TYBAF sem VI A.T.K.T. (Revised) Exam

Paper / Subject Code: 13003 / Financial Management-III

NOV-2022

[Time: 2 1/2 Hours] **[Marks: 75]**

N.B.: 1. Q.1 is compulsory.
2. Q.2 to Q.5 are compulsory with internal choice.
3. All questions carry equal marks.
4. Working notes should form part of your answer.
5. Use of simple calculator is allowed.

Q.1 A) Rewrite the following statements and state whether they are true or false. **(Any 8)** **(8)**

1. Optimum portfolio cannot be built overnight.
2. Systematic risk is undiversifiable risk because the investors cannot avoid it.
3. A single industry investment is more risky than two or more industries.
4. CAPM predicts the relationship between the risk and its expected return.
5. The capital of an open ended fund is limited.
6. Net Asset Value is the value of all assets plus liabilities.
7. Modigliani and Miller Hypothesis is in support of the irrelevance of dividends.
8. Gordon's model of dividend policy contends that dividends are relevant.
9. As per Bond Value Theorem, if the required rate of return is equal to coupon rate, bond sells at par value.
10. The candlestick chart is a modified version of a bar chart.

Q.1B) Match the columns. **(Any 7)** **(7)**

Column A	Column B
1.CAPM Return	a. EBIT/Capital Employed x 100
2.Objective of a firm	b. Cost of Goods Sold/Average stock x 100
3.Return on Investment	c. Dividend per share/Market price per share x 100
4.Technical Analysis	d. Bond sells at a discount
5.Required rate of return>Coupon rate	e. Bond sells at a premium
6. Required rate of return<Coupon rate	f. Performance Evaluation measure
7.Sharpe's measure	g. IRR
8.Dividend Yield	h. Use of charts
9.Inventory Turnover Ratio	i. $Rf + \beta (Rm - Rf)$
10.Yield to Maturity	j.Wealth Maximisation

Q.2 A) Flexible Mutual Fund provides you the following information relating to its Balanced Advantage scheme. You are required to compute the Net Asset Value (NAV) per unit of the scheme. **(8)**

Particulars	Rs in lakhs
Listed shares at cost (Ex-Dividend)	30.00
Bonds & debentures at cost	4.50
Of these, bonds not listed and quoted	1.00
Other fixed interest securities at cost	6.50
Dividend accrued	0.95
Amount payable on shares	4.95
Expenditures accrued	0.86
Cash in hand	4.00

Other information:

(1) Number of units (Rs 10 face value each) : 4,00,000

(2) Current realisable value of fixed income securities of face value Rs.100 is Rs 98.

(3) All the listed shares were purchased at the time when market index was 9,000 and currently it is 11,000.

(4) Listed bonds and debentures carry a market value of Rs 5,00,000.

(5) There is diminution of 10% in unlisted bonds and debentures valuation.

Q.2 B) Mr. Ram is considering investment in one of the following bonds: **(7)**

Bond	Coupon Rate	Maturity	Price/Rs100 par value
Bond S	10%	8 years	Rs 70
Bond T	14%	10 years	Rs 60

Recommend which bond should be purchased based on YTM method. Will your answer change if the required rate of return is 21%?

OR

Q.2 C) The following information is given for Vihan Ltd. **(8)**

Particulars	
Earnings Per Share	Rs 15.00
Dividend per Share	Rs 5.00
Cost of Capital	15%
Internal Rate of Return	20%
Growth in Dividend	12%

Calculate the market price per share using:

(i) Walter's Model (ii) Gordon Model

Q.2 D) Ravi Ltd has provided following information about the company. **(7)**

Particulars	Amount
Equity share Capital(Rs 10 face value)	Rs 500 Lakhs
15% Preference Share Capital	Rs 150 Lakhs
Profit after Tax	Rs 185 Lakhs
Proposed Dividend	Rs 50 Lakhs
Market Price per Share	Rs 75

You are required to calculate:

(i) Earnings per share (ii) P/E Ratio (iii) Dividend Pay-out Ratio

Q.3 A) The returns of stock B and market portfolio for last 4 years are as under: **(8)**

Year	% Return of Stock B	% Return on Market Portfolio
1	10	8
2	12	10
3	9	9
4	3	-1

(i) Calculate standard deviation of Stock B and the Market Portfolio.

(ii) Calculate beta of the Stock B.

Q.3 B) A bond of Rs 1,000 face value carrying interest rate of 10% is redeemable after 7 years at par. The current market price of the bond is Rs 930.Please advise whether an investor should purchase the bonds, if the expected rate of return is 12%? **(7)**

OR

Q.3 C) Calculate co-efficient of correlation from the following information: **(8)**

Year	% Return of Luv	% Return of Kush	% Market Return
1	8	7	11
2	9	11	12
3	11	10	13
4	12	16	20
Standard deviation	1.83	3.74	4.08

Q.3 D) Compare the following portfolios according to Jensen's measures of portfolio evaluation and rank them. **(7)**

Portfolio	Returns on Portfolio(%)	Beta	Risk free rate of return
1	15	1.5	8%
2	12	0.9	8%
3	10	1.2	8%
Market Index	12	1	8%

Q.4 A) Zen Ltd has 2,40,000 shares outstanding which is selling at Rs 20 per share. **(15)**
The company expects to earn a net profit of Rs 10,00,000 during the year end. The company proposes declaration of a dividend of Rs 3 per share at the end of the year.

The capitalization rate of risk class of the company is estimated as 15%.

What will be the market price of the share at the end of the year using M.M.Model, if
(a) Dividend is declared?
(b) Dividend is not declared?

You are required to assume that the company decides to pay dividend and it makes a new investment of Rs 12,00,000. How many new shares must be issued by the company?

OR

Q.4 B) The details of two portfolios are given below. Compare these portfolios on performance using the Sharpe and Treynor's measure . **(8)**

Portfolio	Average Return	Standard Deviation	Beta
1	15%	0.25	1.25
2	12%	0.30	0.75

The risk-free rate of return is 9%

Q.4 C) An investor purchased 400 units of a mutual fund at Rs 14 per unit on 31st March, 2017. **(7)**
As on 31st March 2018, he received Rs 1.50 as dividend and Rs.1.25 as capital gain distribution per unit.
You are required to calculate the return on the investment if the NAV as on 31st March, 2018 is Rs 16.

Q.5 A What is Strategic Financial Management? Explain any seven functions of Strategic Financial Management. **(8)**

Q.5 B Explain Modigliani and Miller Hypothesis to dividend policy. State the the assumptions of this hypothesis. **(7)**

OR

Q.5) Write a short note on (any **three**): **(15)**

i) Factors affecting industry analysis
ii) Classification of Mutual Funds
iii) Objectives of portfolio management
iv) Market indicators of technical analysis
v) Yield To Maturity (YTM)

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