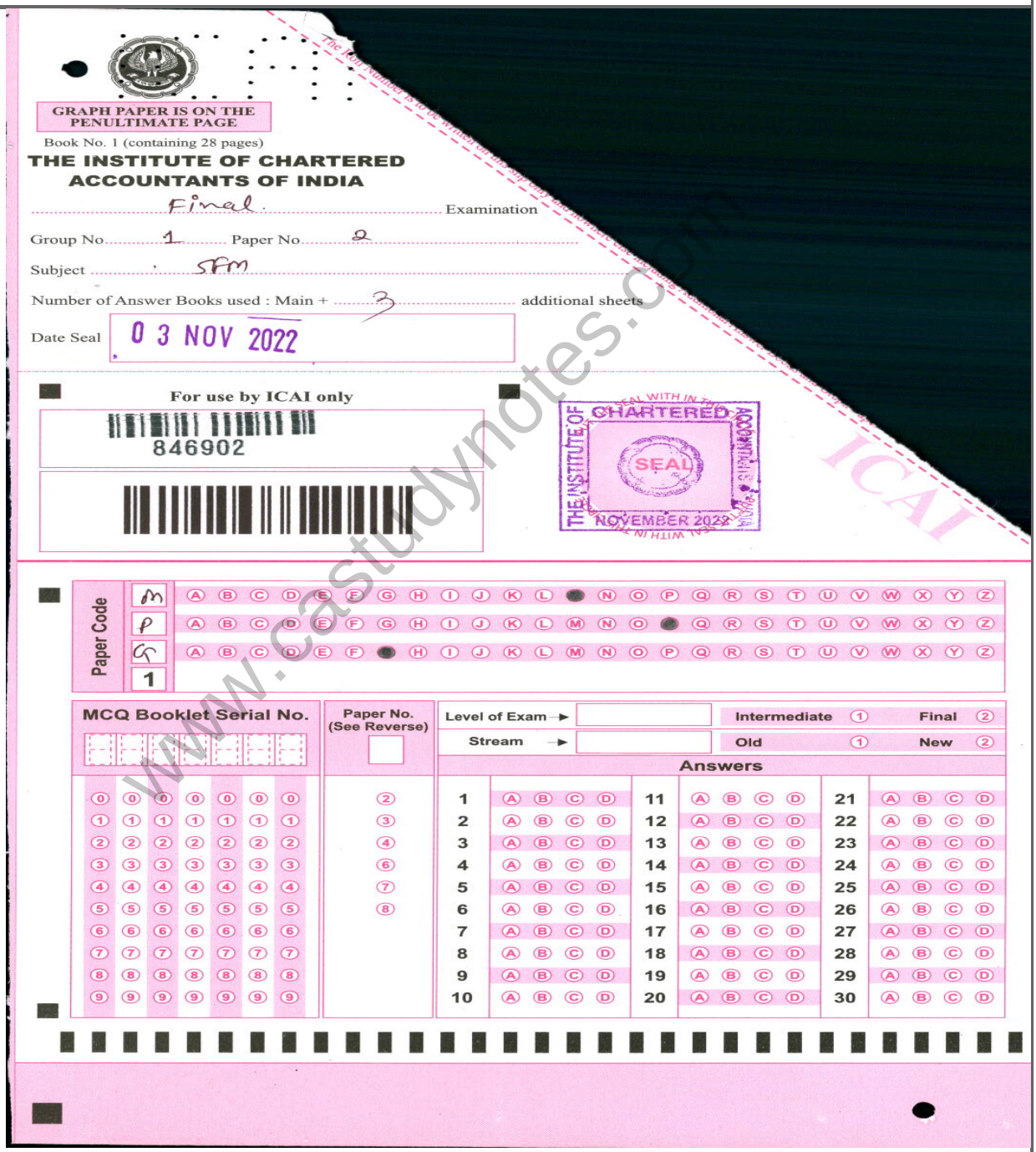
The Institute of Chartered Accountants of India

Code: FN2SM846902 **Total Marks:** 100
Subject : 02 Strategic Financial Management **Marks Obtained :** 58



GRAPH PAPER IS ON THE PENULTIMATE PAGE

Book No. 1 (containing 28 pages)

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

Final Examination

Group No. 1 Paper No. 2

Subject SFM

Number of Answer Books used : Main + 3 additional sheets

Date Seal 03 NOV 2022

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846902

THE INSTITUTE OF CHARTERED ACCOUNTANTS SEAL NOVEMBER 2022

Paper Code: M P 1

MCQ Booklet Serial No.

Paper No. (See Reverse): 2

Level of Exam → Intermediate (1) Final (2)

Stream → Old (1) New (2)

Answers

1	B	11	B	21	B
2	B	12	B	22	B
3	B	13	B	23	B
4	B	14	B	24	B
5	B	15	B	25	B
6	B	16	B	26	B
7	B	17	B	27	B
8	B	18	B	28	B
9	B	19	B	29	B
10	B	20	B	30	B

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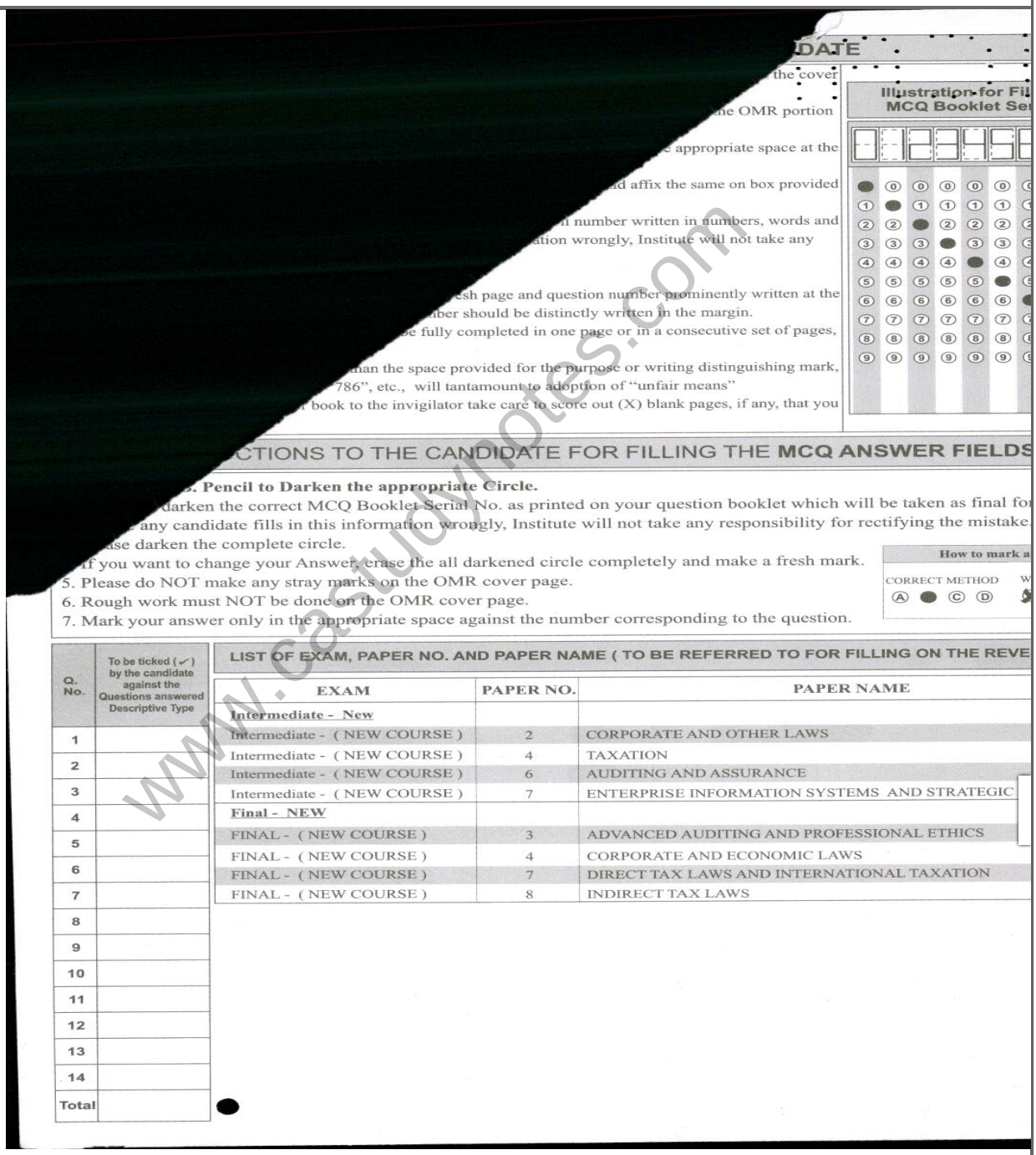

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Illustration for Fil... MCQ Booklet Se...

