

**2018**

**MBA**

**3rd Semester Examination**

**SECURITY ANALYSIS**

**AND**

**PROTFOLIO MANAGEMENT**

**(Specialisation : Financial Management)**

**PAPER—F-303**

**Subject Code—09**

*Full Marks : 100*

*Time : 3 Hours*

*The figures in the margin indicate full marks.*

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

*Illustrate the answers wherever necessary.*

1. Answer any *eight* of the following questions : 5×8
- (a) Investment and speculation is the same thing. Give your comments.
- (b) Valuation of securities is extremely important to both issuers and investors. Explain.

*(Turn Over)*

- (c) For an equity having a constant growth rate of dividend, show that :

$$P_0 = D_1 / (k_e - g),$$

where  $P_0$ ,  $D_1$ ,  $K_e$  and  $g$  are standard notations.

- (d) An investor should judiciously create a portfolio. In this regard, discuss the objectives of portfolio management.
- (e) Write a brief note on the risk-adjusted performance measures.
- (f) What is a zero coupon bond ? You are required to determine the yield-to-maturity (using short cut method) for a bond having face value of Rs. 1000 and coupon rate of 12.5% which was issued three years back and which is going to mature at par after five years.
- (g) What do you mean by the terms 'sectoral fund' and 'balanced fund' ?
- (h) The trading price of equity shares of Uproar Ltd. (as on 31st March) is given below :

Year	Rs.
2014	Rs. 250
2015	Rs. 235
2016	Rs. 255
2017	Rs. 290
2018	Rs. 315

You are required to determine the return from the share during the above-mentioned period using arithmetic mean and geometric mean methods.

- (i) You are given the following data relating to a portfolio having two securities U and V, the details of which are given below :

Particulars	Security U	Security V
Return (%)	12.5	15.2
Standard deviation (%)	9.2	11.5
Cov. (UV)	(-) 95	
Investment ratio	2 : 3	

Determine the following :

- The portfolio risk
- The portfolio return.

3+2

- (j) Write down any eight functions of SEBI.
- (k) What is economic analysis in the EIC framework ?
- (l) Discuss the role of correlation between securities in portfolio risk management in the context of a two-security portfolio.

2. Answer any four of the following :

4×10

- (a) (i) Mutual funds give several advantages to investors. Discuss.
- (ii) There are three mutual funds I, J and K that Mr. Patnaik is considering for his investment :

Mutual fund	Average return	Beta	Standard deviation
I	15.7%	1.35	16%
J	15.2%	1.20	16.8%
K	18.1%	1.70	14.8%
Nifty	13.7%	1.00	12.8%

Assuming the risk-free rate of return to be 4.9%, you are required to suggest the best investment based on Jensen's measure.

5+5

- (b) (i) Write a short note on Random Walk Theory.
- (ii) Discuss the relevance of charts to technical analysts.

5+5

- (c) (i) Write down the importance of CAPM in the field of finance.
- (ii) You are given the following information about four securities E, F, G and H :

Security	Beta	Actual return (%)
E	1.45	16.90
F	1.60	20.50
G	1.25	16.5
H	1.92	20.00

It is given that the return on 91 day T-bills and BSE-500 index is 4% and 13.2% respectively.

You are required to identify the under-priced and over-priced securities. 4+6

- (d) (i) What do you understand by callable bond and yield to call ?
- (ii) Write a short note on strong form of efficiency.
- (iii) Explain the meaning of unsystematic risk.

3+4+3

- (e) (i) Mrs. Anita is thinking of buying the equity shares of PX Ltd. from the market. She knows that the dividend on the share has been growing at the rate of 10% for the last three years and will continue for another

five years. The dividend two years before was Rs. 2.00 (20% of face value). If she expects the price to go up to Rs. 700 after three years (her investment time horizon), what should be the price range at which she should buy the security now? Show necessary calculations.

Assume that the weighted average cost of capital is 12% and the cost of equity is 15%.

- (ii) What is net asset value? Is it important for an investor? Explain.
- (f) (i) What are the differences between an open-ended fund and a closed-ended fund?
- (ii) There are two securities N and T whose expected returns during the coming six months are given below:

Nature of the economy	Probability	Return from N (%)	Return from T (%)
Good	50%	15%	18%
Moderate	30%	12%	14%
Bad	20%	7%	10%

You are required to determine the correlation between the two securities. 4+6

**[ Internal Assessment : 20 Marks ]**