Paper / Subject Code: 85605 / Security Analysis and Portfolio Management

TYBAF | Sem-VI | 07.05.19

Time: 2 ½ Hours **Marks: 75**

Q 1 (a) Multiple Choice Question any Eight (8)

1. Debt equity ratio is ______ the better.
   a] Higher b] Lower c] Profitability d] Liquidity
2. The ideas of selecting securities in a portfolio based on coefficient of correlation of their returns were purported by _____________.
   a] William Sharpe b] Harry Markowitz c] Black and Scholes d] Walter
3. The market risk refer to the variability in the ______________ caused by the market up swings and market down swings.
   a] Price b] profit c] Rate of return d] None of the above
4. A _______________ is simply a graphical representation of a series of prices over a set time frame.
   a] Table b] Diagram c] Chart d] None of the above
5. An _____________ primary trend represents a bull market.
   a] Sideward b] Positive c] Downward d] upward
6. The graphical version of the CAPM is called _________________ market line
   a] Graphical b] Straight c] Security d] Positive
7. ______ is use as denominator in Sharpe's Ratio
   a) Standard Deviation b) beta c) Risk free Return d) Market Return
8. _______ Analysis is a study based on market emotions and share price movements
   a) Fundamental b) Technical c) Moral d) All of the above
9. Beta reflects the stock risk for investor which is usually _______.
   a] Collective b] Individual c] Linear d] Weighted
10. Portfolio alpha is___________ of security alpha
   a] Total b] Difference c] Simple average d] Weightage average

Q1 (b) State whether the following are True or false (any Seven) (7)

1. Repayment of debt will always increase return on net worth
2. Portfolio means a combination of financial assets and physical assets.
3. Buying and selling of securities does not involve transaction costs such as commission and brokerage.
4. Fundamental analysis is a method of evaluating a security.
5. Strong form covers the least amount of information.
6. Stock turnover ratio is a liquidity ratio
7. Treynor's measure ignores any unsystematic risk that might be present.
8. Holding Period Return Annualized Return are one and same.
9. Single index model is based on regression.
10. Risk element is limited or very low in Gambling as compared to Investment

Q2) (a)Calculate the degree of operating leverage, degree of financial leverage and the degree of combined leverage & Earning Per Share for the following companies. **(15)**

Companies	X Ltd.	Y Ltd.	Z Ltd.
Sales [Rs.]	7,20,000	15,00,000	2,00,000
Variable Cost Per unit	20	150	2
Fixed Cost	1,44,000	2,80,000	30,000
Output (units)	12,000	3,000	20,000
Interest	80,000	1,60,000	NIL
Income-Tax Rate	30%	30%	30%
No of equity shares	2000	8000	1000

OR

Q2) (b) Given below are the likely returns in case of shares of Prasad Ltd and Pooja Ltd in the various economic conditions, both the shares are presently quoted at Rs 250 per share. (15)

ECONOMIC CONDITIONS	PROBABILITY	RETURNS OF PRASAD LTD	RETURNS OF POOJA LTD
High Growth	0.25	110	180
Low Growth	0.25	130	150
Stagnation	0.30	160	100
Recession	0.20	190	70

i) Which of the companies is risky investment?

ii) Mr Rohan has Rs2000/- and he wants you to recommend one of the above two shares for an investment

iii) Would your answer change if the Probabilities changes to 0.40, 0.30, 0.20, 0.10 for various economic seniors

Q3) (a) Following Balance sheet & Profit & loss account of M/s Ideal Enterprises. Are given below:
Balance Sheet As on 31/03/2018 **(15)**

Liabilities	Rs.	Assets	Rs.
Equity Share Capital [Rs. 100 Each]	3,20,000	Fixed Assets	7,36,000
10% Preference Share Capital	80,000	Trade Investment	24,000
General Reserve	2,40,000	Stocks	1,44,000
8% Debentures	2,40,000	Debtors	56,000
Sundry Creditors	70,000	Bills Receivable	32,000
Other Current Liabilities	50,000	Cash & Bank Balance	8,000
Total	**10,00,000**	**Total**	**10,00,000**

Profit & Loss A/c for the Year ending 31/03/2018

Particulars	Rs.	Particulars	Rs.
To Opening Stock	96,000	By Sales	15,84,000
To Purchases	3,20,000	By Closing Stock	1,44,000
To wages	4,00,000		
To Manufacturing Expenses	2,40,000		
To Administration Expenses	2,72,000		
To Selling & Distribution Expenses	2,40,000		
To Net Profit	1,60,000		
Total	**17,28,000**	**Total**	**17,28,000**

You are required to calculate the following Ratio's

[1] Current Ratio [2] Proprietary Ratio [3] Inventory Turnover Ratio [4] Capital Gearing Ratio [5] Average collection period [6] Receivable Turnover Ratio [7] Operating Cost Ratio

Note:- Assume All sales are on credit basis

Converting to vertical statement need not be required

OR

Q3) (b) Distinguish between CML and SML **(8)**

Q3) (c) Explain the difference types of investors **(7)**

Q4) (a) The rates of returns for security X and market portfolio for 10 periods are given below:- **(15)**

PERIOD	RETURN OF SECURITY X %	RETURNS OF MARKET PORTFOLIO %
1	20	22
2	22	20
3	25	18
4	21	16
5	18	20
6	-5	8
7	17	-6
8	19	5
9	-7	6
10	20	11

1) What is the beta of security X?
2) What is the characteristic line for security X by using CAPM?

OR

Q4) (b) As an investment manager you are given the following information: - **(8)**

INVESTMENT IN EQUITY SHARES	INITIAL PRICE	DIVIDENDS	MARKET PRICE AT THE END OF YEAR	BETA RISK FACTOR
Cement Ltd	25	2	50	0.8
Steel Ltd	35	2	60	0.7
Liquor Ltd	45	2	135	0.5
GOI Bonds	1000	140	1005	0.01

Risk free return may be taken at 14%. You are required to calculate:-

i) Expected Rate of return of Portfolio in each case using CAPM

ii) Average Return of Portfolio

Q4) (c) Calculate the beta factor of the following investment. Is acceptance of the investment worthwhile based upon the level of risk? The risk free rate may be taken at 6% **(7)**

PROBABILITY	MARKET RETURNS ON %	INVESTMENT
1/3	9	6
1/3	12	30
1/3	18	18

Q5) (a) What is technical analysis? Explain its principles. **(8)**

Q5) (b) Discuss types of charts used in technical analysis **(7)**

OR

Q5) (c) write Short note: (Any Three) **(15)**

1. Security market line
2. Arbitrage pricing theory
3. Advantage of portfolio management
4. Portfolio Evaluation
5. Moving Averages

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