...CTIONS TO THE CANDIDATE FOR FILLING THE **MCQ ANSWER FIELDS**

...**Pencil to Darken the appropriate Circle.**
...darken the correct MCQ Booklet Serial No. as printed on your question booklet which will be taken as final fo...
...any candidate fills in this information wrongly, Institute will not take any responsibility for rectifying the mistake.
...ase darken the complete circle.
...If you want to change your Answer, erase the all darkened circle completely and make a fresh mark.
5. Please do NOT make any stray marks on the OMR cover page.
6. Rough work must NOT be done on the OMR cover page.
7. Mark your answer only in the appropriate space against the number corresponding to the question.

How to mark a...
CORRECT METHOD W...
Ⓐ ● Ⓒ Ⓓ

Q. No.	To be ticked (✓) by the candidate against the Questions answered Descriptive Type
1	
2	
3	
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11	
12	
13	
14	
Total	

LIST OF EXAM, PAPER NO. AND PAPER NAME (TO BE REFERRED TO FOR FILLING ON THE REVE...

EXAM	PAPER NO.	PAPER NAME
Intermediate - New		
Intermediate - (NEW COURSE)	2	CORPORATE AND OTHER LAWS
Intermediate - (NEW COURSE)	4	TAXATION
Intermediate - (NEW COURSE)	6	AUDITING AND ASSURANCE
Intermediate - (NEW COURSE)	7	ENTERPRISE INFORMATION SYSTEMS AND STRATEGIC
Final - NEW		
FINAL - (NEW COURSE)	3	ADVANCED AUDITING AND PROFESSIONAL ETHICS
FINAL - (NEW COURSE)	4	CORPORATE AND ECONOMIC LAWS
FINAL - (NEW COURSE)	7	DIRECT TAX LAWS AND INTERNATIONAL TAXATION
FINAL - (NEW COURSE)	8	INDIRECT TAX LAWS

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ICAI 03

Q-5(b)

(i) straight value bond

937.56 = ~~Current Market~~ Value of similar bond × P...

85 × 3.136 + 1000 × 0.671 ~~1000~~ × 0.671

(ii) Conversion value of bond

∴ Conversion ratio × market price per share

= 30 × 55

= ₹ 1650

5bStep1 2

(iii) Conversion premium

∴ Market price of Convertible bond − Conversion Value

∴ ₹ 1725 − ₹ 1650 (30 × 55)

= ₹ 75

Premium in Percentage = ₹ 75 / 1650 × 100

= 4.5454 %

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(iv) Percentage of down term risk

∴ market price of bond − straight value of bond / market straight value of bond

= (1725 − 937.56) / 1725 × 100

= 45.648%

5bStep2 6

(v) Conversion parity price

∴ market price of bond / conversion ratio

= ₹ 1725 / 30

5b 8

= ₹ 57.5

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[Q-5(a)]

(i) maximum No. of portfolio that can be construction will be 3 because, in each portfolio there should be any two company shares.

So, we can make three portfolios :

① first portfolio consisting of shares Co. A & Co B Ltd.

② second, consisting of shares of Co. B & C Ltd

③ third, consisting of shares of Co. & C Ltd.

→ Here, proportion will be 65% & 35%.

→ as question is silent about what proportion should go into which co. → It is assumed that 65% will go in Co. A Ltd & 35% in other cos. (B Ltd & C in case ① & case ③) above.

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→ In case 2, It is assumed that 65% goes into Co. B Ltd & 35% goes into Co. C Ltd.

→ All the cases are ~~independent~~ independent of each other.

⇒ Calculation of return

(1) Portfolio consisting of shares of A Ltd & B Ltd

Year	A Ltd	B Ltd
2018	2%	3%
2019	6%	8%
2020	13%	14%
2021	7%	9%

Here, we will take Average return of both the shares

Avg. return of A Ltd. = $\frac{2\% + 6\% + 13\% + 7\%}{4}$

= 7%

Avg. return of B Ltd = $\frac{3\% + 8\% + \square + 9\%}{4}$

= 8.5%

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07

Weightage in A Ltd = 0.65
(as specified in assumption)

Weightage in B = 0.35

Portfolio return = [7% × 0.65]
+
[8.5% × 0.35]
= 7.525%

(2) Consisting of B & C Ltd.

Avg. return of B Ltd = 8.5%

Avg. return of C Ltd = (5% + 7%)/4
= 9.5%

Weightage in B = 0.65
Weightage in C = 0.35

Portfolio return = [0.65 × 8.5%]
+
[9.5% × 0.35]
= 5.525 + 3.325
= 8.85%

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08

(3) consisting of A Ltd & C Ltd.

Avg. return of A Ltd = 7 %.

Avg. retur of C Ltd. = 9.5 %.

Weightage in A = 0.65
Weight in B = 0.35

Portfolio return = [7 % × 0.65]
+
[9.5 % × 0.35]

= 7.875 %.

⇒ Thus, it can be said from above that portfolio No. (2) provides Highest return.

⇒ ~~Further, if we invest 35% in A Ltd & 65% in C Ltd.~~

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09

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5aStep2 1

⇒ Further if we invest, 65% in C Ltd & 35% in B Ltd Portfolio will get highest return because, Avg. return of B & C Ltd are Higher than Avg. of A Ltd. Also, C Ltd has highest Avg. return & thus, more Proportion is to be invested in it.

∴ Avg. return of C Ltd = 9.5 %.

∴ Avg. return of B Ltd = 8.5 %.

Portfolio return = ([9.5] × 0.65) + (8.5% × 0.35)

= 9.15 %

⇒ Thus, we can get 9.15% return on an Average

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(99)

Co.	Investment	Beta	weightage	Avg. return
A	65000	0.45	0.65	7%
B	20,000	1.15	0.20	8.5%
C	1.5000	1.8	0.15	9.5%
	1,00,000			

⇒ Portfolio Beta =

$$\left[0.45 \times \frac{65000}{1,00,000} + 1.15 \times \frac{20,000}{1,00,000} + 1.8 \times \frac{150}{1,00,}\right.$$

5aStep3 1

= [0.7925]

⇒ Portfolio return

= [7% × 0.65] + [8.5% × 0.20] × [9.5%

= 4.55 + 1.7 + 1.425

= [7.675%]

⇒ Portfolio return will be [7.675%]

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Notes:

=> Avg. returns have been used for calculation of returns of Portfolio.

=> As in Part (i) question silent about proportion so, best alternative have been provided.

5a 6

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Q-5(C)

⇒ Bootstrupping means use of own money in startup by enterpreuer i.e. when ~~Start~~ start-up is financed by owner's own savings & assets.

⇒ Bootstrapping has three methods :
- Trade credit
- leasing
- Factoring. C There are also other wa

⇒ Bootstrapping ~~is~~ requires enough courage for enterpreuers for putting his / her money. Also big investors like to see enterpreuers who have invested their own efforts & money.

~~⇒ Trade credit is require when entity~~

⇒ ~~a~~ entity has sources like banks where it can raise money But it involves Interest cost.

