The project financing is for $ 8,500,000 and it is financed as follows.

Equity $ 3,000,000

Debt $ 5,500,000

The average rate of interest for a loan is 7%. The cost of equity has been estimated to be 15 %.

Tax concessions for zone

a) Corporate income tax exemption for 8 years

b) Reduction of corporate income tax by 50% for 5 years after the exemption period.

c) Permission to carry forward losses and to deduct them as expenses up to 5 years

The following data have been projected by the company as illustrated in the table given below.

Table (All Figures in $ 000)

	Year 1	Year 2	Y-3	Y-4	Y-5	Y-6	Y-7	Y-8
Sales Revenue	20000	20000	20000	20000	20000	20000	20000	20000
Cost of goods sold	17088	17110	17135	17160	17195	17235	17275	17318
Operating expenses	334	363	395	430	458	509	554	603
selling Expenses	396	396	396	396	396	396	396	396

Based on the data provided you are required to advise Panoroma Group about the financial viability of the proposal and suggest. Assume that the rupee dollar exchange rate will be as follows.

Rs. 35 = $ 1 (Year 1 to 4)

Rs. 37 = $ 1 (year 5 to 8)

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M.B.A. Semester - III

Paper - M.B.A./ 3104/F

International Financial Management

P. Pages : 4

Time : Three Hours Max. Marks : 70

Notes : 1. Attempt all questions.
2. figures to the right indicate marks.

SECTION - A

1. a) Discuss the organizational structure and functions of International monetary system **14**

OR

b) Discuss the broad features of the fixed parity system of exchange rate initiated by the I.M.F. during 1940's. What are the factors responsible for its collapse by early 1970' s ? **14**

SECTION - B

2. a) Explain the merits and demerits of centralised cash management for a multi National company. **7**

b) Assume that in India one year interest rate is 14%. Also assume that Indian rupee is expected to appreciate by 8% over the next year against the U.S. dollar. What is the expected effective yield on a one year deposit in India by a U.S. firm? **7**

OR

c) What are the main consideration in choosing an investment instrument in the international market while investing surplus fund. **7**

d) If the order cost is $ 2000 per order, holding cost is $ 500 per order size and if total demand is 300 tonnes. What will be the economic ordering quantity. **7**

3. a) Briefly enumerate distinguishing features which make evaluation of foreign projects different from domestic project. **7**

b) A Japanese automobile company has decided to manufacture 10,000 motor cars per year in India with an initial investment of Rs. 500 crores. The price is Rs 2 Lakhs and the variable cost Including also the import cost of the spares is Rs. 1.30 Lakhs. The risk free interest is 10%. The car is the lowest price car in the market and so the demand is expected to rise from 10,000 cars in the first year to 12000 cars in the second year and even more in the following years. On the other hand the rupee is expected to depreciate vis-a-vis yen and the variable cost is expected to rise fast from Rs. 1.30 lakhs to Rs. 1.80 Lakhs. Find out the NPV at **7**

i) Current level,

ii) When the demand level increase and

iii) When variable cost increases and give advise the company.

OR

c) What are the different forms of tax heaven countries? **7**

d) Project X has an NPV estimated by your employee to be $ 1.2. million. Your employee states in their report that they have not accounted risk; but that with such a large NPV, would likely to be positive. You have the final decision as to whether to accept or reject the project. What is your decision. **7**

SECTION – C

4. a) Explain in brief political risk. How can it be managed? **7**

b) Explain and find out the distinguishing factors between translation exposure and transaction exposure. **7**

OR

c) Explain the various forms of country Risk. **7**

d) How do you hedge real operating exposure? Explain. **7**

SECTION – D

5. The Panorama Group is a multinational organization situated in India. Each company of the chain is independent and is responsible for its own profits and investment projects.

The Thailand branch of this group is working in a chemical and textile sector.

This branch has decided to increase its capacity by putting up a new plant with a capacity of 2500 tons in the yarn division. This plant is planned to be located in Thailand in a zone which is eligible for tax concessions.

This plant would be named as Laxmi Yarns (Thailand) textiles Ltd. and it will cater to 100% exports markets especially to Europe and Japan.

The investment for the plant would be $ 4,500,000. The useful life of the plant is expected to be 8 years with a salvage value of $2,500,000. The company follows a straight line method of depreciation. The working capital requirement will be $ 4,000,000.