

UNIVERSITY OF COLOMBO
FACULTY OF MANAGEMENT AND FINANCE
Postgraduate & Mid-career Development Unit

Master of Business Administration in Finance (Semester IV First-half) (2014 - 2016)
Examination- November - 2016

MBAFI 611- Financial Markets

- **Three (03) Hours**
 - **Answer all questions.**
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1.

Sadaharitha Organic Food Exports (SOFE)

Origin

The company Sadaharith Organic Food Exports (SOFE) was started in 2005 by Mr. Haritha Perera who is a Agriculture graduate in agriculture from a State University. He started the SOFE with the intention of producing organic food, using a concept called Analogue Forest Garden. His initial investment was Rs.1,000 million but within a small time period SOFE grew into a large scale exporter. SOFE was listed in the secondary Board in 2014. It has a market capitalization of Rs.2, 500 million.

What is an Analogue Forest Garden?

Forest gardens simulate natural forests in structure and ecological function but contain trees that yield commercially viable products. These garden models also provide micro-habitat, clean water and environmental stability. Analogue forestry is a very effective tool in arresting biodiversity loss.

SOFE produce almost all the products from such Forest Gardens. These yield valuable crops such as spices, cashew nuts, desiccated coconut, red rice and sesame, medicinal herbs, fruit and coffee that support the local communities, sustain wildlife species (including many that are on the endangered list) and are grown by farmers who comply with the standards of organic production. The company has obtained the Forest Garden Product Certification in 2008. This label would ultimately be recognized by consumers in the same way that organic labels are

recognized now and will help consumers realize that not only their purchase is one of the finest, cleanest and freshest in the market, but meaningfully they are assisting forest conservation.

Expansion in to organic fruit and vegetable canning facility

SOFE is now considering canning of organic fruits and vegetables produced from forest gardens. This project requires an initial investment of Rs. 500 million. This will help the company to store the surplus produce and sell it during the off season, so that the company can protect against the wide fluctuations in price during the season and off season.

You function as the Chief Financial Officer (CFO).

i. The Board of Directors is considering financing options. Mr. Haritha has requested you to explain the advantages of debt capital as compared to equity capital when raising the Rs. 500 million.

(10 marks)

ii. If the company is to raise debt capital using a quoted debenture issue to fulfill the financial requirement of Rs. 500 million, explain how current financial market set-up can help SOFE.

(10 marks)

(Total Marks 20)

2.

lankapage.com November 2016, "The 2017 budget proposal aims to strengthen government finances through revenue mobilization, while guarding against revenue shortfalls by aligning spending with revenue on a quarterly basis."

"Since the IMF approved the loan, the central bank has raised key monetary policy rates by 50 basis points and stopped defending the local rupee currency by selling dollars".

Explain the main objectives of the above efforts and possible negative effects on the financial market of the country.

(16 marks)

3.

Explain and discuss the importance of each of the following occurrences in relation to the financial market expansion and development.

- a. The establishment of commodity exchanges in Sri Lanka.
- b. Development of bond market in Sri Lanka.
- c. Rapid economic growth of Sri Lanka.

(30 marks)

4.

You have seen an advertisement from the finance ministry requesting for suggestions on how Sri Lanka can stabilize the exchange rate. Explain five valid methods that can be used to stabilize the exchange rate.

(10 marks)

5.

Explain what is meant by financial asset securitization and discuss benefits and disadvantages of it.

(08 marks)

6.

Calculate the following values:

- I. A Sri Lankan 90 day treasury bill with a maturity value with 10 million is available. The current market interest rate is 9%. What is the price to be paid for it?
(04 marks)
- II. 12% bonds with a face value of 10 million and a maturity period of 5 years are available for purchase at Rs. 9.6 Million. What is the yield to maturity if the coupon payments are made annually at the end of each year?
(06 marks)
- III. 12% bonds with a face value of Rs. 10 million and maturity period of 3 years are available. The coupon payments are available every six months. The current market interest rate is 14%. Calculate the price to be paid.
(06 marks)

(Total Marks 16)