→ Entity can raise funds via trade credit by asking suppliers for

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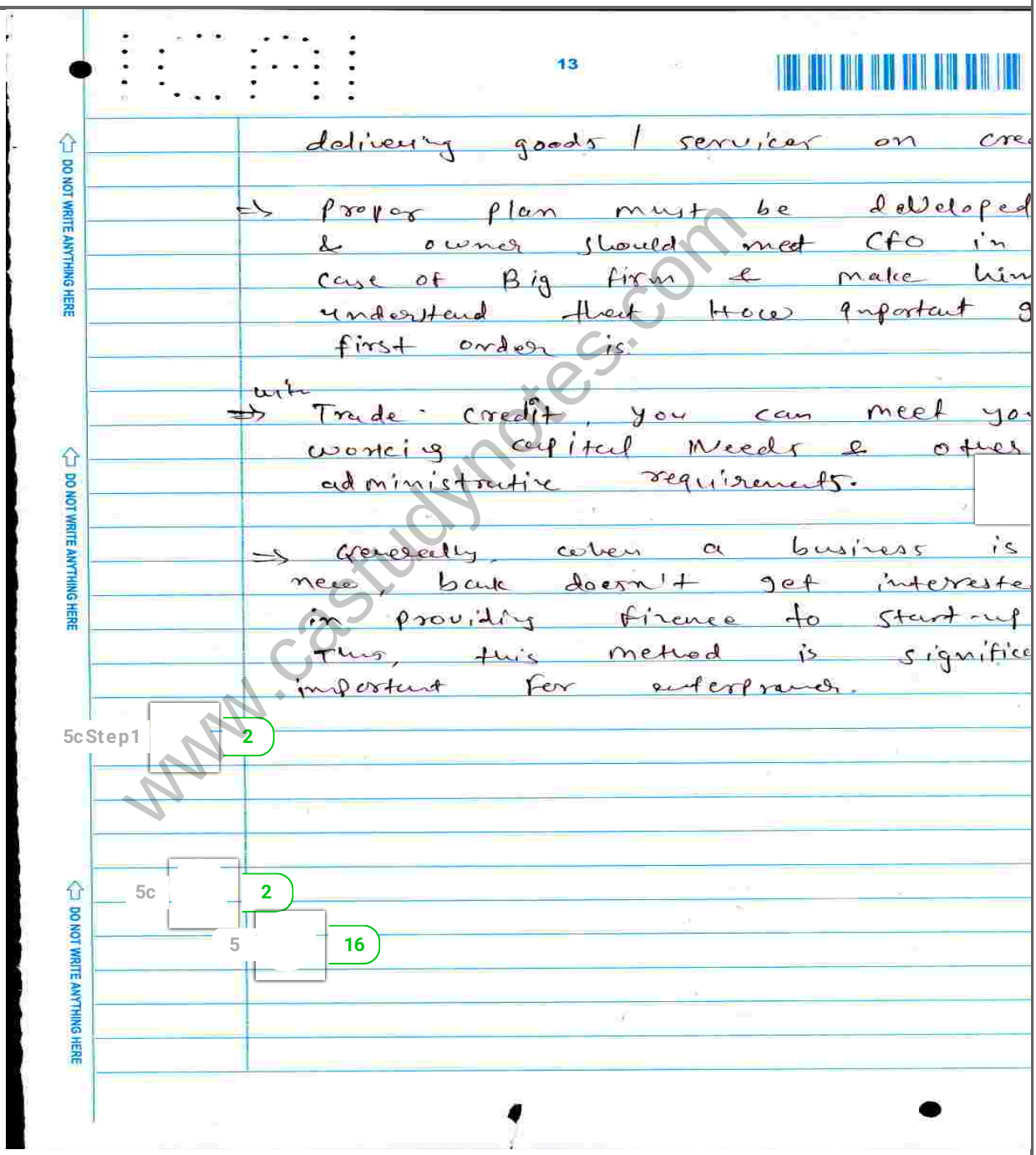

13

delivering goods / services on cre

=> Proper plan must be developed & owner should meet CFO in case of Big firm & make him understand that how important g first order is.

=> with Trade credit, you can meet yo working capital needs & othes administrative requirements.

=> Generally, when a business is new, bank doesn't get interested in providing finance to start-up Thus, this method is significa important for entrepreneurs.

5c Step 1 2

5c 2

5 16

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Q - 1(a)

(i)

(a) No. of equity shares to be issue

ratio = one share for every two share

: 1 : 2

No. of share = 1,80,000 × 1/2

= 90,000 shares

(b) EPS after acquisition

∴ Total earnings after acquisition (Post

Total No. of shares after acqu

∴ 15,00,000 + 3,60,000 / 6,00,000 + 90,000

∴ ₹ 3.13 Per share

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(c) equivalent Eps of Beta Ltd

∴ Eps after merger × 1/2

∴ 3.13 × 0.5

∴ ₹ 1.565 / share

1aStep1 5 Expected mps if PE = 12 times

P/E ratio = mps / Eps

12 = mps / 3.13

mps = ₹ 37.56

(e) market Value of merged firm

∴ mps × Total No. of shares after M

= 37.56 × 6,90,000

= ₹ 2,59,16,400

DO NOT WRITE ANYTHING HERE

16

(ii) Shareholder holding 100 shares

Market Value of 100 shares before merger [200 × 14]	1400
Market Value after merger [100 × 0.5 × 37.56]	1878
Total Gain to shareholder	478

Gain per share in Beta Ltd : $\frac{478}{100 \text{ shares}}$

= [4.78]

1aStep2 2

=> Yes, it I would be shareholder of Beta Ltd holding 100 shares, I will sell my stake as there is Total gain of ₹ 478

1a 7

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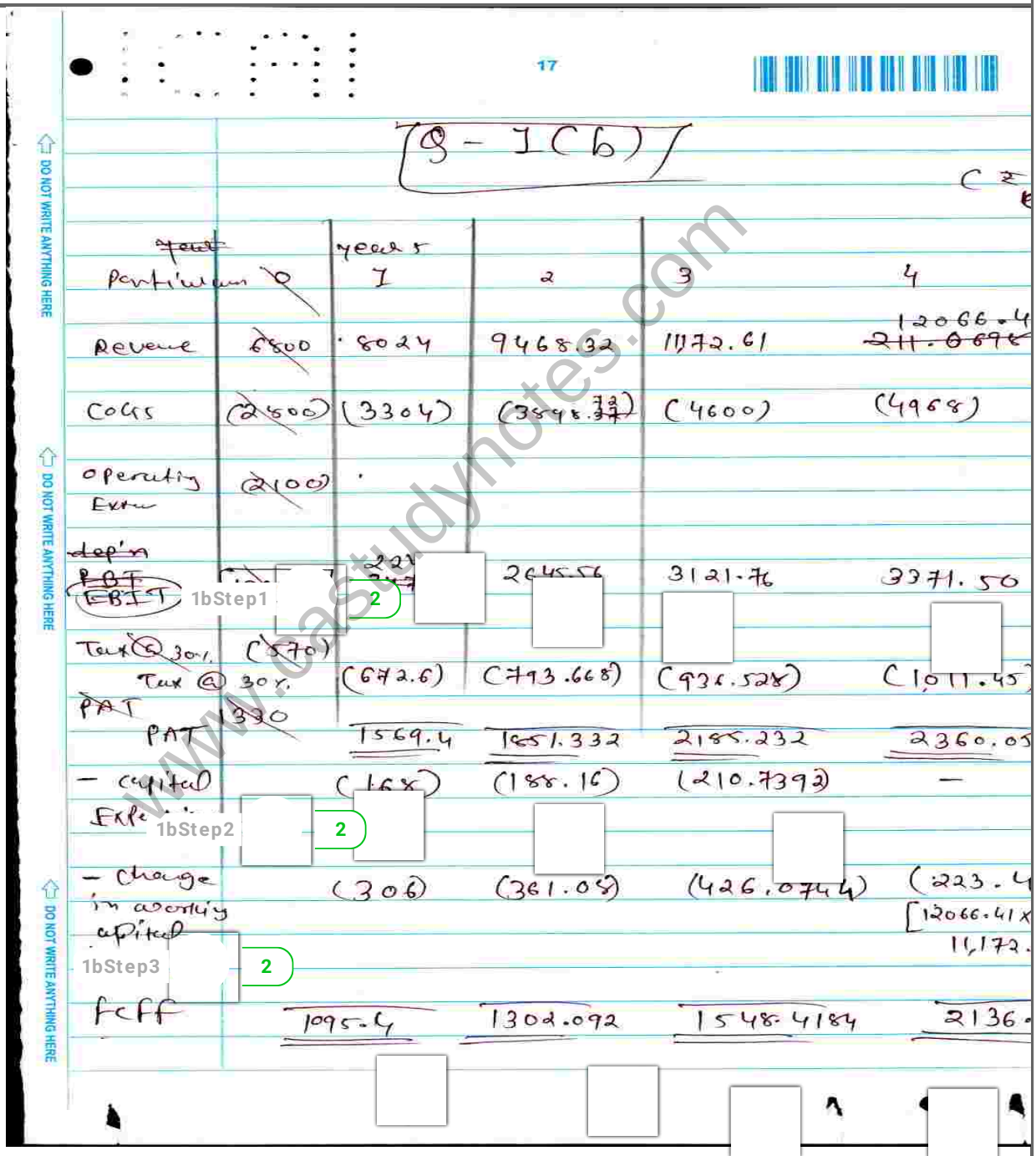

