No. of Printed Pages : 5

MBME-004

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

00474

Term-End Examination

June, 2015

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 whether the following statements are *correct / incorrect* : *10×1=10*

   (a) Diversifiable Risk is the extent of variability in the security's return on account of firm specific risk factors.

(b) Depending upon the value of alpha, using SML it is possible to ascertain whether a scrip has price volatility.

(c) A bond's price is inversely related to its YTM.

(d) A change in YTM affects bonds with lesser years to maturity than the bonds with higher years to maturity.

(e) When the required rate of return is less than the coupon rate, the discount on the bond decreases as maturity approaches.

(f) When the required rate of return is equal to the coupon rate, the value of a bond is equal to the par value.

(g) IPO is also a price discovery mechanism.

(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) A company has to balance Profit Maximization vs Shareholders Wealth Maximization.

(j) One assumption of CAPM is that borrowing and lending takes place at the risk free rate.

2. Write short notes on the following : *4×5=20*

(a) Foreign Corrupt Practices Act

(b) Walter's Model of Dividend Relevance

(c) American Depository Receipts

(d) Concept and Use of LIBOR

SECTION II

3. The capitalization rate of Air Float Ltd. is 12%. 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 ₹ 3 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. Global Mills Corporation is selling a new issue of bonds to raise money. The bonds will pay a coupon rate of 10% and will mature in 6 years. The face value of the bonds is $ 1,000; interest is paid semi-annually. The market rate of interest is currently 8% for similar bonds.

   (a) What is the fair price for an investor to pay for one of these bonds ? *7*

   (b) If you pay the current price of $ 1,100 for a bond, what will be your yield-to-maturity ? *7*

5. Newell Corporation, a manufacturer of do-it-yourself hardware and housewares, reported earnings per share of \$ 2·20 in 1994, on which it paid dividends per share of \$ 0·68. Earnings are expected to grow 15% a year from 1995 to 1999, during which period the dividend payout ratio is expected to remain unchanged. After 1999, the earnings growth rate is expected to drop to a stable 6%, and the payout ratio is expected to increase to 65% of earnings. The firm has a beta of 1·40 currently, and it is expected to have a beta 1·10 after 1999. The treasury bond rate is 6·00%.

   (a) What is the expected price of the stock at the end of 1999 ? *7*

   (b) What is the intrinsic value of the stock, using the two-stage dividend discount model ? *7*

6. Discuss Walter's Model of dividend policy. Highlight the underlying assumptions and the limitations of the model. *14*

7. Explain the concept of Security Market Line. State its underlying assumptions and illustrate its use in identifying undervalued and overvalued securities. *14*

8. Discuss MM Model of dividend irrelevance. Highlight the underlying assumptions and the limitations of the model. *14*
