



Institute of Certified Management Accountants of Sri Lanka

Incorporated by Parliament Act No.23 of 2009

November 2025 Examination

Strategic Level

SL4.2: Financial Strategy & Valuation

INFORMATION:

1. Time allowed:
Reading– **15 minutes.**
Writing - **Three (3) hours.**
2. The total marks allowed for this paper are 100.
3. This paper has 10 pages excluding formula sheets.

INSTRUCTIONS:

4. This paper consists of **three parts.**
Section I: Question No. 01 (**Compulsory**).
Section II: Question No. 02 – 05 (**Select any 03 questions**).
5. Answer only four (04) questions, including Question No. 01.
6. The answers should be in the English language.
7. Only non-programmable calculators are permitted to be used.
8. The formula sheet is given separately.

Section I: Compulsory Question

QUESTION NO 01

PART-A

BrightFoods PLC is a well-established packaged food manufacturer in Sri Lanka, specialising in organic snacks and beverages. With strong distribution channels and brand loyalty, the company has achieved stable growth and consistent profitability over the years while maintaining a consistent capital structure.

The financial consultant applied the enterprise discounted cash flow (EDCF) method and estimated the value of operations at Rs.120,750 million as of 30th September 2025, using the weighted average cost of capital (WACC) as the discount rate. However, the Head of Strategy suggested that WACC might not be appropriate for the valuation. The financial consultant is considering whether to triangulate the valuation with market-based multiples, but remains uncertain about the necessity of this additional step.

The extracts of the statement of financial position (SFP) as of 30th September 2025 are as follows.

SFP extracts as of 30th September 2025	
Excess cash and marketable securities	Rs.6,800 million
Non-consolidated subsidiaries	Rs.3,250 million
Corporate bonds (book value)	Rs.55,200 million
Ordinary shares outstanding	600 million

As of 30th September 2025, the market value of corporate bonds is Rs.58,500 million, and ordinary shares were trading at Rs.128.25 each.

YOU ARE REQUIRED TO:

- 1.1. **Recommend** to a potential investor whether to invest in BrightFoods PLC.
(07 Marks)
- 1.2. **Discuss** the significance of using triangulation in the process of valuing BrightFoods PLC's shares.
(04 Marks)
- 1.3. Critically **evaluate** the Head of Strategy's concern regarding the appropriateness of using the WACC as the discount rate in the EDCF valuation of BrightFoods PLC.
(05 Marks)

PART-B

Spring Beverages PLC, a mid-sized but rapidly growing producer of bottled water and flavoured drinks, is evaluating adjustments to its capital structure to finance an Rs.80 million investment in a water purification and bottling facility. Currently, the company is entirely equity-financed, and the corporate tax applicable is 30%.

The Chief Financial Officer (CFO) is evaluating different financing strategies, particularly between issuing new equity and taking on long-term debt. The finance department has prepared a projection for the company's financial performance under different debt-to-equity ratios.

Debt-to-equity ratio	Cost of debt	Cost of equity
0%	0%	12%
25%	7%	13%
50%	8%	14%
100%	11%	16%
150%	13%	18%

In addition, the projected change in sales, earnings before interest and tax (EBIT) and earnings per share (EPS) for Spring Beverages PLC, along with the industry average for 2025 are as follows.

	Spring Beverages PLC	Industry
Change in sales	21%	20%
Change in EBIT	27%	30%
Change in EPS	27%	42%

YOU ARE REQUIRED TO:

1.4 Determine the optimal capital structure for Spring Beverages PLC.

(07 Marks)

1.5 Evaluate the degree of operating leverage (DOL) and degree of financial leverage (DFL) of Spring Beverages PLC, while comparing these measures with the corresponding industry averages.

(04 Marks)

1.6 Recommend an optimal financing strategy for the new purification and bottling facility, taking into account both the weighted average cost of capital (WACC) and relevant financial and business risk factors.

