Strategic Financial management Answer key

1a)

First the contract will be cancelled at TT Selling Rate

USD/ Rupee Spot Selling Rate	₹ 49.4455	
Add: Premium for April	₹ 0.4200	
	₹ 49.8655	
Add: Exchange Margin @ 0.10%	₹ 0.04987	
	₹ 49.91537	Or 49.9154
USD/ Sw. Fcs One Month Buying Rate	Sw. Fcs. 1.5150	
Sw. Fcs. Spot Selling Rate (₹49.91537/1.5150)	₹ 32.9474	
Rounded Off	₹ 32.9475	

Bank buys Sw. Fcs. Under original contract	₹ 32.4000
Bank Sells under Cancellation	₹ 32.9475
Difference payable by customer	₹ 00.5475

Exchange difference of Sw. Fcs. 1,00,000 payable by customer ₹ 54,750

(Sw. Fcs. 1,00,000 x ₹ 0.5475)

1b)

It is given that the 5 year bonds issued has three years to maturity. Therefore, we assume that the bond was issued 2 years ago. We are given one year forward rates for the next three years. We are to find the intrinsic value or theoretical value of the bond.

Coupon rate = C = 9%; Face Value = Bn = 1000

Currently one year forward rate is = 12%

We refer one year forward rates for year 0 to 1 as f_1, one year forward rates for year 1 to 2 as f_2 one year forward rates for year 2 to 3 as f_3. Then the bond price is given by the formula:

$$B_0 = \frac{C}{(1+f_1)} + \frac{C}{(1+f_1)(1+f_2)} + \frac{C+Bn}{(1+f_1)(1+f_2)(1+f_3)}$$

After decrease of rates, f_1, f_2 and f_3 are as follows:

$f_1 = 11.25\%$, $f_2 = 10.75\%$ and $f_3 = 10.25\%$

Substituting we get the intrinsic value of the bond as:

$$B_0 = \frac{90}{(1+0.1125)} + \frac{90}{(1+0.1125)(1+0.1075)} + \frac{90+1000}{(1+0.1125)(1+0.1075)(1+0.1025)}$$

B_0 = ₹956.37

(ii) Since the bond trades at beta of 1.02 because of lower credit risk, it would trade at a higher price = 1.02 * ₹956.37 = ₹975.50

1c)

We need to first find portfolio beta:

Stock	No. of Shares	Price (₹)	Value of stock	Proportion	Beta
X	2000	300	600000	0.1783	0.42
Y	3000	416	1248000	0.3708	0.65
Z	4600	330	1518000	0.4509	1.72
			3366000	1.0000	

Note that the total value of portfolio does not match, indicating that the number of shares, price details are given to calculate the proportion of each stock in Deepak's portfolio.

Portfolio Beta = 0.1783 x 0.42 + 0.3708 x 0.65 x 0.4509 x 1.72 = 2.25

Deepak need to sell October futures contracts equivalent to beta times the value of portfolio to be hedged. In this case, the number of contracts would be:

$$= \frac{16,32,000 \times 2.25}{4062 \times 200} = 4.5$$

Deepak would sell at least 4 contracts for hedging.

1d)

Solution

ABC Bank pays:

LIBOR + 0.25% + 7.5%

ABC Bank Receives:

LIBOR

Thus the net cost is = LIBOR + 0.25% + 7.5% – LIBOR = 7.75%

All in cost funds = ₹200 million x 7.75% x 6/12 = ₹77,50,000

By issuing a hybrid and using both the five year and three

year swaps:

Year	ABC Bank Pays	ABC Bank Receives	
Years 1 to 3	On Hybrid - 7.5%	3 year swap – 8%	Net Cost 7%
	On 5 year swap – 7.5%	5 year swap - LIBOR	
	On 3 year swap – LIBOR		
Years 4 & 5	On Hybrid – LIBOR – 0.25%	5 year swap - LIBOR	Net Cost 7.25%
	On 5 year swap – 7.5%		

The arrangement in (b) is better than (a) for all five years.

