Extra TY BAF Sem-VI 25/4/17
Financial Mngt
Paper-III

325

QP Code : 04378

(2½ Hours)

[Total Marks : 75

N.B. (1) **All** questions are **compulsory**.
(2) **Working notes** should form **part of** your answer.
(3) Use of **simple calculator** is **permitted**.

1. (A) Re-Write the following statements and fill in the blanks **(any 8)** :— **8**

(i) The concept of homemade dividends supports the argument for irrelevance of dividend policies in shareholders _________ maximisation.

(ii) _________ studies the percentage relationship that each item of financial statement bears to same item in the base year.

(iii) When the correlation co-efficient is greater than 0, it is _________ correlation.

(iv) If the insiders starts selling heavily, it is considered as _________ indicator.

(v) According to Prof. James E Walter in the long run share prices reflect only the _________ value of expected dividend.

(vi) The _________ value of a bond is measured as the present value of all the future cash flows on the security.

(vii) The candle stick chart is the modified version of _________ chart.

(viii) _________ represents the market value of total assets of the mutual fund less total liabilities.

(ix) _________ is a measure of performance of a particular share in relation to general movement of market.

(x) _________ is the discounting rate which equates the present value of all future cash flows of a bond.

(B) Match the Column **(any 7)** :— **7**

Column A	Column B
1. Yield to Maturity	A. Ratio Analysis
2. Beta	B. Bearish Indicator
3. P/E Ratio	C. Systematic Risk
4. Dividend Yield	D. Uses Chart
5. Fundamental Analysis	E. Bullish Indicator
6. Technical Analysis	F. DPS / MPS
7. Return on Investment	G. MPS / EPS
8. Return on Equity	H. NPBIT / Capital Employed
9. High Confidence	I. NPAT / Proprietor Equity
10. Buying High Grade Securities	J. IRR

[TURN OVER

2. (A) From the historical rate of return of two securities and market over the past 10 years, you arerequired to Calculate the Covariance and Correlation Co-Efficient of the two securities.

Year	Rate of Return %										SD
	1	2	3	4	5	6	7	8	9	10	
Security M	12	8	7	14	16	15	18	20	16	24	4.56
Security N	20	22	24	18	15	20	24	25	22	20	2.90
Market	15	17	18	12	14	20	23	22	20	18	2.30

(SD - Standard Deviation)

(B) Mr. Jack has a holding of 30% shares in Dance More Ltd. He has assessed and found that Enjoy Life Ltd is of the equivalent risk class. As his financial advisor you are required to explain him whether he will be better off in switching his holding to Enjoy Life Ltd or not using following information :

Particulars	Dance More Ltd.	Enjoy Life Ltd.
Total No of Equity Shares	10,00,000	5,00,000
Market Price per Share	₹ 55	₹ 165
10% Debentures	₹ 50,00,000	—
15% Debentures	—	₹ 25,00,000
Profit Before interest and tax	₹ 65,00,000	₹ 93,75,000
Tax Rate	50%	50%

Note : All the profit available for distribution as dividend to equity shareholders are distributed in full.

OR

2. (A) R Fund CPSE, a mutual fund which invests exclusively in Maharatna Companies yielded ₹ 4.24 per unit for the year. The opening NAV was ₹ 21.20. R Fund CPSE has a risk factor of 3.50%. 8
Ascertain Sharpe's ratio and evaluate the funds performance in relation to with the performance of the Sensex if –

(i) Risk Free Return is 5%, Return on Sensex is 15% with a Standard Deviation of 2.75%.

(ii) Risk Free Return is 4%, Return on Sensex is 17% with a Standard Deviation of 3%.

(iii) Risk Free Return is 7%, Return on Sensex is 18% with a Standard Deviation of 4%.

(B) Tendulkar Ltd's equity shares currently sell for ₹ 32/- per share. The company's finance manager anticipates a constant growth of 10.5% and at the end of year dividend of ₹ 2.50/- 7
per share.

(i) What is the expected rate of return ?

(ii) If the investor requires 17% return, should he purchase the stock ? (Support your decision with calculation)

[TURN OVER

3. (A) From the following data on three mutual funds find out : **8**

(i) Reward to Total Risk and

(ii) Reward to Systematic Risk. Also Rank them

Fund	Return (%)	Standard Deviation (%)	Beta
Blue Chip	17	7	1.05
Pharma	18	6	1.25
Banking	13	8	0.85

Fact : Risk Free rate is 7%

(B) The following are the returns of Share (X) and Market (M) for the last 6 years : **7**

Year	Return X (%)	Return M (%)
1	17	12
2	10	10
3	18	12
4	–8	–9
5	6	5
6	11	6

(i) What is the total risk of Share and Market ?

(ii) How much is systematic risk of Share ?

OR

3. (A) Mr. Anik is planning for making investment in bonds of one of the companies i.e. either X Ltd. or Y Ltd maturing at par. The details of these are as follows : **8**

Company	Face Value	Coupon Rate	Maturity Period
X Ltd.	₹ 10,000	6%	5 Years
Y Ltd.	₹ 10,000	10%	5 Years

The current market price of X Ltd.'s bond is ₹ 9,455/-. Find out current market price of Y Ltd.'s bond if both bonds have same Yield to Maturity (YTM).

(B) The earnings per share of a company is ₹ 10/- and the rate of capitalization applicable to it is 10%. The company has two option of paying dividend i.e. (i) 50% or (ii) 75%. Calculate the market price per share as per Walter's Model, if it can earn return of (a) 15% or (b) 10% or (c) 5% on its retained earnings. **7**

4. From the information provided below prepare financial statements for LSK Ltd for financial year 2016-17 : 1

Current Assets	₹ 1,00,000
Sales	50% of Shareholders Fund
Working Capital	80% of Current Assets
Quick ratio	0.5 higher than standard industry ratio
Gross Profit	33 1/3rd of Cost
Fictitious Assets	20% of Current Assets
Share holders Funds	10 times of Current Assets
Cash : Debtors	1:1
Share capital : Reserves and Surplus	3:2 (Net profit for current year comprises of 10% of Reserves and Surplus)

OR

4. (A) An Investors is considering the purchase of the following bond 8

Face Value	₹ 1,000/-
Coupon Rate	10%
Maturity (at Par)	4 Years

(i) If he wants a yield of 12% what is the maximum price he should be ready to pay for ?

(ii) If the bond is selling for ₹ 940/- what would be his yield ?

(B) An investor has decided to invest ₹ 1,00,000/- in two companies. The estimates of return on shares in companies under four different scenarios as under : 7

Scenario	Probability	Akshay Ltd (%)	Salman Ltd (%)
1	0.20	13	16
2	0.25	14	10
3	0.25	−10	30
4	0.30	28	−4

Ascertain the risk associated with each class of the secunty ?

5. (A) What is Industry Analysis ? Explain various factors affecting industry analysis. 8

(B) Discuss the determinants of bond valuation. 7

OR

5. Write short notes on (any **three**) :— 15

(a) Strategic Financial Planning

(b) Importance of Ratio Analysis

(c) Systematic and Unsystematic Risk

(d) Modigliani & Miller approach

(e) Risk Diversification.