Q-1(b)

Particulars	0	Year 1	2	3	4
Revenue	6800	8024	9468.32	11172.61	12066.4 / 211.0698
Costs	(2500)	(3304)	(3898.73/37)	(4600)	(4968)
Operating Exp	(2100)				
dep'n					
PBT / EBIT			2645.56	3121.76	3371.50
Tax @ 30%	(570)				
Tax @ 30%		(672.6)	(793.668)	(936.528)	(1011.45)
PAT	330				
PAT		1569.4	1851.332	2185.232	2360.05
– capital Exp.		(168)	(188.16)	(210.7392)	–
– change in working capital		(306)	(361.08)	(426.0744)	(223.4 / [12066.41 × 11,172.
FCFF		1095.4	1302.092	1548.4184	2136

1bStep1 2
1bStep2 2
1bStep3 2

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WACC = 15%

~~Ten~~ PV of cash flow for 3 years

= [1095.4 × 0.870] + [1302.092 × 0.756] + [1548.4184 × 0.658]

= 2956.29

PV of Terminal cashflow = [2136.6 / 15%] × 0.658

= ~~3052.85 × 0.658~~

= 9372.552

1bStep4 0

Total ~~Cash Flow~~ ~~Value~~ value of merged entity = 9372.552 + 2956.29

= 12328.782

1bStep5 0

1 13 6

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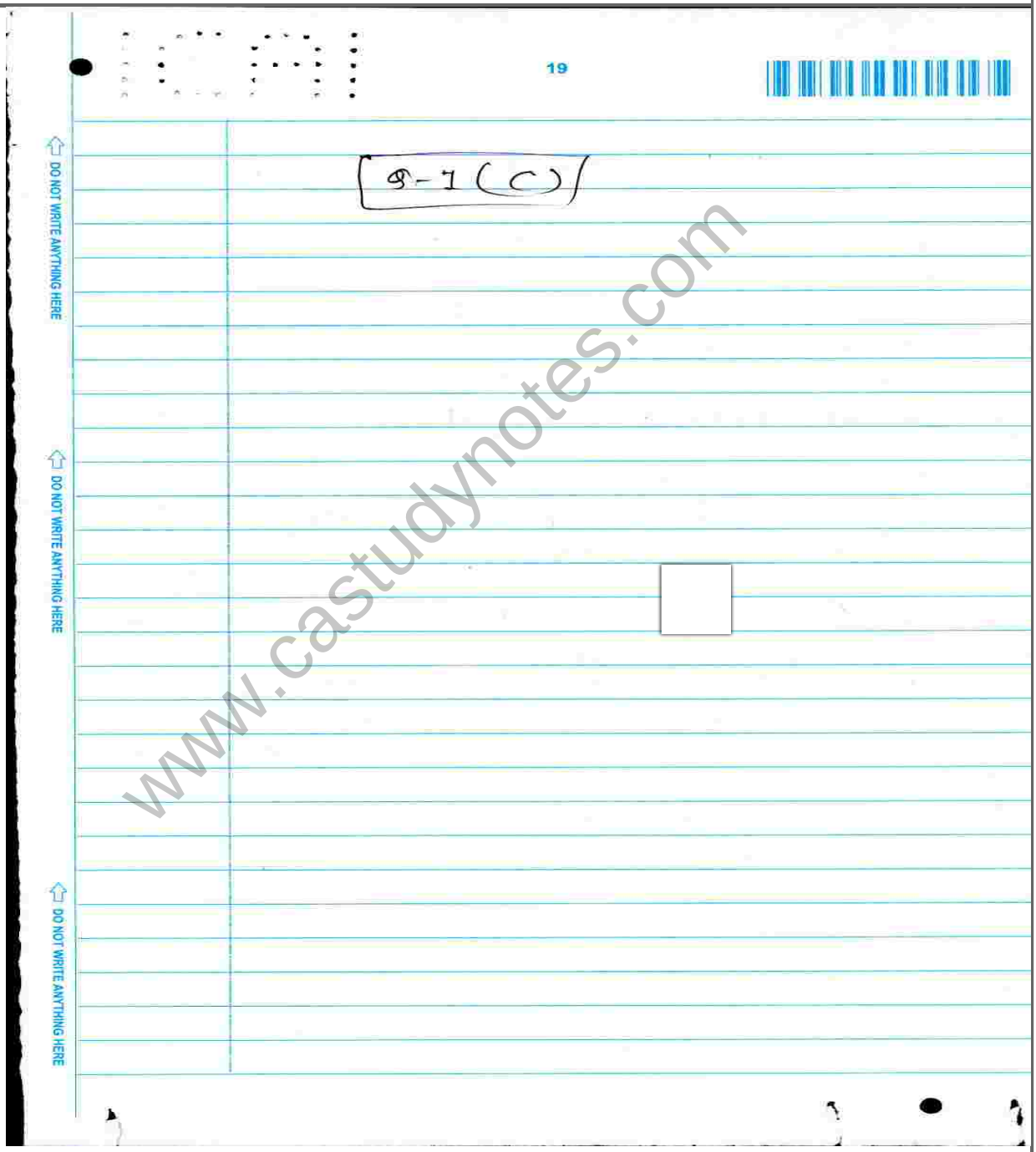

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Q-4(a)

σ^2_{mkt} = Var. of mkt = 9 %

R_f = 7 %

⇒ Sharpes ratio = $\frac{R_p - R_f}{\sigma_s}$

⇒ Treynor ratio = $\frac{R_p - R_f}{\beta}$

→ First we have to find out std. deviation of each mutual fund.

Year	MF - A	B	C	A - $\bar{A}$	B - $\bar{B}$	C - $\bar{C}$	(A-$\bar{A}$)²
2020	10 %	5 %	14 %	0	-2.67	0	0
2021	8 %	10 %	10 %	-2	2.33	-4	4
2022	12 %	8 %	18 %	2	0.33	4	4
	30 %	23 %	42				8
Avg. return =	10 %	7.67 %	14 %				

(B - $\bar{B}$)² | (C - $\bar{C}$)²

7.1289 | 0
5.4289 | 16
0.1089 | 16
12.6667 | 32

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S.d of A $= \sqrt{\frac{\Sigma(x-\bar{x})^2}{n}}$

