

Register Number:

DATE:

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

**BCOM-IFA –VI SEMESTER**

**SEMESTER EXAMINATION: APRIL 2024**

**(Examination conducted in May /June 2024)**

 **BCIFA 6323: ADVANCED FINANCIAL MANAGEMENT-II**

**TIME: 2Hour MAX. MARKS: 60 Marks**

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

**SECTION A**

**Answer any FIVE of the following questions. Each question carries three marks. (5x3=15)**

1. What is meant by Credit Spread? State the formulae to calculate cost of debt using credit spread.
2. What is meant by offshore centres? Give an example.
3. List out any three tools used for managing political risk.
4. Name any three methods of business valuations.
5. A UK company has a Greek subsidiary which is to purchase materials costing $100,000. The NPV of the overseas cash flows is being calculated in euros, but you have not been provided with the euro/dollar exchange rate. Instead you have the following information:$/£1 1.90 €/£1 1.45
Calculate the value of the purchase in euros.
6. Name any three foreign currency financing option for international projects.

**SECTION B**

**Answer any TWO of the following questions. Each question carries FIVE marks. (2x5=10)**

1. Explain various factors considered to assess the credit-worthiness of companies.
2. Discuss the need for business valuation.
3. Explain various internal methods of hedging transaction risk.

**SECTION C**

**Answer any TWO of the following questions. Each question carries ten marks. (2x10=20)**

1. Discuss the role of Islamic financing as the growing source of finance for organizations.
2. CM 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 CM made an operating profit of $137.4 million on an asset base of $307 million. The company WACC is 8.5%. A suitable competitor for benchmarking has been identified as R. R 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 CM, including the CIV.
3. M Co is a mineral extraction company based in the UK but with plants based in many countries worldwide. Following recent discovery of mineral reserves in Mahastan in Central Asia, M Co has acquired a licence to extract the minerals from the recently elected Mahastani government and plans to commence work on the plant there within the next six months. In the past ten years, Mahastan has seen significant unrest, following the deposing of the previous dictator in a military coup. However, the recent election of the newly fledged democracy is hoped to be the beginning of a new era of stability in the region. The currency of Mahastan is the puto. It is not traded internationally and the preferred currency for international business is the US dollar. There are currently no double tax treaties between Mahastan and the rest of the world, but the prime minister has signaled her intention to develop them within her first term of office to encourage inward investment.

**Required: Assess the exposure of M Co to political, economic, regulatory and fiscal risk and suggest how these risks may be mitigated.**

**SECTION D**

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

1. Almond Co is based in the eurozone region and was established ten years ago to manufacture standard brakes for professional road racers. When the company obtained a listing five years ago, the founder retained a small minority shareholding. The remaining shares are held by a number of institutional investors. The board recently decided to expand the range of models and to look for new growth opportunities abroad. Whilst manufacturing is currently restricted to the eurozone, the board of directors has identified Geneva as a key growth market and is considering a potential investment project to manufacture and sell a new model there. This would involve establishing a subsidiary in Geneva.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Pre-tax contribution (CHF m) before depreciation | 419.4 | 500.2 | 671.3 | 961.2 |
| Fixed costs (CHF m)  | 270 | 291.6 | 314.9 | 340.1 |

 The currency in Geneva is the Swiss Franc(CHF) and the current exchange rate is CHF 0.973 per euro The annual rate of inflation in Geneva is expected to remain at 10% throughout the four-year duration of the project while in euro zone it is 8% . The finance director estimates the project’s pre-tax contribution and fixed costs as follows:

The project will require an immediate investment of CHF 75m in land and buildings and CHF 700m in plant and machinery. Tax allowable depreciation is available on plant and machinery on a straight-line basis at an annual rate of 25% on cost. Almond Co’s finance director believes the plant and machinery will have a zero residual value at the end of the four years. The land and buildings will be disposed of at the end of the project and their tax exempt value is expected to increase at an annual rate of 30% throughout the four-year life of the investment.

The project will also require an immediate investment in working capital of CHF 25m. The annual working capital requirement is expected to increase in line with inflation in Geneva and will be released back in full at the end of the project. Almond Co has a policy of extracting remittable cash flows as dividends at the earliest possible opportunity. Corporation tax in Geneva is payable annually at 25% and companies are allowed to carry losses forward to be offset against future trading profits. Almond Co pays corporation tax in its home country at an annual rate of 20%. Taxes are payable in both countries in the year the liability is incurred. A bi-lateral tax treaty exists between the two countries, which permits the offset of overseas tax against any domestic tax liability incurred on overseas earnings.

The board proposes financing the project with a mix of equity and debt in such a way that the existing capital structure remains unchanged. For the purposes of this project, the chief executive believes Almond Co’s weighted average cost of capital should be adjusted to include a country risk premium as Geneva is a developing economy and appears to be economically less stable than the eurozone countries. A decision is made after consulting a country risk index, which compares the standard deviation of market returns in various countries to use a discount rate of 16% to appraise this investment project.

**Evaluate the suitability of the investment proposal in Geneva and state the assumptions if any for the purpose of calculations.**

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