(05 Marks)

PART-C

SilverWave PLC is a Sri Lankan company operating in two key business divisions: home appliances and e-scooters. The home appliances division manufactures energy-efficient refrigerators and washing machines that incorporate solar technology and has a strong presence in Sri Lanka. Rising environmental awareness, supportive government policies, and growing middle-class demand have fueled significant sales growth of this division. The division currently enjoys a strong market share and generates steady profits. Conversely, the e-scooters division produces electric scooters aimed at urban commuters. The electric mobility market is growing rapidly due to rising fuel prices and environmental concerns. However, SilverWave's market share in this segment remains relatively small. While sales are increasing, the division faces intense competition from global brands and local start-ups, and profitability is limited due to high promotional and development costs.

The company's Chief Financial Officer (CFO), Ms. Anjalie, recommends allocating 90% of next year's investment budget to the home appliances division. She believes that its market leadership and profitability make it the safer choice for maximising shareholder value. SilverWave maintains a healthy financial structure of 40% debt and 60% equity, which it considers optimal.

YOU ARE REQUIRED TO:

1.7. Evaluate the market position of SilverWave PLC's home appliances and e-scooters divisions using the BCG Matrix and identify their respective stages in the product life cycle.

(05 Marks)

1.8. Critically assess the CFO's proposal to focus a higher proportion of investment on the home appliances division.

(03 Marks)

[Total 40 Marks]

Section II: Answer any three questions.

QUESTION NO 02

PART-A

Nuwan, a sole proprietor from Kandy, operates Nuwan's Organic Teas, producing handpicked, sustainably grown tea for both local and export markets. He started the business three years ago on a small estate inherited from his parents and has built a modest customer base in Colombo. Through social media promotions and trade fairs, he has also secured small export orders from boutique retailers in Singapore and Dubai. His main assets include the tea estate, a small drying unit, and a delivery van.

Nuwan plans to establish a modern processing facility equipped with advanced machines to meet the growing demand and is currently exploring various funding options. However, he maintains only manual records of sales, expenses, and shipments, and lacks formal managerial and financial expertise. A recent bank loan application for the expansion was rejected because he was unable to provide the required financial documents. A friend has suggested that he should consider raising funds by listing his business on the Colombo Stock Exchange (CSE).

YOU ARE REQUIRED TO:

2.1. Describe how Nuwan could utilise asset-based financing to meet the funding needs of Nuwan's Organic Teas.

(04 Marks)

2.2. Evaluate the suggestion made by Nuwan's friend to list Nuwan's Organic Teas on the CSE.

(04 Marks)

PART-B

Solaris PLC is a mid-sized manufacturing company listed on the Colombo Stock Exchange (CSE). The company has financed its operations through a mix of equity and debt and now intends to evaluate its weighted average cost of capital (WACC), which will serve as the hurdle rate for appraising future investment opportunities. Currently, the company has 3.5 million ordinary shares outstanding, each trading at Rs.72 in the market. Solaris PLC has recently paid a dividend of Rs.6.50 per share, which is expected to grow 6% per annum, indefinitely.

In addition to equity financing, Solaris has utilised debt capital that currently has a market value of Rs.84 million. The company estimates its annual interest expense on this debt for the next year to be Rs.8.4 million. Solaris is also subject to a corporate tax rate of 30%.

YOU ARE REQUIRED TO:

2.3. Compute the WACC for Solaris PLC.

(08 Marks)

2.4. Evaluate the suitability of using the WACC as the hurdle rate when appraising future investment opportunities.

(04 Marks)

[Total 20 Marks]

QUESTION NO 03

PART-A

Orion Motors PLC, a well-established automobile manufacturer in Sri Lanka, is planning to set up a new electric vehicle assembly plant. To finance this project, the company is considering raising capital through a bond issue. The finance team has observed that bond yields in the market vary depending on their maturity period and is evaluating whether issuing a long-term or medium-term bond would be more effective for the company. The following financing options are under consideration.

Option A – 10-year, Rs.1,000 bonds with a 12% annual coupon rate

Option B – 5-year, Rs.1,000 bonds with a 10% annual coupon rate

The prevailing market yield for bonds with similar risk profiles is currently 11% per annum.

