Roll No.

MMS-III (Finance)

PMSA 03

Total No. of Printed Pages: 6

Total No. of Questions : 7

Maximum Marks : 60

26.10.2013

Duration (hrs.) : 3 Hours

Section , if any : Nil Portfolio Mgmt. & Security Analysis.

Note: Question No 1 is compulsory.
Attempt any 4 questions from Question no 2 to 7.
Answer any 2 Questionf from Question no 2 to 7.
Enumerate your answers with suitable examples.

1. Case Study.

Prabhat and Padma Singhal approached you a CERTIFIED FINANCIAL PLANNERCM today, the 1st April, 2009 for preparing a Financial Plan to achieve their financial goals. Prabhat Singhal, aged 45 years, is working in Bangalore for an MNC, at a managerial level, and has an income of Rs. 45,000 p.m., comprising of Basic Salary and DA. His other allowances amount to Rs. 16,000 p.m. He would retire at the age of 60 years. His wife Padma, aged 42 years, is working in a Private Company and has a post-tax income of Rs. 4 lakh p.a. She is expected to retire at the age of 55 years. Prabhat's salary is likely to grow at 7% p.a. and Padma's salary is likely to grow at 6% p.a. The couple has two children - daughter Sapna, aged 18 years, pursuing her Graduation in Economics, and son Varun,aged 16 years, studying in 12th standard. Varun intends to become a Doctor.

Prabhat has no siblings. His mother expired five years ago at the age of 66. His father expired due to severe heart attack on 15-Dec-2006, at the age of 75 years, leaving a house (Value on 15th Dec 2006 Rs. 25 lakh) in which Prabhat is staying at present.

The couple's assets as on 31-3-2009 are;

1. Cash in Hand Rs. 10,000.
2. Bank balance Rs. 50,000
3. Diversified Equity Mutual Fund units at market value Rs. 2.60 lakh
4. Equity Shares at market value Rs. 7.25 lakh
5. Debt oriented Mutual Fund units at market value Rs. 1.65 lakh
6. PPF Rs. 4.25 lakh (Prabhat), Rs. 3.15 lakh (Padma).
7. ELSS Mutual Fund units at market value Rs. 75,000
8. House is in the joint name of Prabhat and Padma with 50% ownership of each. This house has two floors and is let out for rent of Rs. 8,000 p.m. each floor. Present Market Value of this House is Rs. 70 Lakh.
9. Gold Ornaments at market value Rs. 6.35 lakh
10. Car at market value Rs. 2.60 lakh

Prabhat and Padma had taken a housing loan of Rs. 15 Lakh each to purchase the house costing Rs. 37.50 Lakh on 1st April 2002. They are presently paying an EMI of Rs. 19,226 each at the end of each month beginning from the month of disbursement of loan. Fixed rate of interest being Rs. 13.25% p.a. and tenure of Loan is 15 years.

Prabhat's retirement benefits, 15 years hence, are expected to be as follows: -

1. EPF Rs. 20 lakh,
2. Gratuity, Rs. 5.50 lakh.
3. Commutation of Pension and Commuted Leave as per rules.

Prabhat has a term insurance of Rs. 20 lakh (for 20 years), the term expires 5 years from now. Both are covered under Group Medical Insurance for Rs. 4 Lakh family floater each provided by their respective employers. Prabhat has also taken money back insurance plan of 20 year term with sum assured of Rs. 5 Lakh for annual premium of Rs. 23,750. He has paid 16 annual premiums till date before due date. The policy provides 25% of basic sum assured to insured as survival benefit after 5th, 10th, 15th years from the start of the policy. Prabhat's monthly household / living expenses are Rs. 40,000. This excludes EMI on loans. Expenditure on Sapna's education for the next 3 years is likely to be Rs. 1 lakh p.a. During the present financial year education expenses of Sapna and Varun have already been paid for.

Goals & Aspirations:-

1) Plan for Varun's medical education expenses which is likely to be Rs. 3.50 lakh at the end of one year from now and increasing thereafter @ 8%p.a. during the next 4 years.
2) Create a separate fund to provide every year vacation expenses amounting to Rs. 50,000 for the first year, increasing at the rate of 10% p.a. for the next ten years.
3) Plan for his future Life Insurance needs.
4) Provide for expenses in his post retirement period @ 75% of pre retirement expenses.
5) He wants Rs. 10 Lakh in today's terms for her daughter Sapna's wedding after 5 years from now.
6) Prepare a registered WILL for smooth transfer of his estate according to his wishes.