$= \sqrt{\frac{8}{3}}$

$= 1.6329$

S.d. of B $= \sqrt{\frac{12.667}{3}}$

$= 2.0548$

S.d of C $= \sqrt{\frac{32}{3}}$

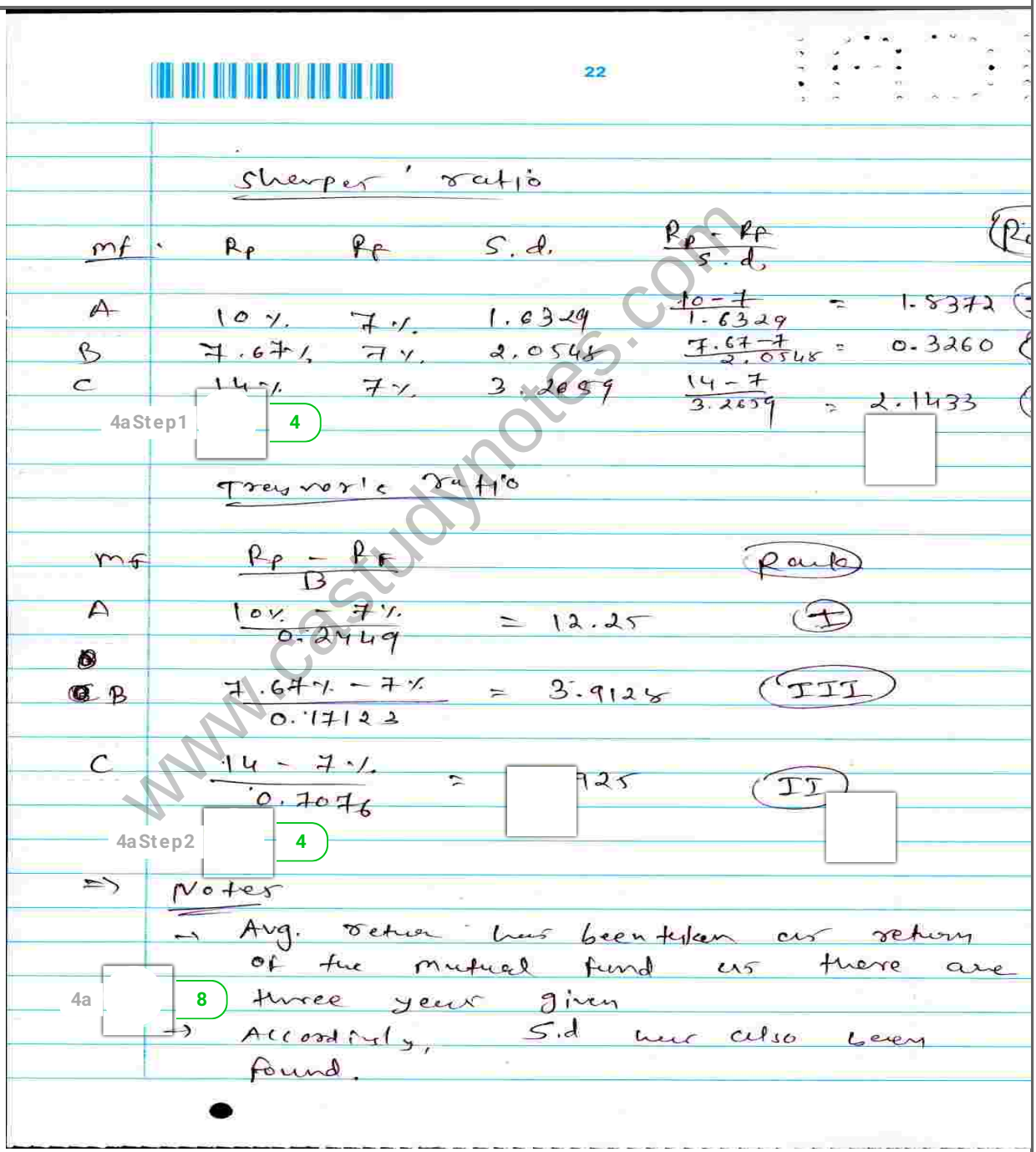
$= 3.2659$

$\beta = r \times \frac{\sigma_{sec.}}{\sigma_{mkt}}$

β of A $= 0.45 \times \frac{1.6329}{3} = 0.244$

β of B $= 0.25 \times \frac{2.0548}{3} = 0.17$

β of C $= 0.65 \times \frac{3.2659}{3} = 0.707$



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Sherper's ratio

mf	R_p	R_f	S.d.	$\frac{R_p - R_f}{S.d}$	
A	10%	7%	1.6329	$\frac{10-7}{1.6329}$	= 1.8372
B	7.67%	7%	2.0548	$\frac{7.67-7}{2.0548}$	= 0.3260
C	14%	7%	3.2659	$\frac{14-7}{3.2659}$	= 2.1433

4aStep1 4

Treynor's ratio

mf	$\frac{R_p - R_f}{\beta}$		
A	$\frac{10\% - 7\%}{0.2449}$	= 12.25	I
B	$\frac{7.67\% - 7\%}{0.17123}$	= 3.9128	III
C	$\frac{14 - 7\%}{0.7076}$	= 9.925	II

4aStep2 4

=> Notes

→ Avg. return has been taken as return of the mutual fund as there are three year given

4a 8 → Accordingly, S.d has also been found.

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Q-4(b)

(i) If equal amount in all Securities

Co.	Beta	weightage
S Ltd	1.6	0.2
K Ltd	1	0.2
P Ltd	−0.3	0.2
D Ltd	2	0.2
C Ltd	0.6	0.2

Weighted Beta = [1.6 × 0.2 + 1 × 0.2 + −0.3 × 0.2 + 2 × 0.2 + 0.6 × 0.2]

β = 0.98

(ii)

Co.	weightage	Beta
S	0.15	1.6
K	0.30	1
P	0.15	−0.3
D	0.30	2
C	0.10	0.6

Weighted Beta = [(1.6 × 0.15) + (0.30 × 1) + (0.15 × (−0.3)) + (0.30 + (0.10 × 0.6]

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4bStep1 2

$\beta = 1.155$

(iii) If, Return on market = 12%.

$\beta = 1$

If $\beta = 1$, that means fixed security moves in tandem with market i.e. return of the security & market will be same.

4bStep2 0

Thus, If $\beta = 1$

Portfolio's Expected return = 12% × 1

= 12%

(iv)

(1) Bull phase – Market return 10%.

In bull phase, we can invest in securities from positive higher beta to lower beta, i.e.

We will select D Ltd, then, S Ltd & then, K Ltd, we will try to give max. weightage to D & then S Ltd & then K Ltd.

25

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Co. Beta. Proportion

D Ltd 2 60% i.e 0.6
S Ltd 1.6 20% i.e 0.2
K Ltd. 1 20% i.e 0.2

Expected return will be

= [10 × 2 × 0.6) + (10 × 1.6 × 0.2) + [10 × 0.2 × 1]

= 12% + 3.2% + 2%

= 17.2%

4bStep3 2

(2) In Bear phase :- return

In bear phase, we will try to invest in securities with Negative Beta & then going to for lower positive Betas.

Thus, we will Select, P Ltd first then, C Ltd, ~~then~~ & then, K Ltd.

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Co.	Beta	weightage
P Ltd	-0.3	0.6
C Ltd	0.6	0.2
K Ltd	~~0.2~~ 1	0.2

Weighted Beta = [-0.3 × 0.6 + 0.6 × 0.2 + 1 × 0.2]

β = [0.14]

⇒ Thus, Portfolio return

4bStep4 2 = -5% × 0.14

= [-0.7%]

⇒ This will be minimum loss of -0.7%.

