8.40%
6.	No. of Units Outstanding	5.50

The particulars relating to sector index are as follows –

Sector	Index on the date of purchase	Index on the valuation date
IT and ITES	1750	2950
Infrastructure	1375	2475
Aviation, Transport & Logistics	1540	2570
Automotive	1760	2860
Banking/Financial	1600	2300

Required:-

- Net Asset Value of the Fund
- Net Asset Value per Unit
- If the period consideration is 2 Years, and the Fund has distributed Rs. 2 per unit per year as Cash
- Dividend, ascertain the Net Return (Annualized). Ascertain the Expense Ratio, if the Fund has incurred the following expenses –

Management and Advisory Fees	₹. 275 Lakhs
Administration Expenses (including Fund Manager Remuneration)	₹. 350 Lakhs
Publicity and Documentation	₹. 80 Lakhs
	₹.705 Lakhs

(Cash and other Assets existed from the beginning of the period at the same values)

(8 Marks)

Q-4 Ram holding shares of Reliance Industries Ltd. which is currently selling at Rs 1000. He is expecting that this price will further fall due to lower than expected level of profits to be announced after one month. As on following option contract are available in Reliance Share.

Strike Price (Rs)	Option	Premium (Rs)
1030	Call	40
1010	Call	35
1000	Call	30

990	Put	35
970	Put	20
950	Put	8
930	Put	5

Ram is interested in selling his stock holding as he cannot afford to lose more than 5% of its value.

Recommend a hedging strategy with option and show how his position will be protected

(4 Marks)

Q-5 Consider, Shyam holding 100 lots of Nifty Index, which are at the level of 5200 today. Shyam believes that the market as a whole might correct by around 5%. He decides to hedge using Nifty put options. These options have a delta of -0.5 and are available at Rs 200 an option. Each option trades in lot size of 100. Answer the following:

- What would be the impact on Nifty portfolios, if market falls by 5%?
- What would be the impact on put options of Nifty, if market falls as given above?
- How many put options of Nifty, Shyam would buy/sell for perfect hedging? Explain with workings.

(6 Marks)

Q-6 An oil company import crude oil at the rate of 100 tonnes per month. The price of crude oil in the month of January is 5,000 per barrel (733 barrels = 100 tonnes). It is forecast that in the

month of March the price per barrel of crude oil is likely to touch 6,000. The company wants to hedge against the rising price for its requirement in March. The futures contract price for March is now traded at 5,700 per barrel for 100 barrels.

Required:

1. Explain how the oil company can hedge its exposure against the rising price of crude, and state the number of contracts it should book for it.
2. What will be the effective price per barrel if in the month of March the price of crude oil is as under: Spot price – 5,500 per barrel; Futures – 5,800 per barrel?

(5 Marks)