2a)

(i)	Exchange Ratio	1:1
	New Shares to be issued	2,00,000
	Total shares of Rama Ltd. (4,00,000+2,00,000)	6,00,000
	Total earnings (₹ 10,00,000 + ₹ 7,00,000)	₹ 17,00,000
	New EPS (₹ 17,00,000/6,00,000)	₹ 2.83
(ii)	Existing EPS of Rama Ltd.	₹ 2.50
	Increase in EPS of Rama Ltd (₹ 2.83 – ₹ 2.50)	₹ 0.33
	Existing EPS of Krishna Ltd.	₹ 3.50
	Decrease in EPS of Krishna Ltd. (₹ 3.50 – ₹ 2.83)	₹ 0.67
(iii)	P/E ratio of new firm (expected to remain same)	14 times
	New market price (14 × ₹ 2.83)	₹ 39.62
	Total No. of Shares	6,00,000
	Total market Capitalization (6,00,000 × ₹ 39.62)	₹ 2,37,72,000
	Existing market capitalization (₹ 70,00,000 + ₹ 1,40,00,000)	₹ 2,10,00,000
	Total gain	₹ 27,72,000

(iv)

	Rama Ltd.	Krishna Ltd	Total
No. of shares after merger	4,00,000	2,00,000	6,00,000

Market price	₹ 39.62	₹ 39.62	₹ 39.62
Total Mkt. Values	₹ 1,58,48,000	₹ 79,24,000	₹ 2,37,72,000
Existing Mkt. values	₹ 1,40,00,000	₹ 70,00,000	₹ 2,10,00,000
Gain to share holders	₹ 18,48,000	₹ 9,24,000	₹ 27,72,000

or ₹ 27,72,000 ÷ 3 = ₹ 9,24,000 to Krishna Ltd. and ₹ 18,48,000 to Rama Ltd. (in 2: 1 ratio)

2b)

▶ Modified Duration $D^* = \left[\frac{D}{(1+i)}\right]$ and $\%B_0 = -D^* [\Delta (i) / 1 + i)]$

Therefore we can write $\%P = -D^* \times \Delta (i)$. Using this we write the following answers:
Percentage price change for this bond = –8.245(–0.002) = 1.65%
We calculate the actual price change using normal bond pricing formula:
First we find for yield of 7%

= C x PVIFA (k, n) + B_n x PVIF (k, n)
= 60 x PVIFA (7%, 12) + 1000 x PVIF (7%, n)
= ₹920.57

Now we find for yield of 6.8%

= C x PVIFA (k, n) + B_n x PVIF (k, n)
= 60 x PVIFA (6.8%, 12) + 1000 x PVIF (6.8%, n)
= ₹935.78 i.e. 1.65% rise in value from the original

Percentage price change for this bond = –8.245(–0.010) = 8.245%
We calculate the actual price change using normal bond pricing formula:
We find for yield of 6%
Since it matches coupon the bond will price at par. Thus the difference in bond prices would be:
(1000-920.57)/920.57 = 8.63% rise in value

3a)

a. Using the CAPM model, we know the cost of retained earnings (prior to undertaking the new project) for Infosys is:

$r_{re} = 0.05 + 1.3(0.08) = 0.154 = 15.4\%$

Given Infosys' capital structure, we know its "old" WACC is:

$WACC = 0.5(1-0.4)(0.1) + 0.5(0.154) = 0.107 = 10.7\%$

We know that the investors will be willing to keep their "money" with Infosys if the company is able to generate a return greater than 10.7%.

b. It is important to note that we cannot simply assume that the new project that Infosys is interested in, is also 2.59. This is because Infosys has different debt to equity ratio and tax rate than those three firms. Hence, we need to first adjust the average beta of the three firms to match the conditions of Infosys.