4b 6

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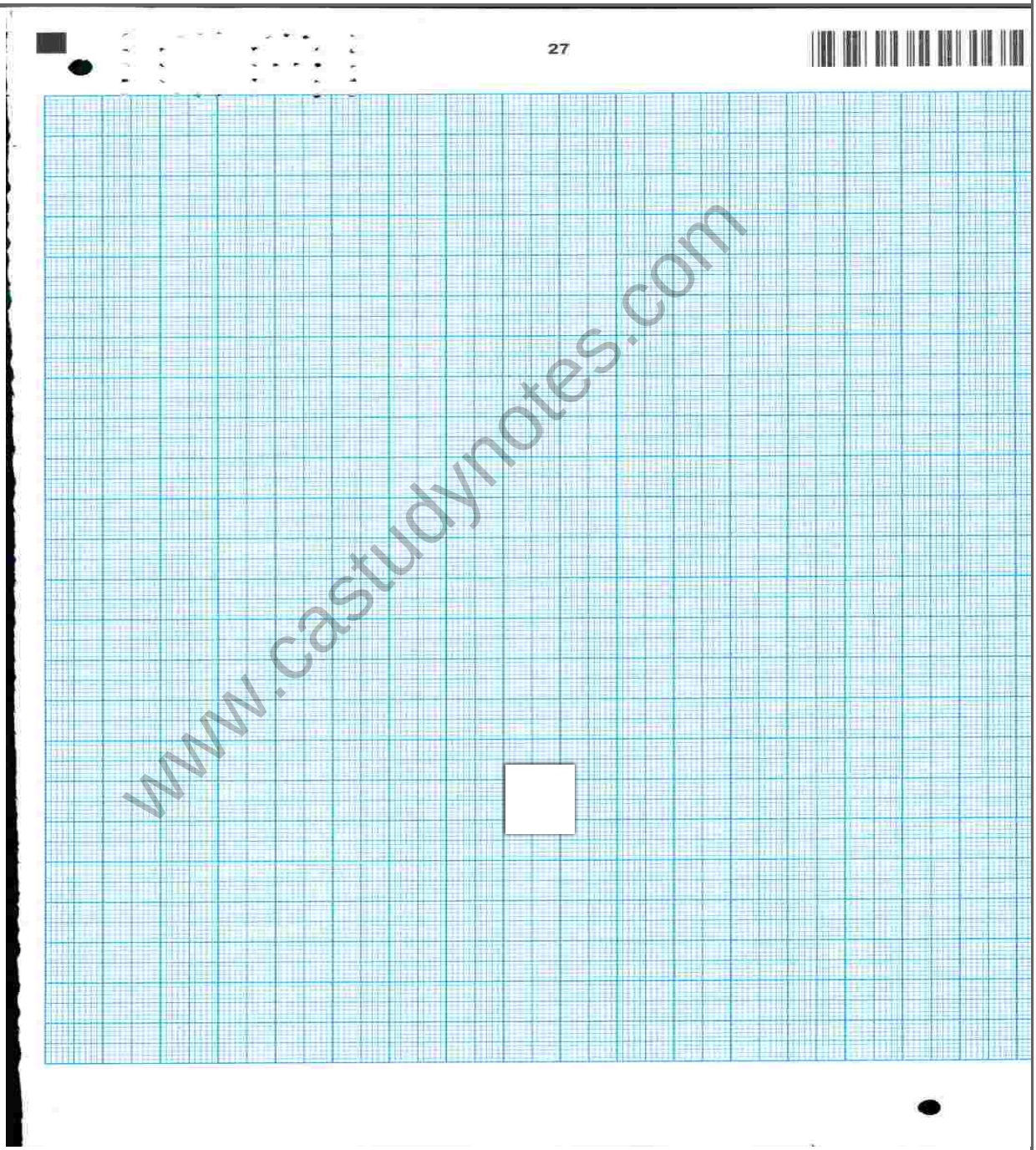

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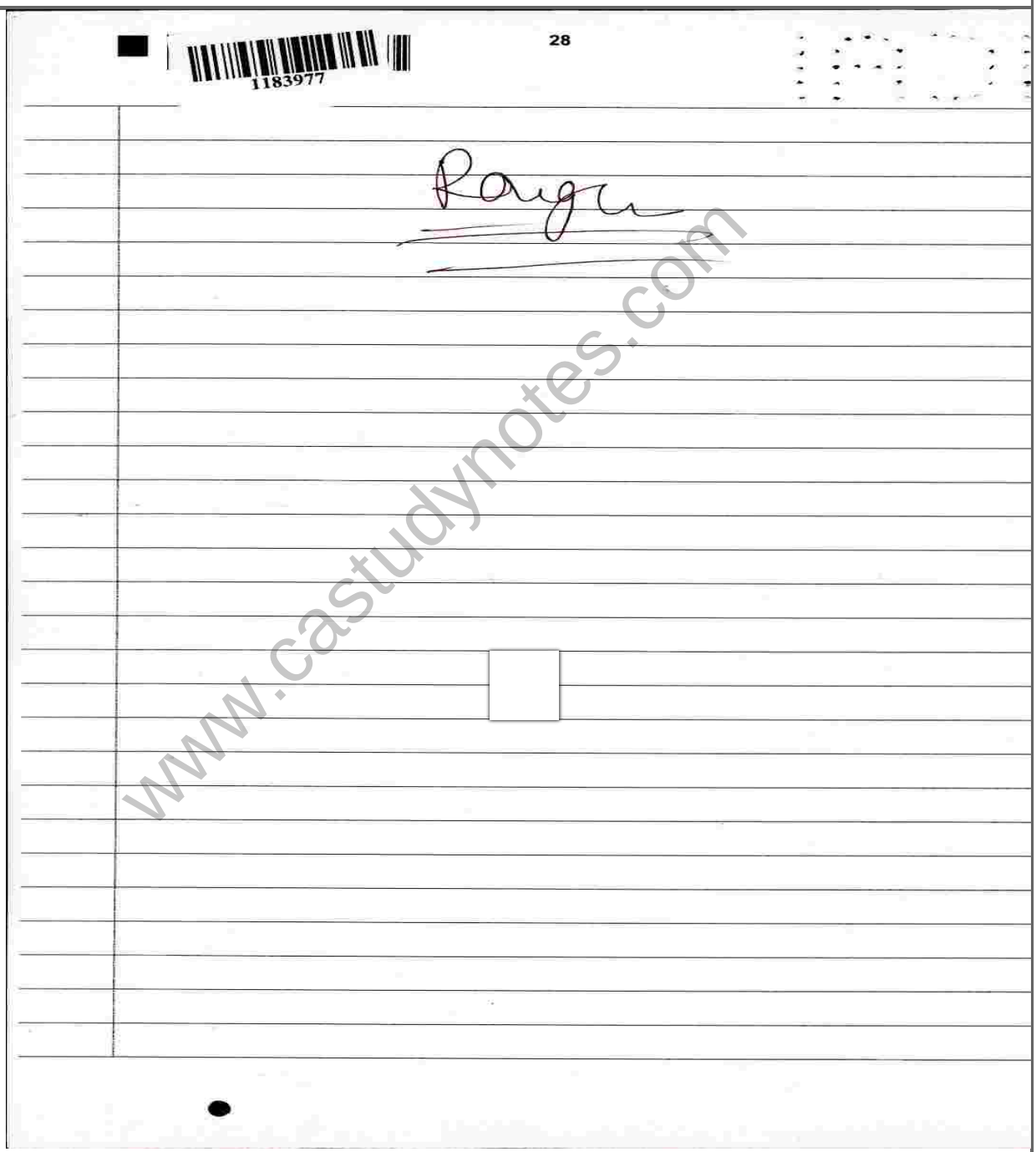

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Q-4(C)

⇒ feature of securitization :-

(1) Bundling & unbundling :-

→ In securitization, Pool of asset is created out of different financial assets & then securitized Papers are issued.

4cStep1 4

(2) Creation of financial instruments

→ In this process, securitized paper are issued & Pool of assets gets transferd to Special Purpose Vehicle

(3) Homogenity

→ In this, securitarian her homogenity of origination Collecting Principal & Interest cash flows.

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(4) Tool of risk management

→ This is the tool of risk management, where Co. ~~Free~~ i.e. originator frees up the money fi[illegible] & Investors get the recou[illegible] to instruments.

(5) ~~Homogeni~~ Trenching

→ different tranches can be created for different kinds of assets & locus.

(6) ~~Secured finance~~ secured finance

→ Investors have recourse to originator in case of default, if provision of this has been provided at the time of creation of special purpose vehicle.

