

Finance
Portfolio Management & Security Analysis.

18110
Finance
Lib.

18.10.2008

PMSA 03

Total number of questions: 4

Total number of printed pages: 4

Duration: 3 hours only

Maximum Marks: 60

Roll No.

Notes:

1. Attempt as instructed below:
2. Draw structured diagrams wherever necessary.
3. Make relevant assumptions if necessary and state them.
4. Use of scientific calculators is allowed.
5. Section I & section - II to be solved on separate Answer Books.

SECTION - I (20 Marks)

Q1. Briefly explain the concept of the efficient market hypothesis (EMH) and each of its three forms—

- a. weak,
- b. semi strong, and
- c. strong

Briefly discuss the degree to which existing empirical evidence supports each of the three forms of the EMH. Also discuss various anomalies existing in the market that have an influence over the investment decisions.

(20Marks)

SECTION - II (40 Marks)

Q2.

- a. Calculate the Beta for RIL.
- b. What is this type of a Beta called?
- c. Explain the applicability of the CAPM.

(10Marks)

	RIL	Sensex
Date	Closing Price	Index Closing
4 August 2008	2242.50	14,577.87
5 August 2008	2276.00	14,961.07
6 August 2008	2295.85	15,073.54
7 August 2008	2271.40	15,117.25
8 August 2008	2250.45	15,167.82
11 August 2008	2326.00	15,503.92
12 August 2008	2342.25	15,212.13
13 August 2008	2340.90	15,093.12
14 August 2008	2275.30	14,724.18
18 August 2008	2224.95	14,645.66
19 August 2008	2221.35	14,543.73
20 August 2008	2244.15	14,678.23
21 August 2008	2212.35	14,243.73
22 August 2008	2245.65	14,401.49
25 August 2008	2230.95	14,450.35
27 August 2008	2147.85	14,296.79
28 August 2008	2073.70	14,048.34
29 August 2008	2136.75	14,564.53
1 September 2008	2140.55	14,498.51
2 September 2008	2213.55	15,049.86

Q3.

- Perform a Valuation to arrive at a final price for Madura Garments. The data is as below
- What recommendation do you give for the same?

(15 Marks)

Current Data (Figures in Rs.)

EPS	11.13
Capex per share	43.14
Depreciation per share	5.10
Revenues per share	232.03
WC per share	284.75
(1-debt ratio)	0.57

6 3 2

High Growth Period Data

	HIGH GROWTH	
ROG - EPS	14%	21%
ROG - Capex per share	162%	-91%
ROG - Dep per share	10%	68%
ROG - Revenues per share	77%	65%
WC per share	208.12	331.91
(1-debt ratio)	0.48	0.44
Beta	0.75	0.8

Transition Period Data

ROG - EPS	11%	-24%
ROG - Capex per share	220%	-11%
ROG - Dep per share	-8%	14%
ROG - Revenues per share	16%	19%
WC per share	370.56	424.91
(1-debt ratio)	0.47	0.47
Beta	0.85	0.9

Terminal Year Data

ROG - EPS	5%
ROG - Capex per share	-18%
ROG - Dep per share	19%
ROG - Revenues per share	8%
WC per share	426.89
(1-debt ratio)	0.47
Beta	1

Other Data

Risk free rate (%)	8.00%
Risk premium (%)	4.00%
Perpetual EPS Growth Rate	5.00%

Q4. Please answer briefly

1. What is ^{an} the efficient portfolio?
2. What is a dominant portfolio?
3. Portfolio risk is measured in terms of
 - a. Variance
 - b. Standard deviation for the portfolio
 - c. Both
 - d. None of the above
4. A portfolio contains four securities A, B, C and D in the ratio of 10:40:30:20. Returns on investment in each security are 6%, 8%, 7% and ~~4%~~ respectively. Find out the portfolio return (R_p).¹
5. Two securities that ^{are} ~~are~~ perfectly correlated ^{have} ~~have~~ standard deviations of 0.005 (Security 1) and 0.015 (Security 2). What would the proportion of these securities in a zero risk portfolio.

(15 Marks)

be

10%