YOU ARE REQUIRED TO:

3.1. Calculate the market price of 10-year and 5-year bonds.

(04 Marks)

3.2. Explain the nature of bond yields across different maturities using term structure theories.

(03 Marks)

PART-B

Lanka Global PLC, a diversified conglomerate with a global presence through exports and subsidiaries, is now planning to establish a wholly-owned subsidiary in Singapore. Historically, Lanka Globe has followed a strategy of operating subsidiaries for a few years and then divesting them once they achieve sufficient value. The proposed initial investment in the Singaporean subsidiary is SGD120 million, equivalent to Rs.27,600 million. The projected financials are as follows:

Value in SGD (million)	Year 1	Year 2	Year 3
Revenue	45	70	80
Total cost	18	22	26

The total cost mentioned above excludes depreciation, which will be charged at 10% per year. At the end of each year, all cash flows generated by the subsidiary will be remitted to the parent company. In Singapore, the subsidiary's profits will be subject to a 17%, corporate tax, and any remitted earnings will incur a 10% withholding tax. The Sri Lankan government does not levy additional taxes. At the end of Year 3, the subsidiary is expected to be sold for SGD 180 million (after capital gains tax), and this disposal value will not be subject to withholding tax. The Singapore Dollar (SGD) exchange rate is expected to be as follows.

Year	SGD exchange rate
1	LKR 240
2	LKR 245
3	LKR 250

Although the finance manager acknowledged that determining an appropriate cost of capital for this investment is challenging, he has decided to apply a required rate of return, 16% per annum, as the project cost of capital.

YOU ARE REQUIRED TO:

3.3. Discuss the factors that make it challenging for the finance manager to determine an appropriate cost of capital.

(03 Marks)

3.4. Calculate the Net Present Value (NPV) of the project from the parent company's perspective and **advise** the management on the financial feasibility.

(10 Marks)

[Total 20 Marks]

QUESTION NO 04

PART-A

Bright Future PLC is a medium-sized Sri Lankan-based education services company with a healthy cash surplus. The finance manager, Mr. Amal, has been given the task of designing the company's new investment strategy. His approach centres on identifying and investing in companies within the fast-growing educational technology (EdTech) industry. He believes that concentrating on a promising sector will allow the company to achieve high returns in the long run. Mr. Amal has started shortlisting securities of several leading companies in the EdTech sector and is monitoring market trends to determine the best entry point for investment.

YOU ARE REQUIRED TO:

4.1. Evaluate the finance manager's approach, focusing on the different areas that should be considered when formulating an investment strategy.

(05 Marks)

PART-B

TechNova PLC, a leading Sri Lankan software solutions provider, has recently launched an innovative cloud-based platform to support small and medium-sized enterprises. To finance this project, the company has issued non-redeemable preference shares and ordinary shares. The company has recently paid a dividend of Rs.5/- per preference share and Rs.6/- per ordinary share. Preference shareholders of TechNova require a return of 12% per annum, while ordinary shareholders expect 20% per annum.

The board of directors has decided to maintain the same dividend per ordinary share for the next two years, with a plan to reinvest more profits into expanding the business. Thereafter, dividends are expected to grow rapidly at a rate of 18% per annum during years 3, 4, and 5. From year 6 onwards, ordinary share dividends are anticipated to grow at a constant rate of 12% per annum indefinitely. The directors believe that reinvesting profits to expand into Asian markets will enhance the company's long-term value. However, some investors argue that the software industry is highly volatile and uncertain and therefore prefer to receive higher dividends now rather than wait for potentially uncertain future returns.

YOU ARE REQUIRED TO:

4.2. Determine the intrinsic value of TechNova PLC preference share. **(02 Marks)**

4.3. Determine the maximum price at which a shareholder of TechNova PLC can sell his/her ordinary shares two years from today. **(05 Marks)**

4.4. Discuss the applicability of the views of "Rightists" and the "Radical left" on payout policy based on TechNova PLC's expected dividend policy and investors' argument. **(08 Marks)**

[Total 20 Marks]

QUESTION NO 05

PART-A

Sunrise PLC, a listed company on the Colombo Stock Exchange (CSE), is evaluating the potential acquisition of Moonlight (Pvt) Ltd, a privately held company in the same industry. The ordinary shares of Sunrise PLC are currently trading at Rs.52.50 per share, with earnings per share (EPS) of Rs.3.50.

Moonlight has 100,000 ordinary shares of Rs.10 each in issue, with current earnings of Rs.975,000/- The company follows a stable dividend policy with a dividend retention ratio of 40%.

