

2010

**MASTER OF BUSINESS ADMINISTRATION**

**[Third Semester Examination]**

*(Financial and Investment Analysis)*

**[Specialisation : *Financial Management* ]**

**PAPER — F 303**

*Full Marks : 100*

*Time : 3 hours*

*The figures in the right-hand margin indicate marks*

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

*Illustrate the answers wherever necessary*

**Write the answers to questions of each Half  
in separate books**

## FIRST HALF

[ Marks : 50 ]

1. Answer any *four* questions from the following : 5 x

(a) How does the acid test ratio differ from the current ratio ?

(b) Write a note on 'Common-size Financial Statement'.

(c) X Co. Ltd. is contemplating conversion of 10000, 12% bonds of Rs. 100 each. Market price of the bond is Rs. 110. Bond indenture provides that one bond will be exchanged for 10 shares. P/E ratio before redemption is 15 : 1 and anticipated P/E ratio after redemption is 20 : 1. No. of outstanding shares prior to redemption is 1,00,000. EBIT amounts to Rs. 5,00,000. The company is in the 30% tax bracket. Should the company convert bond into shares ?

(d) How is NAV calculated ? Which values (or price) are more important for an open-ended fund ?

2 + :

(e) What does a high P/E ratio suggest about a firm's future growth opportunities? 5

(f) Distinguish between business risk and financial risk. 5

2. Answer any *two* questions from the following : 10 × 2

(a) (i) Why is YTM more important than the simple coupon rate for bond instruments? Discuss.

(ii) The price of each equity share of Z Co. Ltd. (face value of which is Rs. 10) was Rs. 35 on 1st July, 2010. Mr. I purchased 100 equity shares as on date. He received first dividend @ 20% on his holding on 1st September, 2010 towards the final dividend of the financial year, 2009-10. The company went for a bonus issue at the rate of 1 : 2 due to which market price of the shares rose to Rs. 55 just on the declaration date. The date on which bonus issue was given effect to the demat accounts of the investors is 30th December, 2010. This decision was taken by the

company due to the persisting demand of the shareholders to capitalize a part of large accumulated reserve fund. The company was in need of some liquid long-term fund. Thus, it went on making a right issue at par, i.e. at Rs. 10, in the ratio of 1 : 2 as on 1st January, 2011. The company's share was quoting Rs. 25, cum rights at the time of exercising right. The company decides to declare an interim dividend of 5% as on 1st February, 2011. Dividend is to be paid after 30 days. Meanwhile, the investor decides to sell the shares as on 2nd March, 2011 @ Rs. 34 per share. Calculate return of investment to Mr. I assuming that he has sold his right in the market and purchased same shares at ex-right price with such amount. The company had also declared an interim dividend of 5% for the financial year, 2009-10 in the month of May, 2010 and also paid that amount with in 30 days. 4 - 1

- (b) The important accounting ratios of D.Ltd. and the standard ratios as followed in the industry are given below. You are required to examine the strength and weakness of the company. 10

	<u>Ratio of D Ltd.</u>	<u>Industry Standard</u>
(i) Current Ratio	2.80	2
(ii) Debtors Turnover Ratio	7.67	10.00
(iii) Stock Turnover Ratio	3.67	8.90
(iv) Net Profit Ratio	12%	8.25%
(v) Net profit on Total Assets	13.30%	9.25%
(vi) Assets Turnover Ratio	2.47	1.87
(vii) Debt Equity Ratio	0.92	1.5

- (c) (i) Explain the Markowitz's mean-variance rule.
- (ii) Given the following variance-covariance matrix for three securities, as well as the percentage of the portfolio that each security comprises, calculate the portfolio's standard deviation.

Security	A	B	C
A	425	-190	120
B	-190	320	205
C	120	205	175
Weight	$W_A = 0.35$	$W_B = 0.25$	$W_C = 0.40$

5 + :

[Internal Assessment : 10 Marks]

## SECOND HALF

[ Marks : 50 ]

3. Answer any *four* questions from the following : 5 ×
- In context of pricing pattern of a scrip in the market, differentiate between "Channel" and "Wedge".
  - What are the primary assumptions of Efficient Market Hypothesis ?
  - Marico Ltd. is contemplating conversion of 9% convertible debentures of Rs. 1000 each. At present it has 500 such debentures outstanding.

The market price of the debenture is Rs. 1,070. The conversion ratio for each debenture is 10 shares. The price earning ratio before redemption is 20 : 1 and anticipated price earning ratio after redemption is 25 : 1. The number of shares outstanding prior to redemption was 10,000. Earnings before interest and taxes amounted to Rs. 2,00,000. Rate of tax is 30%. Will the company benefit from such a conversion? Give your advice.

- (d) What is p/e multiple of a share? What is the significance of the ratio in investment management?
- (e) Illustrate the two-stage growth model of share valuation with an example.
- (f) Describe the different stages in the industry life cycle.
4. Answer any *two* questions from the following : 10 × 2
- (a) Name and discuss three techniques by which weak form of efficiency of the stock market may be judged.

(b) Discuss how the following factors affect stock prices :

(i) Competition

(ii) Interest rate

(iii) Government Policy

(iv) Monsoon.

(c) P Ltd. has issued 75,000 equity shares of Rs. 10 each. The current market price per share is Rs. 24. The company has a plan to make a rights issue of one new equity share at a price of Rs. 16 for every four share held.

(i) Calculate the theoretical post rights price per share.

(ii) Calculate the theoretical value of the right alone.

(iii) Show the effect of the issue on the wealth of a holder of 1000 shares, who sells the entire rights.

(iv) Show the effect, if the same shareholder does not take any action and ignores the issue.

*[Internal Assessment : 10 Marks]*

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