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10MBAFM426/IB466/BF476

Fourth Semester MBA Degree Examination, June / July 2013
International Financial Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR questions, from Q.No.1 to Q.No.7.***
2. ***Q.No. 8 is compulsory.***

Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages.
2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

1 a. What is a devaluation of a currency? **(03 Marks)**
b. Explain the fundamental steps followed by multinational enterprise for effective cash management. **(07 Marks)**
c. Compare and contrast Foreign currency futures and forward contracts. **(10 Marks)**

2 a. What is netting? **(03 Marks)**
b. What are the operating policies employed by the firms to manage operating and transactions exposure? Explain. **(07 Marks)**
c. XYZ Ltd is considering a project in Luxemburg, which will involve an initial investment of 1,30,00,000. The project will have 5 years of life. Current spot exchange rate is Rs 58 per Euro. The risk free rate in Germany is 8% and the same in India is 12%, cash inflow from the project are as follows :

Year	1	2	3	4	5
Cash inflow	€ 30,00,000	€ 25,00,000	€ 35,00,000	€ 40,00,000	€ 60,00,000

Calculate the NPV of the project using foreign currency approach expressed in Rs. Required rate on this project is 14%. **(10 Marks)**

3 a. What is forfeiting? **(03 Marks)**
b. Which are the factors that are critical to the success of a project financing? Explain. **(07 Marks)**
c. Explain the salient features of various exchange rate regimes. **(10 Marks)**

4 a. What is SWIFT mechanism? **(03 Marks)**
b. Explain the various International Business Methods. **(07 Marks)**
c. On 1st March 2012, A Inc ; a US company bought certain products from Tapland. The currency of Tapland is Tapa. The price agreed was Tapa 9,00,000 payable on 31st May 2012. The spot price on 1st March 2012 was 10 Tapa per US \$. The expected future spot rate was 8 Tapa per US \$ and the 3 months forward rate is 9 Tapa per US \$. The US and Tapland annual interest rate are 12% and 8% respectively. The tax rate for both countries is 40%. A inc, is considering three alternatives to deal with the risk of exchange rate fluctuations.
i) To enter the forward market to buy Tapa 9,00,000 at 3 months forward rate.
ii) To borrow appropriate amount in \$ to buy Tapa at current spot rate and to invest the purchased for 3 months.
iii) To wait until May 31st and buy Tapas at whatever spot prevailing at that time.
Which alternative the A inc should follow in order to minimize its cost of future payment of Tapas? **(10 Marks)**

5 a. What is the difference between American and European options? **(03 Marks)**

b. Euro loan Bank has a differential advantage in issuing variable rate loans, but wishes to avoid income tax associated with such loan. Currently bank has a portfolio € 2,50,00,000 loans with PLR + 150 bp, reset monthly , PLR is currently 4%. IB, an investment bank has arranged for Euro loan to swap into a fixed interest payment of 6.5% on notional amount of loan for its variable interest income. If Euro loan agrees to this, what amount of interest is received and given in the first month? Further, assume that PLR increased by 200bP. **(07 Marks)**

c. What are the functions of Foreign exchange market? Also explain major participants of Foreign exchange market. **(10 Marks)**

6 a. What is Balance of payment? **(03 Marks)**

b. Explain the features of any four International Financial instruments. **(07 Marks)**

c. An importer customer requested on January 31, 2009 his banker to remit Singapore Dollar (SGD) 30,00,000 under an irrevocable LC. However due to bank strikes, the bank could effect the remittances only on February 6, 2009. The Interbank market rates were as follows:

	Jan 31	Feb 06
Mumbai US $ 1	Rs 47.85 / 47.90	Rs 47.91 / 47.95
London Pound 1	US $ 1.7840 / 1.7850	US $ 1.7765 / 1.7775
Pound 1	SGD 3.1575 / 3.1590	SGD 3.1380 / 3.1390

The bank wishes to retain an exchange margin of 0.125%. How much does the importer stand to gain or loose due to delay in remittance? **(10 Marks)**

7 a. What is Foreign Exchange Risk? **(03 Marks)**

b. Briefly explain the contents of different accounts in Banker of payment accounting. **(07 Marks)**

c. Suppose a dealer quotes 'All in cost' for a generic swap at 8% against six month LIBOR flat. If the notional principal amount of swap is Rs 500000.

i) Calculate semi annual fixed payment.

ii) Find the first floating rate payment for i) above if the six month period from the effective date of swap to the settlement date comprises 181 days and that the corresponding LIBOR was 6% on the effective date of swap.

iii) In ii) above, if settlement is on 'Net basis', how much the fixed rate payer would pay to the floating rate payer.

Generic swap is based on 30/360 days basis. **(10 Marks)**

8 An automobile company in Gujarat exports its goods to Singapore at a price of SG$500 per unit. The company also imports components from Italy and the cost of components for each unit is € 200. The company's CEO executed an agreement for the supply of 20000 units on January 1, 2010 and on the same date paid for the imported components. The company's variable cost of producing per unit is Rs 1250 and the allocable fixed costs of the company are Rs 1, 00,00,000. The exchange rates as on January 1, 2010 were as follows :

Spot : Rs. / SG $ 33.00 / 33.04 ; Rs. / € 56.49 / 56.56.

Mr. A, the treasury manager of the company is observing the movements of exchange rates on a day to day basis and has expected that the rupee would appreciate against SG $ and would depreciate against €. As per his estimates, the following are expected rates for 30th June 2010.

Spot : Rs / SG $ 32.15 / 32.21 ; Rs / € 57.27 / 57.32.

You are required to find out :

a. The change in profitability due to transaction exposure for the contract entered into.

b. How many units should the company increases its sales in order to maintain the current profit level for the proposed contract in the end of June 2010. **(20 Marks)**

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