Step 1:

Infosys needs to take out the financing effect from the average beta of the three firms. We can use the following formula to take out the financing effect:

$$\beta_U = \frac{\beta_L}{1+(1-\tau)(D/E)}$$

$$= \frac{2.59}{1+(0.65)(1.5)} = 1.3114$$

Step 2:

Adjust the un-levered beta to match the financing and tax conditions of Infosys.

We can use the following formula to adjust the un-levered beta to match Infosys' conditions:

$$\beta_{L,Infosys} = \beta_U[1+(1-\tau)(D/E)]$$

$$= 1.3114[1+(1-0.4)(1)] = 2.098 \cong 2.1$$

c. When Infosys decides to invest in the new Internet market, it is going to affect the firm's weighted average beta, its cost of retained earnings and its WACC. Since Infosys is putting 25% of its resources into the new division, the company's new weighted average beta will be as follows:

$$\beta_{new} = 0.75(1.3) + 0.25(2.1) = 1.5$$

As a result, the company's cost of retained earnings will rise due to the increase in its beta:

$$r_{re}^{new} = 0.05 + 1.5(0.08) = 0.17 = 17\%$$

And the company's WACC will also jump due to an increase in its cost of retained earnings:

$$WACC_{new} = 0.5(1-0.4)(0.1) + 0.5(0.170) = 0.115 = 11.5\%$$

Originally, Infosys' investors were happy as long as Infosys generated a return of at least 10.7%. However, when Infosys begins to target the Internet market, its investors want the company to generate at least 11.5% in order to induce them to keep their "money" with the company.

d. As seen above, we know the Internet division of Infosys needs to generate the following return in order for Infosys to generate 11.5%:

$$0.75(0.107) + 0.25r_{internet} = 0.115 \Rightarrow r_{internet} = 0.139 = 13.9\%$$

3b)

(b) (i) The loan amount is repayable together with the interest at the rate of 16% on loan amount and is repayable in equal installments at the end of each year. The PVAF at the rate of 16% for 4 years is 2.798, the amount payable will be

$$\text{Annual Payment} = \frac{₹\ 5,00,000}{2.798} = ₹\ 1,78,699 \text{ (rounded)}$$

Schedule of Debt Repayment

End of Year	Total Principal ₹	Interest ₹	Principal ₹	Principal Amount Outstanding ₹
1	5,00,000	80,000	98,699	4,01,301
2	4,01,301	64,208	1,14,491	2,86,810
3	2,86,810	45,890	1,32,809	1,54,001
4	1,54,001	24,698*	1,54,001	------

* Balancing Figure

Tax Benefit on Interest and Depreciation

Year	*Interest*	*Depreciation*	*Total*	*Tax Benefit*
1	80,000	75,000	1,55,000	54,250
2	64,208	75,000	1,39,208	48,723
3	45,890	75,000	1,20,890	42,312
4	24,698	75,000	99,698	34,894

Present Value of Cash Flows under Borrow and Buying proposal

Year	Installment ₹	Salvage Value (₹)	Tax Benefit (₹)	Net Flow (₹)	PVF @ 10.4%	PV (₹)
1	1,78,699		54,250	1,24,449	0.906	1,12,751
2	1,78,699		48,723	1,29,976	0.820	1,06,580
3	1,78,699		42,312	1,36,387	0.743	1,01,336
4	1,78,699	(2,00,000)	34,894	-56,195	0.673	-37,819
					3.142	2,82,848

Present Value of Cash Flows under Leasing Option

₹ 1,00,000 (1- 0.35) x 3.142 = ₹ 2,04,230

Hence leasing should be preferred as cash flow is least in this option.

