

Jagan Institute of Management Studies
End-Term Examination, December, 2016 – January, 2017
Trimester V – PGDM 2015-17

International Financial Management
ET_PG_IFM_2612

Time: 3 Hrs.

M. Marks: 70

INSTRUCTIONS: Attempt any FIVE questions including Q7 which is compulsory.

Q 1 A Multinational Consumer Electronic goods manufacturing company in Amsterdam, proposes to invest its surplus funds of €10 million for three months. The Vice-President (Finance) has collected the following information from his banker to invest in currencies including that of home currency to earn more interest income. The company does not want to expose the investment to exchange risk for that the company will take cover in the forward market.

Spot	US\$/€	1.4701/05
	€/£	1.3455/57
	\$/HK\$	0.1282/84
3 months forward	US\$/€	1.4705/07
	€/£	1.3416/18
	\$/HK\$	0.1285/87
3 months interest rates (p.a.)		
	US \$:	4.50% – 4.75%
	HK\$:	3.50% – 3.75%
	Euro :	4.60% – 4.85%
	£ :	5.50% – 5.75%

You are required to determine the currency in which the company should invest to have more returns.

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Q 2 The following are the quotes available at the market

Spot	\$ / Euro	1.1496/98
Three months forward		16/12
Three months interest rates	(per annum)	
	\$	1.60% – 2.00%
	Euro	2.80% – 3.00%

You are required to

- a) Verify whether there is any scope for covered interest arbitrage.

- b) Calculate the amount to be borrowed in order to make an arbitrage profit of \$500, if there is scope for arbitrage. 13

Q 3 Gemini jewellers imports rough diamonds from Belgium and exports polished diamonds to Japan. The company has a payable of Euro 1,00,000 and a receivable of ¥15 million three months hence. The following exchange rates are available in the market

	Rs/Euro	Rs/¥	
Spot	52.05/10	0.4155/0.4175	
Three month forward	51.95/98	0.4140/0.4165	
The current interest rates (per annum) are as under			
Maturity	Rupee (%)	Euro (%)	¥ (%)
3 months	7.00 / 8.00	2.8 / 3.0	0.1 / 0.2

The company is considering covering the exposures either through the forward market or money market.

You are required to advise the company as to which alternative should be better for covering both the payable and receivables. 13

Q 4 A foreign institutional investor (FII) proposes to invest \$10 million in an Indian security with a beta of 1.10 and standard deviation of returns 7%. The holding period of investment will be one year. The current rupee-dollar exchange rate is Rs.45.45 / \$. The expected depreciation of rupee against dollar over the period is 2% with a standard deviation of 10%. The expected return from the market portfolio in India is 12% and the correlation between the return on security and the exchange rate is 0.50. The risk free rate of return in India is 5%.

You are required to calculate the expected return and risk for the FII. 13

Q 5 Jupiter Pension Fund, an offshore investment company floated by a multinational investment banker in U.S has invested in a few selected mutual funds in India for a period of one year.

Rs./\$ one year ago	Rs.48.48/50
Rs./\$ now	Rs.45.43/45
Unit value of investment	Rs.1,00,000
Cash flow at the end of six months	Rs.4,000
Cash flow at the end of one year	1,01,000
Reinvestment rate in India	8%
Inflation rate in India	4%
Inflation rate in U.S	2%

You are required to

- a) Compute nominal rate of return to the company.
- b) Compute the real rate of return to the company.
- c) Compute the real rate of return to an Indian Investor who invested in the same mutual fund. 13

Q 6 Discuss the challenges faced by CFOs in the era of globalized environment especially due to liberalization and dynamic foreign exchange markets.

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Q 7 Read the case and answer the questions given at the end.

Foreign Institutional Investors (FIIs) and foreign portfolio investors (FPIs) have sold equity shares worth over \$1 billion in the past five trading days after the government last week demonetised Rs. 500 and Rs. 1000 currency notes.

As per data from the National Securities Depository Ltd (NSDL), since November 9, FIIs and FPIs have been net sellers at \$ 958 million (Rs 6,432 crore) till Tuesday.

As per provisional stock exchange data, FIIs sold an additional shares worth of Rs 1,957 crore on Wednesday, taking their total net outflow of Rs 8,389 crore (\$ 1.25 billion) in the past five trading sessions.

Date	FIIs net outflow
09/11/2016	-2,095
10/11/2016	-733
11/11/2016	-1,493
15/11/2016	-2,354
16/11/2016	-1,957
Total	-8,632
<i>Net outflow in Rs crore</i>	
<i>Source: NSDL, BSE</i>	

The huge selling by overseas investors has dragged the benchmark S&P BSE Sensex and Nifty50 stock indices down by 4.7% and 5%, respectively during the same period.

An analysis of 156 companies from the BSE200 index, in which FIIs held more than 10% stake in the recent quarter, 103 stocks declined more than 5% each.

The total market capitalisation of 200 companies declined Rs. 482,512 crore to Rs. 8,474,833 crore on Wednesday. These 200 firms accounted 81% of total market capitalization of BSE listed companies. The consumption related sectors include real estate, non-banking finance companies (NBFCs) and microfinance institutions (MFIs) hit the most on concerns of demand slowdown in the near term.

Of these 103, five stocks – Shriram City Union Finance, Dewan Housing Finance (DHFL), Century Textiles, DLF and Housing Development & Infrastructure (HDIL) - have seen their market value

fallen by more than 20% each.

“Real estate demand has been lackluster over the last 3-4 years due to several factors. Demonetization is expected to further dampen demand and negatively impact prices in the sector, in part supported by the presence of the parallel economy,” according to analysts at Credit Analysis & Research.

In the long term, the demonetization along with implementation of Real Estate Regulation Act and single-window clearance system will be positive for the sector leading to higher transparency and investors’ confidence, added report.

Name	08/11/2016	16/11/2016	% chg
Dewan Housing	313.75	230.75	-26.45
DLF	143.65	108.60	-24.40
HDIL	74.45	58.10	-21.96
Shriram City	2422.15	1891.45	-21.91
Century Textiles	976.65	771.15	-21.04
Berger Paints	246.00	198.65	-19.25
Shriram Trans	1054.85	854.55	-18.99
L&T Fin.Holdings	103.75	84.30	-18.75
Page Industries	15945.35	12973.60	-18.64
M & M Fin. Serv.	345.90	281.85	-18.52

Questions:

- a) What recent developments have made FII selling stocks in India? Discuss.
- b) Discuss the difference between FDI and FII and its short term and long term impact on currency markets.

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