Assumptions

1. Inflation 6.00% p.a.
2. Equity/Equity Based MF Returns 15.00% p.a.
3. Risk free Returns 8.00% p.a.
4. Debt/Debt based MF Returns 9.00% p.a.

The Cost inflation index for 1981-82 :100; 1985-86:133; 1997-98 : 331; 1998-99 : 351; 1999-2000 : 389; 2000-2001 : 406; 2001-02 : 426; 2002-03 : 447; 2003-04 : 463; 2004-05 : 480; 2005-06 : 497; 2006-07 : 519; 2007-08 : 551; 2008-09 : 582.

Questions.

1) Prabhat wants to know his income/loss from house property for Prabhat for Assessment Year 2009-10. Municipal value of house property is Rs. 1,80,000 and standard rent is Rs. 1,50,000. Municipal taxes paid are Rs. 5,000 during the FY 2008-09.

A) Income of Rs. 1,30,900
B) Loss of Rs. 84,550
C) Loss of Rs. 1,80,700
D) Loss of Rs. 90,350

2) For the FY 2008-09 Padma has not made any investments/other eligible payments to claim the benefit of deduction u/s 80 C. Padma has asked you what maximum amount u/s 80 C she can claim towards principal repayment of her housing loan.

A) Rs. 1,00,000
B) Rs. 74,900
C) Rs. 77,480
D) No tax benefit u/s 80 C towards principal repayment of housing loan is eligible to Padma

3) During the recent period you feel that the stock market has shown a strong bullish run. The Super Industry Ltd's Shares, which Prabhat bought for Rs. 900 per share about nine months back, are now at Rs. 1,760 per share. He does not want to sell his shares since he is bullish in the long term. He wants to protect the appreciation on the stock price from the downside which market may face in the short term. He approaches you to guide him what strategy he should use. CALL Option of Rs. 1,740 is available @Rs.60, PUT Option of 1740 is available @ Rs. 50.

A) Buy PUT option
B) Sell PUT Option
C) Buy CALL Option
D) Sell CALL Option

4) Prabhat expects his post retirement household/living monthly expenses to be 75% of pre retirement expenses and he expects to live till the age of 80 years. You advice him to invest the retirement corpus in a pension scheme of a mutual fund yielding 10% p.a. during post retirement period to get such inflation adjusted monthly expenses. What approximate corpus Prabhat should have for his retirement 15 years hence to accommodate his post retirement household/living expenses? (Assume this pension scheme would make monthly payments in annuity due mode)

A) Rs. 122 lakh
B) Rs. 120 lakh
C) Rs. 118 lakh
D) Rs. 124 Lakh

5) You advise them to liquidate their low yielding investments and prepay some part of their housing loan. Prabhat and Padma agree to prepay Rs. 5 Lakh each today and restructure their housing loan by paying rest of the loan in next 5 years time. What would be the revised loan EMI installment paid at the end of each month for Prabhat? (Ignore prepayment charges and taxes)

A) Rs. 16,232
B) Rs. 14,517
C) Rs. 15,460
D) Rs. 16,425

6) Prabhat's father acquired his flat at Bangalore on 1985-86 for Rs. 10 lakh. After the death of Prabhat's father such house is transferred to Prabhat through Inheritance in FY 2006-07. If he had sold this inherited house on 15-3-2009 for Rs.

25 Lakh and shift to his own house then compute the capital gain for AY 2009-10 (assuming expenses incurred on sale of house by him was Rs. 1 lakh)?

A) LTCG of Rs. 12,78,613
B) LTCG of Rs. 13,78,613
C) LTCG of Rs. 14,00,000
D) LTCL of Rs. 19,75,940

7) Prabhat has come to know about this CFPCM practitioner through a newspaper advertisement. The theme and wording of advertisement says that along with preparation of Financial Plan, they also help to generate assured return of 12% p.a. According to FPSB India's code of ethics, the practitioner has violated __________.

