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10MBAFM322/BF372

Third Semester MBA Degree Examination, December 2012

Security Analysis and Portfolio Management

Time: 3 hrs. Max. Marks:100

Note: 1. ***Answer any FOUR full questions from Q.No.1 to Q.No.7.***
2. ***Question No. 8 is compulsory.***

1 a. What are the three concepts of investments? **(03 Marks)**

b. Discuss the sources of information. **(07 Marks)**

c. Jaya Ltd. Has a 14% debenture with a face value of Rs.100 that matures at par in 15 years. The debenture is callable in 5 years at Rs.114. It is currently selling for Rs.105. Calculate each of the following:
i) Current yield ii) YTC iii) YTM **(10 Marks)**

2 a. What are the roles of primary dealers in G-Sec market? **(03 Marks)**

b. Explain the ways of collecting capital from primary market through equity. **(07 Marks)**

c. What are the reasons for issuing bonds? **(05 Marks)**

d. Give a brief note on book building. **(05 Marks)**

3 a. If Rs.6 dividend paying preferred stock is selling in the market for Rs.50, find out the yield of the stock. **(03 Marks)**

b. The equity share of a company offer a current dividend of Rs.4.00 per share. The rate of dividend is expected to grow at 6% for the first five years and at 8% thereafter. The rate of return required for an investor is 15%. Find the intrinsic value of the equity share. **(07 Marks)**

c. Arun buys a bond with four years to maturity. The bond has a coupon rate of 9% and is priced Rs.100 in the market.
i) What is the duration of the bond?
ii) What will be the percentage change in the price of the bond if the interest rate rises to 10 percent? **(10 Marks)**

4 a. How investors can be classified based on their risk taking ability? **(03 Marks)**

b. Elucidate the types of risk an investor will face. **(07 Marks)**

c. Discuss the key industry factors that need to be studied in fundamental analysis. **(10 Marks)**

5 a. Explain the interpretation of the Japanese Candle Stick chart with the aid of suitable sketch. **(03 Marks)**

b. What is meant by breadth of the market and calculate the same for the data given below:

Day	Monday	Tuesday	Wednesday	Thursday	Friday
Number of stocks that advanced	1050	600	550	700	650
Number of stocks that declined	420	740	950	825	480

(07 Marks)

c. Calculate the 5 day EMA for the data given below: **(10 Marks)**

Day	1	2	3	4	5	6	7	8	9	10
Closing price (Rs.)	90	95	94	96	100	98	96	95	97	100

6 a. Mention some of the publicity available information for semi strong form of efficiency. **(03 Marks)**

b. i) What is meant by APT? **(02 Marks)**

ii) The risk-free return is 7% and the expected return form market portfolio is 17%. The following are the 'Beta' coefficients of a security-X.

β_1 = Beta coefficient in relation to market portfolio = 1.45

β_2 = Beta coefficient in relation to GDP growth rate = 0.45

β_3 = Beta coefficient in relation to inflation = 0.30

Expected return due to GDP growth rate is 9% and due to inflation is 3%. Find the expected return from the security according to APT. **(05 Marks)**

c.

Security	A	B	C	D	E	F	Nifty Index	T-Bills
Expected Return	0.33	0.13	0.26	0.12	0.21	0.14	0.13	0.09
β	1.7	1.4	1.1	0.95	1.05	0.70	1.00	0
σ	0.50	0.35	0.40	0.24	0.28	0.18	0.20	0

For the data given above,

i) Find out the securities that are over priced and under priced?

ii) Find out the portfolio return and portfolio beta by assuming that the portfolio is constructed by using equal proposition.

iii) What would be the expected return and risk if this portfolio were margined at 50% with the cost of borrowing at 9 percent? **(10 Marks)**

7 a. Define the term optimal portfolio and depict the same with a neat diagram. **(05 Marks)**

b. Data for three mutual funds and one market portfolio is given. Assume a risk free rate of 4%.

Portfolio	Return %	Variance %	Beta
Sundram Capex	22	10	1.21
Reliance equity	15	6	0.75
UTI Contra	16	9	0.91
BSE Sensex	18	8	1

Evaluate the portfolio using Sharpe's, Treynor's and Jenson's measures and also comment on their performances. **(15 Marks)**

8 ***Compulsory:***

Mr. David is constructing a optimum portfolio. The market return forecast says that it would be 13.5% for the next 2 years with the market variance of 10 percent. The riskless rate of return is 5 percent. The following securities are under review. Find out the optimum portfolio.

Company	α	β	σ_{ei}^2
NIPPON Ltd.	3.72	0.99	9.35
Jyothi Labs	0.60	1.27	5.92
Dr. Reddy	0.41	0.96	9.79
DLF	0.22	1.21	5.39
Reliance Capital	0.45	0.75	4.52

(20 Marks)

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