

**FM03/eFM03**  
**SECURITY ANALYSIS & PORTFOLIO MANAGEMENT**

**Time: Three Hours****Maximum Marks: 100****Note:**

The paper is divided in three sections: SECTION-A, SECTION-B and SECTION-C. There are seven questions in SECTION-A. Students are required to attempt ANY FOUR. SECTION-B has 5 questions, attempt ANY THREE. All the questions of SECTION-C (Case Study) are compulsory. Marks will be awarded for right procedure also in numerical questions. **Student can use hand held calculators. Please clearly state assumption if any.**

**SECTION-A (10 Marks each)**

1. What is the objectives of good investment? How is investment different from speculation?  
(10)
2. How is the assumptions of Capital Assets Price Model important?  
(10)
3. Mr. A invests Rs1000 today. He gets Rs.100 at the end of the first year and Rs.1500 at the end of the second year, after selling his investment. What is the holding period return (HPR) for Mr.A? What will be the CAGR for Mr.A?  
(10)
4. Why is the shape of a risk free yield rate curve important for analysing any investment?  
(10)
5. How is SENSEX on BSE calculated  
(10)
6. How will you analyse the performance of a mutual fund?  
(10)
7. "Bond Theorem has an important implication for bond portfolio construction" Explain.  
(10)

## SECTION-B (15 Marks each)

8. What will be the price of a Bond which has a coupon rate of 10%, face value of Rs.1000, paying the interest on annual basis for twenty years? It matures in 20 years period. Assume the required rate of return or YTM is 8%p.a.

$$PVIF(10\%, 20 \text{ yrs}) = 0.149$$

$$PVIFA(10\%, 20 \text{ yrs}) = 8.514$$

$$PVIF(8\%, 20 \text{ yrs}) = 0.215$$

$$PVIFA(8\%, 20 \text{ yrs}) = 9.818$$

(15)

9. How can you forecast the Income statement of a company for company valuation? Which methods will you use and how?

(15)

10. "Cost of Debt is always cheaper than cost of equity" Is it possible? Give reasons.

(15)

11. Company X has just given a dividend of Rs.100 today. This is 10% higher than the last year. The analysts are expecting the same will continue for the next three years after which the competitive edge of the company will wane to much lesser growth rate of 2% till infinite time. A comparable company has the equity cost of 16%. What is the value of the it's share?

(15)

12. What is the difference between CML( capital market line) and SML ( security market line)?

(15)

## SECTION-C (15 Marks) Case Study (Compulsory)

### Questions:

13. Following are the information available for the two stocks in which you think to invest. Evaluate

	Stock A	Stock B
Expected Returns	20%	15%
Standard deviation	12%	8%
Coefficient of correlation	+ 0.80	

You have Rs.54213578 to invest. You want to make a portfolio with the above two stocks. You don't want to invest the entire amount in any one stock. You contemplate to either invest 20% in one and rest in the other or the vice versa. Which combination will be better in terms of risk and return? Please quantify your answer. Will your answer change if the coefficient correlation is negative (- 0.80).

(15)