(ii) Analyzing financial viability from Lessor's point of view

(a) Determination of Cash Flow after Tax

	₹
Annual Rent	1,00,000
Less: Depreciation	75,000
EBT	25,000
Less: Tax @ 35%	8,750
Profit after Tax	16,250
Add: Depreciation	75,000
	91,250

(b) Computation of Net Present Value

	₹
Present Value of Cash inflow (₹ 91,250 x 2.914)	2,65,903
Add: PV of Salvage Value (₹ 2,00,000 x 0.592)	1,18,400
	3,84,303
Purchase Price	(5,00,000)
NPV	(1,15,697)

Thus proposal is not financially viable from lessor's point of view.

(iii) Break Even Lease Rent

	₹
Cost of Computer	5,00,000

Less: PV of Salvage Value (₹ 2,00,000 x 0.592)	1,18,400
	3,81,600
PVIAF (14%,4)	2.914
CFAT Desired	1,30,954
Less: Depreciation	75,000
EAT	55,954
Add: Taxes	30,129
EBT	86,083
Add: Depreciation	75,000
Lease Rental (Desired)	1,61,083

4a)

Amount invested by US investor = $1,000,000 --I

Equivalent amount in Yen = $1,000,000 x ¥100/$ = ¥100,000,000

Shares were bought for ¥20,000 a share

Number of share bought = ¥100,000,000 / ¥20,000 = 5000

Dividends received = 5000 x ¥100 = ¥500,000 --II

Shares were sold for ¥24900 a share.

Therefore share proceeds were = 5000 x ¥24,900 = ¥124,500,000 --III

Total inflow (II + III) = ¥124,500,000 + ¥500,000 = ¥125,000,000

Now the given rate is 1$ = ¥100

Since ¥ had appreciated in one year, to apply ¥ appreciation we need ¥ quotes.

Therefore, ¥1 = $ 1/100 = $0.01

Applying appreciation of 10% of yen, we get ¥1 = $0.011

Since we have a quantum in ¥, we need ¥ quote.

Therefore we get equivalent $ proceeds as: ¥125,000,000 x 0.011$/¥ = $1,375,000

Thus the overall $ return in one year (Using I & III) = $\frac{\$1,375,000 - \$1,000,000}{\$1,000,000} x100 = 37.5\%$

Verification:

Invested security was Yen. The % Yen return of security = $\frac{¥125,000,000 - ¥100,000,000}{¥100,000,000} x100 = 25\%$

Invested currency was Yen, which appreciated by 10%

Therefore foreign portfolio return in dollar terms to US investor:

= (1 + Invested Security Return) x (1 + Invested Currency Return) – 1

= (1 + Yen Security Return) x (1 + Yen Currency Return) – 1

= (1.25) x (1.1) – 1

= 37.5%

This matches with the above answer of 37.5%

4b)

a. We know that beta of Nifty, which is a broad based market index, is 1.0. Thus if market were to fall by 5%, Shyam would find his Nifty portfolio losing 5% of its value i.e. 5% of (100 x 5200) = ₹26,000

b. Put options of Nifty have a delta of -0.5. Using the definition of delta, we can say that for every change of +₹1 in the underlying, put options would change by -Re.0.5. Thus if Nifty falls by 5%, the put options would rise by 0.5 x 5% i.e. 2.5%. Thus Nifty options which are currently quoting at ₹200, would rise by 2.5% x 200 = ₹5.

c. To hedge Nifty portfolio Shyam would buy put options of Nifty. Since movement of Nifty and movement of put options are non-correlated, though by different extent, as explained by the delta, one has to buy put options against the held portfolio for hedging. Shyam would buy put options worth, $\left(\frac{\beta}{\delta}\right)$ times the value of portfolio for perfect hedging. Here $\beta = 1.0$, $\delta = -0.5$ and the value of the held portfolio = ₹5.2 lakhs. Thus Shyam would buy ₹10.4 lakhs worth put options for perfect hedging. Since each option quotes at ₹200, Shyam would buy 5200 puts or 52 lots.

Consider now that market falls by 10%.