In valuing Moonlight, Sunrise PLC considers two approaches:

Price earnings (P/E) multiple method: Since Moonlight is an unquoted company, it is suggested to apply an adjusted P/E multiple of 55% of Sunrise PLC's P/E ratio.

Dividend yield method: In line with industry practice, a dividend yield of 10% is applied when valuing private company.

YOU ARE REQUIRED TO:

5.1. Calculate the value per ordinary share of Moonlight (Pvt) Ltd. using the P/E multiple method, and the dividend yield method. **(08 Marks)**

5.2. Evaluate the valuations obtained under the P/E multiple method and dividend yield method. **(04 Marks)**

PART-B

AgroFresh PLC is a Sri Lankan company engaged in exporting organic spices to multiple regions, including Asia, the Middle East, Europe, and the Americas. The company earns its export income in a blend of both strong and weak foreign currencies. On the other hand, AgroFresh imports machinery from Japan and packaging materials from China. The finance manager believes that hedging foreign currency cash flow may not be worthwhile, as the company's inflows are diversified across several currencies. Currently, the company has a surplus of GBP 8,000 and wishes to convert it into Japanese Yen (JPY) to settle part of its import bills. The value of GBP is GBP 0.0025: LKR 1, and the Yen is JPY 0.49: LKR 1.

YOU ARE REQUIRED TO:

5.3. Determine the amount of JPY that Agro Fresh PLC will obtain by converting its "GBP" surplus into JPY using the appropriate cross exchange rate.

(04 Marks)

5.4. Evaluate the finance manager's view that the company should not hedge the transaction exposure.

(04 Marks)

[Total 20 Marks]

-End of the Question Paper-

Formula Sheet

Formular 01	$V = EV / ECITDA$
Formular 02	$V = EV / EBIT$
Formular 03	$ROE = \frac{NI}{BVE}$
Formular 04	$FV_t = C \times (1 + r)^n$
Formular 05	$PV_t = \frac{C_n}{(1 + r)^n}$
Formular 06	$PV_t = \sum_{n=0}^N \frac{C_n}{(1 + r_n)^n}$
Formular 07	$FV_t = PV \times (1 + r)^n$
Formular 08	$PV_t = \frac{C}{r} \left(1 - \frac{1}{(1 + r)^N} \right)$
Formular 09	$PV_t = \frac{C}{r - g}$
Formular 10	$PI = \frac{NPV}{RC}$
Formular 11	$P = \frac{FV}{(1 + YTM_n)^n}$
Formular 12	Yield Rate = $\frac{C + (F - P) / n}{(C + P) / 2}$
Formular 13	NOPLAT = Business Operating Income x (1 – tax rate) FCF = NOPAT – change in IC
Formular 14	$P = \frac{Div_1}{1 + r_E} + \frac{Div_2}{(1 + r_E)^2} + \dots + \frac{Div_N}{(1 + r_E)^N} + \frac{P_N}{(1 + r_E)^N}$
Formular 15	$P = \sum_{n=1}^{\infty} \frac{Div_n}{(1 + r_E)^n}$
Formular 16	$P_0 = \frac{Div_1}{r_E - g}$

Formular 17	$g = RR \times RONI$
Formular 18	$P_N = \frac{Div_{N+1}}{r_E - g}$
Formular 19	$FCF = EBIT \times (1 - \tau_c) + D - CD - \Delta NWC$
Formular 20	$V_0 = \frac{FCF_1}{1 + r_{WACC}} + \frac{FCF_2}{(1 + r_{WACC})^2} + \dots + \frac{FCF_N}{(1 + r_{WACC})^N} + \frac{V_N}{(1 + r_{WACC})^N}$
Formular 21	$P/E = \frac{P_0}{EPS_1} = \frac{Div_1/EPS_1}{r_E - g} = \frac{DPR}{r_E - g}$
Formular 22	$\frac{V_0}{EBITDA_1} = \frac{FCF_1/EBITDA_1}{r_{wacc} - g_{FCF}}$
Formular 23	$R_E = R_U + \frac{D}{E}(R_U - R_D)$
Formular 24	$w = \frac{E}{E+D}r_e + \frac{D}{E+D}r_d(1 - T_m)$
Formular 25	$TV = \frac{FCF_N(1 + g)}{(w - g)}$
Formular 26	$V_L = V_{UL} + T_c D$