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SB-4110
M.B.A. (Full-Time) & (Evening) (Sem.-IV)
Examination
March/April – 2011
International Financial Management
(New Course)

Time : 3 Hours]

[Total Marks : 100

Instructions :

(1)

<p>नीचे दर्शाविएल निशानीवाणी विगतो उत्तरवही पर अवश्य कर्जवी. Fillup strictly the details of signs on your answer book.</p> <p>Name of the Examination : M.B.A. (Full-Time) & (Evening) (Sem.-4)</p> <p>Name of the Subject : International Financial Management (New)</p> <p>Subject Code No. : 4 1 1 0 Section No. (1, 2,.....): NIL</p>	<p>Seat No. : <input type="text"/><input type="text"/><input type="text"/><input type="text"/><input type="text"/><input type="text"/></p> <div style="border: 1px solid black; border-radius: 15px; padding: 10px; text-align: center; width: 100%;">Student's Signature</div>
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(2) All questions are compulsory.

(3) Marks are indicated on right hand side.

1 (a) Suppose a U.S. Parent owes \$5 million to its English affiliate. The timing of this payment can be changed by upto 90 days in either direction. Following are the effective annualized after-tax dollar borrowing and lending rates in U.K. and U.S. **10**

	Lending	Borrowing
U.S.	4.2%	5.0%
U.K.	4.0%	4.6%

- (i) If the U.S. Parent is borrowing funds while the English affiliate has excess funds, should the Parent speed up or slow down its payment to England ?
- (ii) What is the net effect of the optimal payment activities in terms of changing the units borrowing costs and/or interest income ?

- (b) 'Netting helps management in improving the overall efficiency of a MNC'. Justify. **10**
- 2** A new foreign investment requires \$100 million in funds. \$20 million will be provided by parent, \$25 million by retained earnings in subsidiary and \$55 million of issue of new debt by the subsidiary. The parent's cost of capital equals 12% and its after tax cost of debt is 3%. The firm's current debt ratio is considered to be optimal at 0.3. But based on the higher systematic risk of project the required rate of return is 14% on parent's new equity and 4% on new parent debt. There is an incremental tax of 6% on repatriated earnings. The nominal local rate of interest is 20%, there is an average devaluation of 5% and the tax rate is 40%. Find **16**
- (i) the cost of retained earnings
 - (ii) the expected after dollar cost of local currency debt
 - (iii) the project weighted cost of capital
 - (iv) Weighted cost of capital in absence of debt and retained earning.

OR

- 2** Riviera is the health-care product MNC; it has 144 affiliate world wide. There is great deal of intercompany transactions in form of sales, dividend, fees, royalty payments. Each affiliate makes its intercompany credit, payment, and hedging decision independently. What advantages Riviera derive from centralizing international cash management and foreign exchange management. **16**
- 3** Transfer pricing is an important tool in hands of MNC's for transfer of funds'. Discuss. **16**

OR

- 3** A firm located in Belgium can borrow dollars at 8% or Belgian Francs at 14% for one year. The Belgian Franc: Dollar rate is expected to move from current rate of BF 58/\$ to BF 61/\$ by year's end. **16**

- (i) If the Belgian Franc is expected to depreciate from at the end of the year, what is the expected before tax dollar cost of Belgian Franc loan ?
- (ii) If the Belgian Corporate tax is 42%, what is the expected after tax dollar cost of borrowing BF for one year ?
- (iii) At the end of the year what exchange rate will equal the after tax borrowing cost of dollars with the borrowing cost in BF ?

4 'Political risk can be ignored when investing in foreign country'. Comment. 16

OR

- 4 (a) An Indian affiliate has a tax rate of 50% and Sweden affiliate has tax rate of 40%. Sweden sales goods to India of 1 million and the current rate are \$0.50/Rs and \$0.20/SEK. The exchange rate changes to \$0.53/Rs and the Kronor remained unchanged at \$0.20/SEK. Find invoicing in which currency would result in tax savings. 10
- (b) The manager of Indian subsidiary is planning to decide whether to borrow, for one year dollars at 9% or Rupees at 13%. If current value is Rs. 40/\$, at what end of year exchange rate would be indifferent between borrowing dollar or rupees. 6

5 Explain Corporate strategy for Foreign Direct Investment. 16

OR

- 5 (a) The cash flow in year 2 of a new project in India is expected to be Rs. 3 million and the exchange rate is expected to remain at its current value \$0.030/Rs. India's inflation rate is expected to be 6% annually. The project cash flow is expected to rise 4% annually and the depreciation tax shield will remain constant. Based on purchase power parity the rupee would depreciate by 6% annually. 10

Calculate :

- (i) Forecasted exchange rate in year 2.
 - (ii) Forecasted cash flow in year 2.
 - (iii) Forecasted dollar value of cash flow in year 2.
- (b) Anna Corp. borrows ¥ 1 million payable in one year. **6**
- (i) It requires maintaining a compensating balance of 20% what is the effective cost of its loan in ¥ .
 - (ii) If it is offered choice of loan of 11% payable at maturity or 10% on discount basis. What loan should Anna Corp. select ?
- 6** Rose is located in Switzerland; it is selling \$1 million worth of goods monthly to its affiliate in Germany. The sales are based on unit transfer price of \$100. If transfer price is raised to \$130 and credit days are simultaneously increased from 30 to 60 days. **16**
- (i) What is the net impact on cash flow for next 90 days? Assume that the credit term apply to net sales already booked but uncollected.
 - (ii) Assume tax rate is 25% in Switzerland and 50% in Germany and revenues are taxed and cost deducted upon sales and purchase of goods, not collection. What is the impact on after-tax cost for the first 90 days.

OR

- 6** Write short notes on : (any two) **16**
- (i) International Taxation
 - (ii) Capital Budgeting
 - (iii) Leading and Lagging
 - (iv) Re-Invoicing Centers.