Loss in Nifty portfolio = 1.0 x 5% x ₹5.2 lakhs = ₹26000

Gain from buying Nifty put options = (0.5 x 5%) x 5200 x ₹200 = ₹26000

[Note that as Nifty falls, put options which have negative delta would rise; but since we have bought the put options, there would be gains]

5a)

(i) Initial Investment

IRR = 16% (Given)

At IRR, NPV shall be zero, therefore

Initial Cost of Investment = PVAF (16%,5) x Cash Flow (Annual)

= 3.274 x ₹ 57,500

= ₹ 1,88,255

(ii) Net Present Value (NPV)

Let Cost of Capital be X, then $\frac{16 - X}{X} = 60\%$

$X = 10\%$

Thus NPV of the project

= Annual Cash Flow x PVAF (10%, 5) – Initial Investment

= ₹ 57,500 x 3.791 – ₹ 1,88,255

= ₹ 2,17,982.50 – ₹ 1,88,255 **=** ₹ 29,727.50

(iii) Annual Fixed Cost

Let change in the Fixed Cost which makes NPV zero is X. Then,

₹ 29,727.50 – 3.791X = 0

Thus X = ₹ 7,841.60

Let original Fixed Cost be Y then,

Y × 7.8416% = ₹ 7,841.60

Y = ₹ 1,00,000

Thus Fixed Cost is equal to ₹ 1,00,000

(iv) Estimated Annual Units of Sales

$$\text{Selling Price per unit} = \frac{₹\ 60}{100\% - 70\%} = ₹\ 200$$

$$\frac{\text{Annual Cash Flow + Fixed Cost}}{\text{P/V Ratio}} = \text{Sales Value}$$

$$\frac{₹57,500 + ₹1,00,000}{0.70} = ₹2,25,000$$

$$\text{Sales in Units} = \frac{₹2,25,000}{₹200} = 1,125 \text{ units}$$

(v) Break Even Units

$$\frac{\text{Fixed Cost}}{\text{Contribution Per Unit}} = \frac{1,00,000}{140} = 714.285 \text{ units}$$

5b)

a. Sharpe ratio = (Average Return – Risk free Rate)/Standard Deviation

S_A = (.192 - .022)/.247 = 0.68826

S_B = (.158 - .022)/.283 = 0.48057

S_C = (.208 - .022)/.265 = 0.70189

S_M = (.135 - .022)/.206 = 0.54854

Treynor value = (Average Return – Risk free Rate)/beta

T_A = (19.2 – 2.2)/1.2 = 14.167

T_B = (15.8 – 2.2)/0.9 = 15.111

T_C = (20.8 – 2.2)/1.32 = 14.091

T_M = (13.5 – 2.2)/1 = 11.300

Jensen's Alpha = Average fund return - $[R_f + \beta_i * (\text{Average market return} - R_f)]$

Jensen's Alpha $_A$ = .192 - [.022 + 1.2*(.135 - .022)] = .192 - .15760 = 3.4400%

Jensen's Alpha $_B$ = .158 - [.022 + 0.9*(.135 - .022)] = .158 - .12370 = 3.4300%

Jensen's Alpha $_C$ = .208 - [.022 + 1.32*(.135 - .022)] = .208 - .17116 = 3.6840%

b. If the fund is the entire risky portfolio, the relevant performance measure is the Sharpe Ratio. (Because for such an investor σ (standard deviation) is the proper measure of risk.) So for this investor, fund C exhibited the best performance.

c. If the fund is just one part of a broader risky portfolio, either Jensen's Alpha or Treynor value could be used. (Because for this investor, beta is the relevant measure of risk; as for him measuring systematic risk is more irelevant.) There is no consensus which is the better measure. If you use the Treynor value we judge B to be the best fund. If you use Jensen's Alpha we judge C to be the best fund.

