2026

COMMERCE

Paper : DSE-406A

(International Finance)

Full Marks : 40

The figures in the margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Module - I

Answer ***any two*** questions.

1. (a) Complete the following sentences with appropriate words/phrase :

(i) Despite Currency Forwards being tailor made and no margin money requirement, the biggest limitation for Forward Contracts is ________ as against Currency Futures contracts.

(ii) Currency Arbitrage opportunities exist if there is a price disparity between given set of exchange rates but an arbitrageur to make money from such disparity, the exchange rates must not be ________.

(iii) Purchasing Power Parity theorem shall hold good based on specific assumptions valid for ________ of goods and services being exchanged between two countries.

(iv) Law of One Price is determined based on the price of ________ prevailing in various countries at a given time.

(b) Concisely point out, along with supporting reasons, whether a hedging strategy needs to be adopted in the undermentioned international transactions by the following India-based enterprises.

(i) Škoda Auto Volkswagen India Private Limited is the wholly owned subsidiary of the German automotive manufacturing company Volkswagen Group. The Indian company sources major automotive parts directly from Czechoslovakia, Poland and Germany, whereas the spare parts, battery components, tyres and certain electrical components are sourced within India. This Indian subsidiary mainly sells its vehicles in India and exports to African and East Asian Markets. Its exports are invoiced in US dollars, whereas all its imports are denominated in Euros.

(ii) Kolkata Metro Railway Corporation (KMRC) Limited partly sources its current requirements for Railway Rakes from Integral Coach Factory (ICF) Chennai, a production unit under the Ministry of Railways, Government of India and partly from CNR Dalian Locomotive and Rolling Stock Company of China. KMRC has recently placed a huge order for 25 fully built broad-gauge rakes to be imported from Dalain for this financial year, worth ₹ 800 crores, directly mapped to a freely convertible international currency (USD) via a Letter of Credit.

Please Turn Over

(iii) Goodrick Group Limited is the largest traditional tea exporter of Darjeeling Tea across the global market. Its major revenue comes from the European Union and the United States, as well as from the Australian and New Zealand markets. All its receivables are denominated in US dollars, and the company prefers USD-denominated receivables due to the weakening of the Indian rupee. Recently, the company imported Tea processing equipment from Germany payable in Euros. (1+1+1+1)+(2+2+2)

2. You have $500,000 to invest. The current spot rate for the Moroccan dirham is $0.112-$0.118. The 60-day forward rate of the Moroccan dirham is $0.103-0.108. The 60-day interest rate in the United States is 1 per cent, whereas in Morocco it is 2 per cent.

(i) Shall covered interest arbitrage work for the investor in this case? What is the yield to a US investor who conducts covered interest arbitrage?

(ii) Would covered interest arbitrage be possible for a Moroccan investor in this case? Show the steps in support of your answer. 5+5

3. From the following direct quote-based exchange rates in an inter-bank forex market of different nations, can you explore any opportunity as an FX trader to earn risk-free profit? Show all the steps and compute the arbitrage gain, if any.

Foreign exchange Currencies	Spot Rate
USDEUR	0.8852/78
EURAED	5.2346/568
USDAED	4.3361/563

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4. (a) Differentiate between the absolute version and the relative version of the Purchasing Power Parity theorem. Does the theorem hold good in the long run?

(b) Differentiate between OTC markets and Derivative markets of foreign currencies.

(c) "Perfect Hedging, is a utopian concept".— Discuss. 4+4+2

Module - II

Answer ***any two*** questions.

5. (a) Mention any two advantages of Advance Pricing Agreements.

(b) 'While the benefits offered by safe harbours are readily apparent, there are many concerns associated with safe harbours.' Enumerate any two concerns regarding safe harbours.

(c) Alfa Ltd., Australia holds 30% shares in Beta Ltd., India. Beta Ltd. develops software and also provides related support services. Beta Ltd. during the year billed Alfa Ltd., Australia for 150 man-hours at the rate of ₹ 2,500 per man-hour. The total cost (direct and indirect) for executing this work amounted to ₹ 3,50,000.

However, Beta Ltd. billed Gama Ltd., India at the rate of ₹ 3,500 per man-hour for the similar level of manpower and earned a Gross Profit of 40% on its cost.

The transactions of Beta Ltd. with Alfa Ltd. and Gama Ltd. are comparable, subject to the following differences :

- While Beta Ltd. derives technology support from the Alfa Ltd., there is no such support from Gama Ltd. The value of technology support received from Alfa Ltd. may be put at 15% of normal gross profits.
- As Alfa Ltd. gives business in large volumes, Beta Ltd. offered to Alfa Ltd., a quantity discount which may be valued at 10% of normal gross profits.
- In the case of rendering services to Alfa Ltd., Beta Ltd. neither runs any risk nor incurs any marketing costs. On the other hand, in the case of services to Gama Ltd., Beta Ltd. has to assume all the risk and costs associated with the marketing function which may estimated at 20% of the normal gross profits.
- Beta Ltd. offered one month credit to ABC Ltd. The cost of providing such credit may be valued at 5% of the normal gross profits. No such credit was given to Gama Ltd.