A) Code of Ethic of Objectivity
B) Code of Ethic of Professionalism
C) Code of Ethic of Fairness
D) Code of Ethic of Integrity

8) Prabhat's Debt Mutual Fund portfolio has generated returns of 11% p.a. over a period of 2 years. He wants to know the actual return of his portfolio, after tax and inflation, if his income tax slab is 30%. (Indicate nearest figure).

A) 1.60% p.a.
B) 1.70% p.a.
C) 4.70% p.a.
D) 3.50% p.a.

9) An investment analyst has told Prabhat to invest in a portfolio after evaluating on the following parameters -

1. The performance of portfolio adjusted by the return of risk free assets over the risk of portfolio
2. Measure of the volatility in a portfolio as compared to the entire market (index) as a whole
3. measure of how much individual elements tend to deviate from the average
4. measure excess return on an investment over the benchmark with same degree of risk
5. The proportion of variability in a portfolio compare to benchmark

The analyst also used a lot of terminology which confused Prabhat. He wants to know how the terminology used fits into these evaluation parameters. You advise the terminology, respectively, as________ .

A) Sharpe Ratio, Beta, Alpha, R2, Standard Deviation.
B) Sharpe Ratio, Beta, Standard Deviation, Alpha, R2.
C) Alpha, Standard Deviation, R2, Sharpe Ratio, Beta.
D) R2, Sharpe Ratio, Standard Deviation, Alpha, Beta.

10) You advise Prabhat to invest in an Equity Diversified Mutual Fund Scheme by way of monthly SIP for the next five years beginning from today to meet the expenses of Varun's medical education. He asks what would be the approximate amount of such monthly SIP. You calculate the same to be _________.

A) Rs. 31,000
B) Rs. 33,500
C) Rs. 23,500
D) Rs. 35,000

2. **A.** What is an investment decision? What are the objectives of investment? **(5)**

B. What are the advantages of investments in mutual funds? **(5)**

C. What are the features of Mutual Fund? (5)

3. **A.** Explain the role of AMFI in regulating mutual funds market. **(5)**

B. Mr. Sharma's portfolio return are given below:

Year	Securities	Return
1	X	12
1	Y	10
2	X	18
2	Y	16

Standard Deviation of the both the securities is 3. Calculate **(a)** Expected rate of return on his portfolio if it is made up of 50% of X and 50% of Y. **(b)** Co variance of X & Y and **(c)** Portfolio risk made up of 50% of X and 50% of Y. **(5)**

C. State the function of Beta in investment option. (5)

4. **A.** The following data oertain to the value of underlying factors of A Ltd's shares.

Value of underlying Factors.

	Original	Revised.
Risk-free rate	10%	8%
Market Risk Premium	5%	6%
Beta	1.2	1.5
Expected Growth Rate	6%	8%
Previous Dividend	Rs. 2	Rs. 2

(a) What is the intrinsic value of A Ltd's shares based on the original set of values?
(b) What will it be under the revised set of values.

B. What are the various sources of Long Term Investments? **(5)**

C. What are the different Debt instruments of investment? (5)

5. **A.** The share of Riddhi Ltd. (Rs.10) was quoting at Rs. 102 on 01.04.2002 and the price rose to Rs. 132 on 01.04.2005.

Dividends were received at 105 on 30th June each year. Cost of funds was 10%. Is it worth-while investment considering the time value of money? (Present Value Factor for 10% were 0.909, 0.826, 0.751

B. What is Efficient Market Hypothesis Theory? **(5)**

C. What are the characteristics of Capital Asset Pricing Model? **(5)**

6. **A.** A company has advertised for deposits from the public. If you deposit Rs. 1000 now, you would receive Rs. 1,464 at the end of 4 years or Rs. 1,611 at the end of 5 years. What rates of interest is the company paying? **(5**

B. What is the importance of Beta? Explain with an example **(5)**

C. "Sebi plays an important role in the governance of financial market" Explain the statement. (5)

7. **Write Short notes on Any Two (10)**

1) Technical Analysis.
2) Importance of Debt Instruments.
3) Commercial Papers.
4) Macro Economic Analysis.
5) Capital Asset Pricing Model.