6a)

Forward Market Cover

Hedge the risk by buying Can$ in 1 and 3 months time will be:

July - 1010000 X 0.9301 = US $ 939401

Sept. - 705000 X 0.9356 = US $ 659598

Option Contracts

July Payment = 1010000/ 50,000 = 20.20

September Payment = 705000/ 50,000 = 14.10

Company would like to take out 20 contracts for July and 14 contracts for September respectively. Therefore costs, if the options were exercised, will be:-

	July		Sept.	
	Can $	US $	Can $	US $
Covered by Contracts	1000000	940000	700000	665000
Balance bought at spot rate	10000	9301	5000	4678
Option Costs:				
Can $ 50000 x 20 x 0.0102		10200	---	
Can $ 50000 x 14 x 0.0164	---			11480
Total cost in US $ of using Option Contract		959501		681158

Decision: As the firm is stated as risk averse and the money due to be paid is certain, a fixed forward contract, being the cheapest alternative in the both the cases, would be recommended.

6b)

$$\sigma_{12} = \frac{\sum(R_1 - \bar{R}_1)(R_2 - \bar{R}_2)}{n-1}$$

$\rho_{12} = \sigma_{12} / \sigma_1 \sigma_2$

Years	Return %		Deviations		Product of deviations	Square of Deviations	
	1	2	$R_1 - \bar{R}_1$	$R_2 - \bar{R}_2$	$R_1 - \bar{R}_1 \cdot R_2 - \bar{R}_2$	$(R_1 - \bar{R}_1)^2$	$(R_2 - \bar{R}_2)^2$
1	12	20	-2.8	-1	2.8	7.84	1
2	8	22	-6.8	1	-6.8	46.24	1
3	7	24	-7.8	3	-23.4	60.84	9
4	14	18	-0.8	-3	2.4	0.64	9
5	16	15	1.2	-6	-7.2	1.44	36
6	15	20	0.2	-1	-0.2	0.04	1
7	18	24	3.2	3	9.6	10.24	9
8	20	25	5.2	4	20.8	27.04	16
9	16	22	1.2	1	1.2	1.44	1
10	22	20	7.2	-1	-7.2	51.84	1
Sum	148	210		TOTAL	-8	207.6	84
Mean	14.8	21					

Therefore, Covariance of two securities = $\sigma_{12} = \frac{\sum(R_1 - \bar{R}_1)(R_2 - \bar{R}_2)}{n-1} = \frac{-8}{9} = -0.89$

Now $\sigma_1 = \sqrt{207.6/9} = 4.80$ and $\sigma_2 = \sqrt{84/9} = 3.06$

Correlation of two securities $\rho_{12} = \sigma_{12} / \sigma_1 \sigma_2 = -0.89 / (4.80 \times 3.06) = -0.06$

7a)

Credit rating: Credit rating is a symbolic indication of the current opinion regarding the relative capability of a corporate entity to service its debt obligations in time with reference to the instrument being rated. It enables the investor to differentiate between instruments on the basis of their underlying credit quality. To facilitate simple and easy understanding, credit rating is expressed in alphabetical or alphanumerical symbols.

Thus Credit Rating is:

1) An expression of opinion of a rating agency.
2) The opinion is in regard to a debt instrument.
3) The opinion is as on a specific date.
4) The opinion is dependent on risk evaluation.
5) The opinion depends on the probability of interest and principal obligations being met timely.

Credit rating aims to

(i) provide superior information to the investors at a low cost;

(ii) provide a sound basis for proper risk-return structure;

(iii) subject borrowers to a healthy discipline and

(iv) assist in the framing of public policy guidelines on institutional investment.

In India the rating coverage is of fairly recent origin, beginning 1988 when the first rating agency CRISIL was established. At present there are few other rating agencies like:

(i) Credit Rating Information Services of India Ltd. (CRISIL).

(ii) Investment Information and Credit Rating Agency of India (ICRA).

(iii) Credit Analysis and Research Limited (CARE).

(iv) Duff & Phelps Credit Rating India Pvt. Ltd. (DCRI)

(v) ONICRA Credit Rating Agency of India Ltd.

