STELLA MARIS COLLEGE (AUTONOMOUS) CHENNAI – 600 086.
(For candidates admitted during the academic year 2011-12)

SUBJECT CODE : 11CM/MC/PF64

B.Com. DEGREE EXAMINATION APRIL 2014
COMMERCE
SIXTH SEMESTER

COURSE : MAJOR – CORE
PAPER : PORTFOLIO MANAGEMENT
TIME : 3 HOURS **MAX. MARKS : 100**

SECTION – A

ANSWER ALL THE QUESTIONS: **(10 x 3 = 30 Marks)**

1. What is portfolio management?
2. Mention the objectives of investment.
3. What is risk?
4. How many inputs are needed for a portfolio analysis involving 65 securities if covariances are computed using (a) the Markowitz approach
5. What is meant by yield to maturity?
6. A company pays a dividend of 15% on the equity shares with a face value of Rs. 100. Calculate the value of the equity shares given that the dividend rate is expected to remain the same and the investor requires a rate of return of 12%.
7. What is fundamental analysis?
8. Calculate Debtors turnover ratio: Credit sales-Rs. 3,60,000; Debtors-Rs. 10,000; Bills receivable - Rs. 2,000.
9. What is random walk theory?
10. Kesavan has invested in AB Ltd. The capitalization rate of the company is 16 percent and the current dividend is Rs. 2.5 pershare. Calculate the value of the companys equity share if the company has an annual decline rate of 5% in the dividend.

SECTION - B

ANSWER ANY FIVE QUESTIONS: **(5 x 8 = 40 Marks)**

11. Explain the steps involved in the Portfolio Management.

12. Describe the various methods of measuring risk.

13. ABC Company's equity shares currently sell at Rs. 70 per share. The finance manager of ABC Ltd. Expects a constant growth rate of 5 % and an end of year dividend of Rs. 4.20 per share.
(a) If an investor requires a rate of return of 10 percent, should he buy the share?
(b)What will be the expected rate of return?

14. Write the following information relating to SVP. Ltd in respect of the year ended 31-12-1988, Prepare a trading and profit and loss account.

Gross profit ratio	25%
Net profit ratio	20%
Stock turnover ratio	10
Net profit /capital	1/5
Fixed assets/ capital	5/4
Fixed assets	Rs. 6,00,000
Closing stock	Rs. 48,000

15. A bond of Rs. 1,000 being a coupon rate of 14% is redeemable at par in 10 years. Find out the value of bond if:
    (i) required rate of return is 12% or 10% or 14%.
    (ii) required rate of return is 16% and the maturity period is 9 years or 13 years.
    (iii) required rate of return is 14% and redeemable at Rs. 1050 or at Rs. 1,150 after 10years.

16. Define the Efficient Market Hypothesis in each of its three forms. What are its implications?

17. Calculate the value of equity from the following:

Equity share capital (Rs. 20 each)	Rs. 50,00,000
Reserves and surplus	Rs. 500
15% secured loans	Rs. 25,00,000
12.5% Unsecured loans	Rs. 10,00,000
Fixed assets	Rs. 30,00,000
Investments	Rs.500
Operating profits	Rs. 25,00,000
Tax rate	50%
P/E Ratio (Price – Earning Ratio)	12.55

SECTION – C

Case study: **(30 Marks)**

Anand heads the portfolio management schemes division of Phoenix Investments, a well known financial services company. Anand has been requested by Arrow Technologies to give an investment seminar to its senior managers interested in investing in equities through the portfolio management schemes of Phoenix Investments. Manish, the contact person of Arrow Technologies, suggested that the trust of the seminar should be on equity valuation. Anand has asked you to help him with his presentation.
To illustrate the equity valuation process, you have been asked to anlayse Acme Pharmaceuticals which manufactures formulations and bulk drugs. In particular, you have to answer the following questions:

a. What is the general formula for valuing any stock, irrespective of its dividend pattern?
b. How is a constant growth stock valued?
c. What is the required rate of return on the stock of Acme Pharmaceuticals? Assume that the risk-free rate is 7 percent, the market risk premium is 6 percent, and the stock of Acme has a beta of 1.2.
d. If the stock is currently selling for Rs. 110, what is the expected rate of return on the stock?
e. Assume that Acme Pharmaceuticals will have zero growth during the first 2 years and then resume its constant growth of 10 percent in the third year. What will be the present value of the stock under these conditions?
f. Assume that the earnings and dividends of Acme Pharmaceuticals are expected to decline at a constant rate of 5 percent per year. What will be the present value of the stock? What will be the dividend yield and capital gains yield per year?

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