4c 4

4 18

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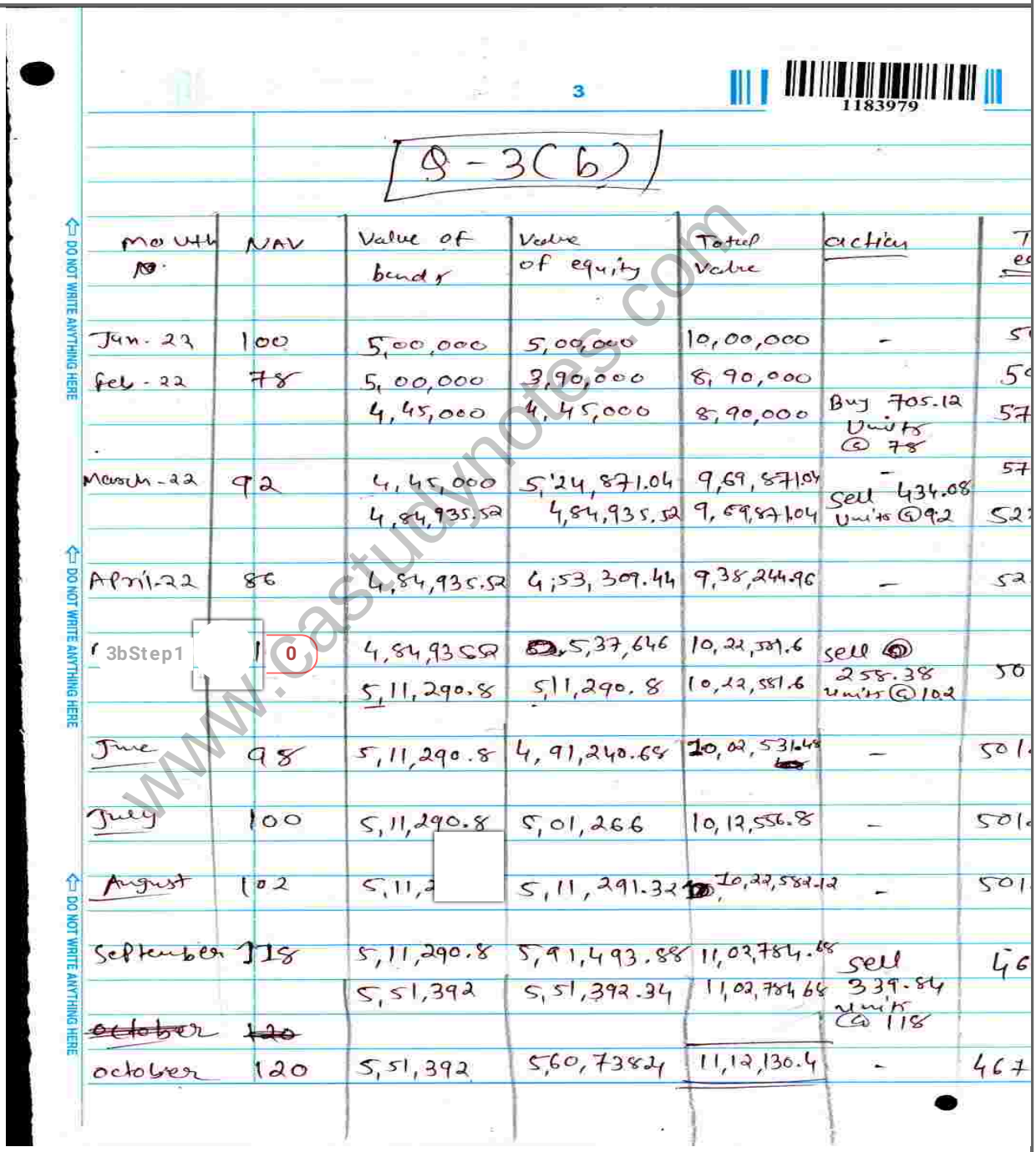

3

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Q-3(b)

Month	NAV	Value of bond	Value of equity	Total Value	action	T eq
Jan-22	100	5,00,000	5,00,000	10,00,000	-	5
Feb-22	78	5,00,000	3,90,000	8,90,000		5
		4,45,000	4,45,000	8,90,000	Buy 705.12 Units @ 78	57
March-22	92	4,45,000	5,24,871.04	9,69,871.04	-	57
		4,84,935.52	4,84,935.52	9,69,871.04	Sell 434.08 Units @ 92	52
April-22	86	4,84,935.52	4,53,309.44	9,38,244.96	-	52
		4,84,935.52	5,37,646	10,22,581.6	sell	
		5,11,290.8	5,11,290.8	10,22,581.6	258.38 units @ 102	50
June	98	5,11,290.8	4,91,240.68	10,02,531.48	-	50
July	100	5,11,290.8	5,01,266	10,12,556.8	-	50
August	102	5,11,2	5,11,291.32	10,22,582.12	-	50
September	118	5,11,290.8	5,91,493.88	11,02,784.68	sell	46
		5,51,392	5,51,392.34	11,02,784.68	339.84 units @ 118	
~~October~~	~~120~~					
October	120	5,51,392	5,60,7382	11,12,130.4	-	467

4

Total Value as per Constant ratio plan = ₹ 11,12,130.4

Buy & hold strategy = $\frac{10,00,000}{100} \times 120$

= 12,00,000

Here, Portfolio Value would have Higher in Buy & hold strategy.

3bStep2 0

⇒ Yes there are few errors in techniques developed by Sreenidhi :-

- Constant ratio plan Considers given equal weightage to both security & in rising market instead of buying, it shows selling signals and accordingly equity units are reedemed.

3bStep3 0

- whereas in Buy & hold, You will get full capital appreciat of fair value of shares.

- In Constant ratio plan, other factor

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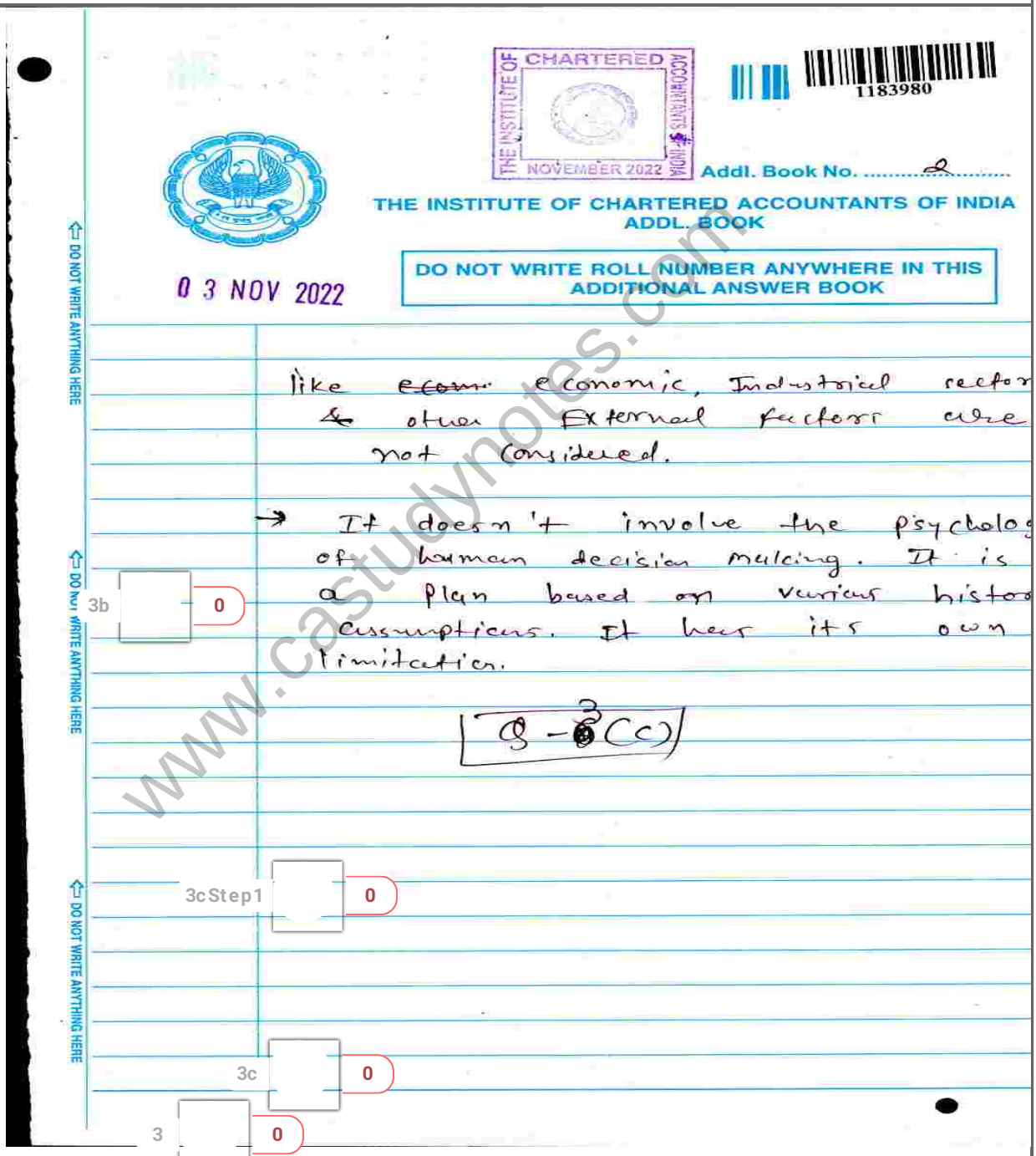
Subject : 02 Strategic Financial Management Marks Obtained : 58