(vi) Fitch Ratings India (P) Ltd.

7b)

Asset Securitisation: It is a method of recycling of funds. It is especially beneficial to financial intermediaries to support the lending volumes. Assets generating steady cash flows are packaged together and against this assets pool market securities can be issued. The process can be classified in the following three functions.

1. *The origination function*: A borrower seeks a loan from finance company, bank or housing company. On the basis of credit worthiness repayment schedule is structured over the life of the loan.
2. *The pooling function*: Similar loans or receivables are clubbed together to create an underlying pool of assets. This pool is transferred in favour of a SPV (Special Purpose Vehicle), which acts as a trustee for the investor. Once, the assets are transferred they are held in the organizers portfolios.
3. *The securitisation function*: It is the SPV's job to structure and issue the securities on the basis of asset pool. The securities carry coupon and an expected maturity, which can be asset based or mortgage based. These are generally sold to investors through merchant bankers. The investors interested in this type of securities are generally institutional investors like mutual fund, insurance companies etc. The originator usually keeps the spread.

Generally, the process of securitisation is without recourse i.e. the investor bears the credit risk of default and the issuer is under an obligation to pay to investors only if the cash flows are received by issuer from the collateral.

7c)

Call Money: The Call Money is a part of the money market where, day to day surplus funds, mostly of banks, are traded. Moreover, the call money market is most liquid of all short-term money market segments.

The maturity period of call loans vary from 1 to 14 days. The money that is lent for one day in call money market is also known as 'overnight money'. The interest paid on call loans are known as the call rates. The call rate is expected to freely reflect the day-to-day lack of funds. These rates vary from day-to-day and within the day, often from hour-to-hour. High rates indicate the tightness of liquidity in the financial system while low rates indicate an easy liquidity position in the market.

In India, call money is lent mainly to even out the short-term mismatches of assets and liabilities and to meet CRR requirement of banks. The short-term mismatches arise due to variation in maturities i.e. the deposits mobilized are deployed by the bank at a longer maturity to earn more returns and duration of withdrawal of deposits by customers vary. Thus, the banks borrow from call money markets to meet short-term maturity mismatches.

Moreover, the banks borrow from call money market to meet the cash Reserve Ratio (CRR) requirements that they should maintain with RBI every fortnight and is computed as a percentage of Net Demand and Time Liabilities (NDTL).

7d)

Euro Convertible Bonds: They are bonds issued by Indian companies in foreign market with the option to convert them into pre-determined number of equity shares of the company. Usually price of equity shares at the time of conversion will fetch premium. The Bonds carry fixed rate of interest.

The issue of bonds may carry two options:

Call option: Under this the issuer can call the bonds for redemption before the date of maturity. Where the issuer's share price has appreciated substantially, i.e., far in excess of the redemption value of bonds, the issuer company can exercise the option. This call option forces the investors to convert the bonds into equity. Usually, such a case arises when the share prices reach a stage near 130% to 150% of the conversion price.

Put option: It enables the buyer of the bond a right to sell his bonds to the issuer company at a pre-determined price and date. The payment of interest and the redemption of the bonds will be made by the issuer-company in US dollars.

7e)

Financial restructuring: It is carried out internally in the firm with the consent of its various stakeholders. Financial restructuring is a suitable mode of restructuring of corporate firms that have incurred accumulated sizable losses for / over a number of years. As a sequel, the share capital of such firms, in many cases, gets substantially eroded / lost; in fact, in some cases, accumulated losses over the years may be more than share capital, causing negative net worth. Given such a dismal state of financial affairs, a vast majority of such firms are likely to have a dubious potential for liquidation. Can some of these Firms be revived? Financial restructuring is one such a measure for the revival of only those firms that hold promise/prospects for better financial performance in the years to come. To achieve the desired objective, 'such firms warrant / merit a restart with a fresh balance sheet, which does not contain past accumulated losses and fictitious assets and shows share capital at its real/true worth.