Compute the Arm's Length Price along with income to be adjusted under Cost Plus Method.

2+2+6

6. (a) What do you mean by Tax Equity?

(b) "Base Erosion and Profit Shifting (BEPS) practice costs countries USD 100-240 billion in lost revenue annually that is equivalent to 4-10% of global corporate income tax revenue." — In this backdrop briefly explain the concept of BEPS.

(c) Mr. Amarjeet, an Indian resident, aged 82 years, has income of ₹ 20,88,000 from a business in India and ₹ 7,55,000 from a business in a foreign country with whom India has entered into double taxation avoidance agreement (DTAA). According to the DTAA, income is taxable in the country in which it is earned and not in other country. However, in the other country, such income can be included for computation of tax rate. According to the tax laws of the foreign country, Mr. Amarjeet has paid tax of ₹ 84,000. During the previous year, Mr. Amarjeet has paid ₹ 66,000 as tuition fee for his daughter in India and ₹ 1,10,000 as tuition fee for his son outside India for full time education. Mr. Amarjeet has also received an interest of ₹ 68,000 on Fixed deposits. Compute the tax liability of Mr. Amarjeet in India.

(Old Regime Tax Slab for Super Senior Citizen : Upto ₹ 5,00,000 – Nil; ₹ 5,00,001 to ₹ 10,00,000 – 20%; Above ₹ 10,00,000 – 30% and New Regime Tax Slab for Super Senior Citizen : Upto ₹ 3,00,000 – Nil; ₹ 3,00,001 to ₹ 6,00,000 – 5%; ₹ 6,00,001 to ₹ 9,00,000 – 10%, ₹ 9,00,001 – ₹ 12,00,000 – 15%, ₹ 12,00,001 – ₹ 15,00,001 – 20%, Above ₹ 15,00,000-30%). 2+2+(3+3)

7. (a) Point out any two differences between American Depository Receipts (ADR) and Global Depository Receipts (GDR).

(b) Briefly explain the concept of 'Conduit OFCs' with examples.

(c) Sun Ltd. currently operates from five different buildings and wants to consolidate its operations into one building which is expected to cost ₹ 250 Crores. The Board of Sun Ltd. had approved the above plan and to fund the above cost, agreed to avail an External Commercial Borrowing (ECB) of GBP 20 million from Barclays Bank on the following conditions :

(i) The loan will be availed on 1st April, 2026 with interest payable on half-yearly rest.

(ii) Average Loan maturity life will be 3.8 years with an overall tenure of 5 years.

(iii) Upfront Fees of 1.25%.

(iv) Interest Cost of GBP is 6 months LIBOR + Margin of 2.25%.

(v) The 6 months LIBOR is expected to be 1.50%.

Sun Ltd. also entered into a GBP-INR hedge at 1 GBP = INR 125 to cover the exposure on account of the above ECB Loan and the cost of the hedge is coming to 4% p.a. and taking 1 GBP = INR 125.

As a finance manager, given the above information :

(i) Calculate the overall cost both in percentage and rupee terms on an annual basis.

(ii) What is the cost of hedging in rupee terms?

(iii) If Sun Ltd. wants to pursue an aggressive approach, what would be the net gain/loss for Sun Ltd. if the INR depreciates against GBP by ₹ 8 and appreciates by ₹ 10 at the end of the 5 years assuming that the loan is repaid in GBP at the end of 5 years?

Ignore time value and taxes and calculate to two decimals. 2+2+(3+1+2)

8. (a) Consider a firm with a healthy cash flow but very low profits – because, for example, of high depreciation allowances. Your boss argues that such a firm should probably borrow in a strong (low interest) currency, because the high tax shield from the weak currency loans is more likely to be lost than the low tax shield from strong currency loans. Is this analysis accurate? Justify.

(b) XYZ Industries Ltd., an Indian multinational manufacturing company, is planning to establish a new production facility in Indonesia to serve the growing Southeast Asian market.

The project requires an initial investment of IDR 2,500 billion. The company expects the project to generate after-tax operating cash inflows of IDR 700 billion per year for the next five years.

However, due to Indonesian foreign exchange regulations, 30% of the annual cash inflows cannot be immediately remitted to India. These blocked funds will remain invested in Indonesia and are expected to earn 7% per annum until they can be repatriated at the end of the project.

The project is considered to have a risk level similar to the company's existing operations, and the required return on equity for projects of this nature is 15% per annum.

To encourage foreign investment, the Indonesian government has arranged a concessional foreign loan of IDR 800 billion carrying an interest rate of only 6% per annum. Similar loans available in the market for projects of comparable risk normally carry an interest rate of 13% per annum.

Expected Exchange Rates are as follows :

Year	0	1	2	3	4	5
INRIDR	170	175	180	185	190	200

As the Finance Manager of XYZ Industries Ltd., evaluate the project using the Adjusted Present Value (APV) Method. 3+7