

**MBA – MARKETING/FINANCE/HR/
PRODUCTION & OPERATIONS
MANAGEMENT (MBABM)**

Term-End Examination

December, 2014

**MBME-004 : SECURITY ANALYSIS AND PORTFOLIO
MANAGEMENT**

Time : 3 hours

Maximum Marks : 100

Note :

- (i) *Section I is compulsory.*
- (ii) *In Section II, attempt any **five** questions.*
- (iii) *Assume suitable data wherever required.*
- (iv) *Draw suitable sketches wherever required.*
- (v) *Italicized figures to the right indicate maximum marks.*

SECTION I

1. State with *reasons* which of the following statements is *correct / incorrect* : *10×1=10*
 - (a) Systematic Risk is the extent of variability in the security's return on account of risk factors in the market.

- (b) Depending upon the value of beta, using SML it is possible to ascertain whether a scrip has price volatility.
- (c) A bond's price moves in direct proportion to its YTM.
- (d) A change in YTM affects bonds with lower YTM more than the bonds with higher YTM.
- (e) When the required rate of return is more than the coupon rate, the discount on the bond decreases as maturity approaches.
- (f) When the required rate of return is lower than the coupon rate, the value of a bond is less than the par value.
- (g) Private placement method of financing involves direct selling of securities to a large number of small time investors.
- (h) Deferred Credit facility is an arrangement wherein the supplier of machinery allows the buyer to pay the purchase price in instalments over a period of time.
- (i) Depreciation is a Non-Cash expense and should be added back to accounting profit to arrive at the Net Cash Flow position of the firm.
- (j) One assumption of CAPM is that taxes have an impact on the choice of buying an asset.

2. Write short notes on the following :

4×5=20

- (a) Foreign Currency Convertible Bonds and their usage as a source of company financing
- (b) Venture Capital Funds
- (c) A comparison of Forwards vs Futures as a hedging tool
- (d) Dividend Irrelevance Theory

SECTION II

3. The capitalization rate of Air Float Ltd. is 14%. The company has outstanding shares to the extent of 25,000 shares selling @ ₹ 100 each. Anticipating a net income of ₹ 3,50,000 for the current financial year, the company has plans to declare a dividend of ₹ 5 per share. The company has a new project for which the investment requirement is ₹ 5,00,000. Show that under MM model the dividend payment does not affect the value of the firm. 14
4. Consider the equity share of ABC Ltd. The current dividend is ₹ 3. The supernormal growth of dividends takes place at 15% for first 3 years, a growth rate of 10% for the next 2 years and at 7% thereafter. If the investors required rate of return is 14%, calculate the intrinsic value of the share. 14
5. You have a chance to buy a BB-rated bond that has a face value of ₹ 1,000. The bond has a 5% coupon rate of interest and matures in four years. Interest is paid semi-annually. The market rate of interest is currently 6% per year for similar bonds.
- (a) How much should you be willing to pay for the bond ? 7
- (b) If you pay the current price of ₹ 950 for a bond, what will be your yield-to-maturity ? 7

6. Elaborate on Performance Attribution while analysing the performance of a portfolio. 14
 7. Discuss Gordon's Model of dividend policy. Highlight the underlying assumptions and the limitations of the model. 14
 8. Elaborate on the bond pricing theorems. Use appropriate illustrations wherever required. 14
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