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ADDL. BOOK

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03 NOV 2022

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like ~~Econ~~ economic, Industrial sector & other External factors are not considered.

→ It doesn't involve the psychology of human decision making. It is a plan based on various historical assumptions. It has its own limitation.

Q-3(c)

3b 0

3c Step 1 0

3c 0

3 0

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(S-3 CA)

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Q-6(a)

⇒ It is considered that Investors will In
(5) years.

(i) Cash flow ~~1,00,000~~ per bond wou
i.e ₹8 & yield required is
9%.

Thus, ~~₹ 8~~ ₹ 8 × PVIFA(9%, 5
+
₹ 100 × PVIF (9%,

= ₹ 8 × 3.8896 +
₹ 100 × 0.6499

= ₹ 96.1068 per bond calcul

6aStep1 4 If required yield is 7%

Price = ₹ 8 × PVIFA (7%, 5 yea
+
₹ 100 × PVIF (7%, 5 yea

= ₹ 104.100

(3) If Present rate is 8.25%.

Price = ₹ 8 × PVIFA (8.25%, 5 yrs)
+
₹ 100 × PVIF (8.25, 5 yrs)

= ₹ 99

(4) If rate 7.75%

Price = ₹ 8 × PVIFA (7.75%, 5 yrs)
+
₹ 100 × PVIF (7.75, 5 yrs)

= ₹ 101

(ii) We will use Interpolation

Cost = ₹ 100 + 1%.
= 101

Cash flows - ₹ 8 for 5 years & ₹ 100 at the end of 5th year

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effective Yield = $7.5 + \frac{102.02 - 101}{102.02 - 100} \times$

6aStep2 0

$= 7.5 + \frac{1.02}{2.02} \times 0.5$

$= 7.75\%$

(ii)

Cost = ₹ 100 + 2% = ₹ 102

Year	Cash flow	PV
1	₹8	
2	₹8	
3	₹8	
4	₹8	
5	108	

6a 4

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Subject : 02 Strategic Financial Management

Total Marks: 100
Marks Obtained : 58

2

Q-6(c)

→ Applications of VAR

① VAR is used to measure maximum possible loss

② VAR ~~is~~ ~~to~~ enables front office to set limit of max. loss in treasury department

6c Step1 4

③ VAR is used to determine limits in trading strategies.

④ VAR is used in measuring loss for different time periods

⑤ It is used as ~~stat~~ ~~stast~~ statistical tool in Banks & other organisations.

6c 4

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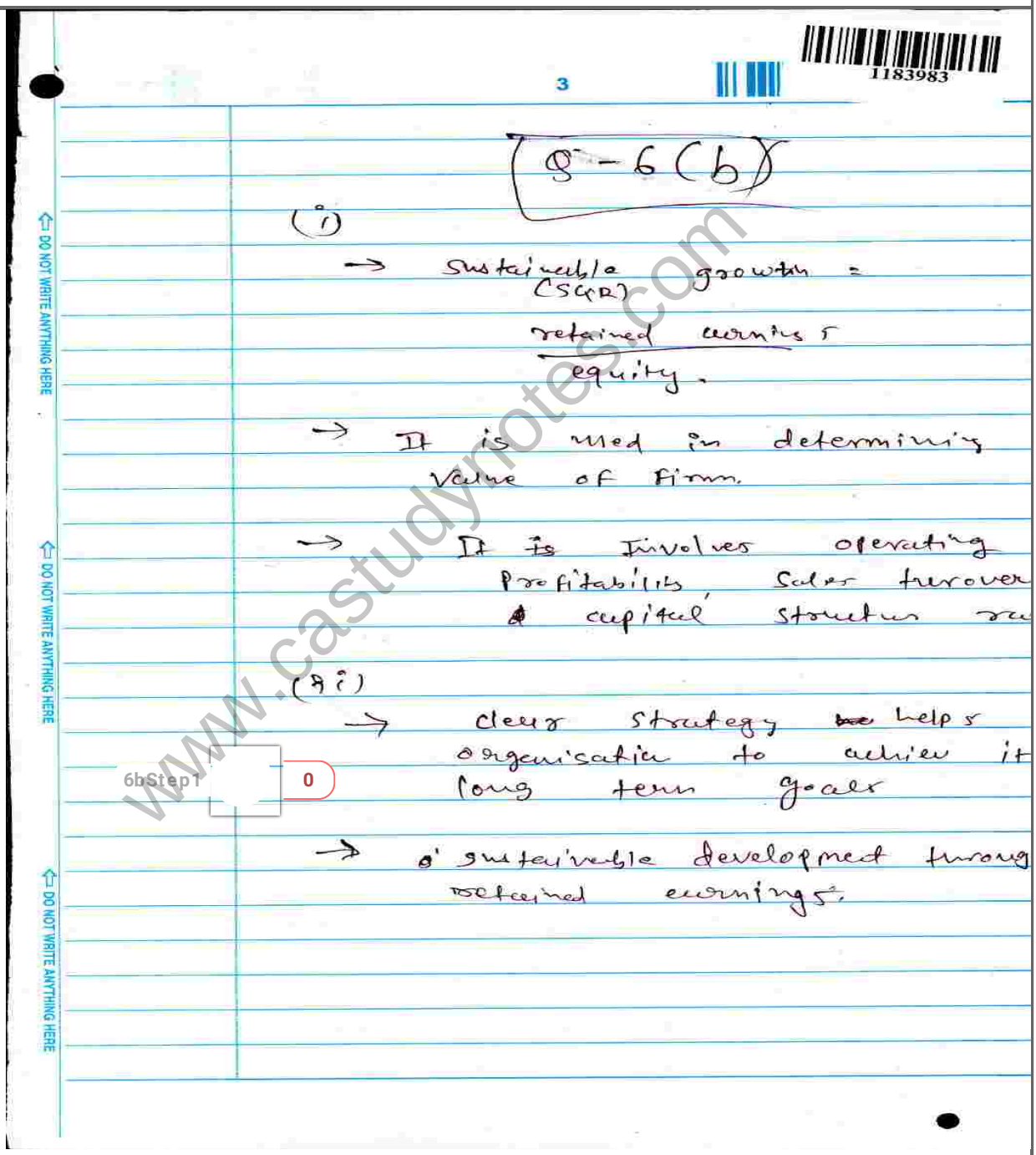

3

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Q-6(b)

(i)

→ Sustainable growth = (SGR)

retained earnings / equity.

→ It is used in determining value of Firm.

→ It involves operating Profitability, Sales turnover & capital structure ra

(ii)

→ Clear strategy helps organisation to achieve it long term goals

→ of sustainable development throug retained earnings.

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6bStep1 0

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Subject : 02 Strategic Financial Management Marks Obtained : 58

4

(iii)

SGR = Retain earning / equity

~~SGR~~ = 12 − 4.5 / 30 (₹ 250 − 220)

= 25.10

Sales can be increase to ₹ 125 Crores without going for additional borrowing since the SGR is 25%.

6bStep2 3

6b 3

6 11