PARUL UNIVERSITY
FACULTY OF COMMERCE
M.Com.(Hons) Winter 2018 – 19 Examination

Semester: 3   Date: 24/10/2018
Subject Code: 16201202   Time: 10.30 am to 1.00 pm
Subject Name: Security Analysis & Portfolio Management   Total Marks: 60

Instructions:
1. All questions are compulsory.
2. Figures to the right indicate full marks.
3. Make suitable assumptions wherever necessary.
4. Start new question on new page.

Q.1 Do as directed.

A) Multiple choice type questions. (Each of one mark) (06)

1. Free cash flows are computed as cash from operations less _____.

   a) Capital expenditure   b) Revenue expenditure
   c) Cash expenditure   d) All of the above

2. EVA stands for _____.

   a) Earnings value asset   b) Equity value asset
   c) Equal value asset   d) Economic value added

3. Portfolio _____ are the weighted returns of all securities constituting the portfolio.
   a) Risk   b) Return
   c) Value   d) Rate

4. _____ is based on the risk and return analysis.
   a) Modern approach   b) Risk approach
   c) Traditional approach   d) Return approach

5. _____ is the risk which is non-diversifiable.
   a) Systematic Risk   b) Money Risk
   c) Unsystematic Risk   d) None

6. _____ relates to the variability of the business performance.
   a) Money risk   b) Company risk
   c) Market risk   d) Business risk

B) Answer the following. (Each of one mark) (06)

1. What is share valuation?
2. What is portfolio construction?
3. What is Portfolio Risk?
4. What is Investment?
5. What is Convertible debt?
6. What is Future contract?

Q.2 Answer the following.   (Each of 04 mark) (12)
1. What are financial Assets?
2. What are characteristics of investment?

3 The following information is given about two companies Rani limited & raja limited. Compute standard deviation of the returns of their shares.

Rani Limited		Raja Limited	
Return (ri)	**Probabilities (pi)**	**Return (ri)**	**Probabilities (pi)**
5	0.10	5	0.05
7	0.20	7	0.15
9	0.30	9	0.20
11	0.25	10	0.40
13	0.15	11	0.20

Q.3 **Answer the following.   (Any Three)** (18)

1. What are sources of systematic risk?

2. Explain the reasons for negative earnings.

3. The current dividend on an equity share of Vertigo Limited is Rs. 2.00. Vertigo is expected to enjoy an above-normal growth rate of 20 per cent for a period of 6 years. Thereafter the growth rate will fall and stabilize at 10 per cent. Equity investors require a return of 15 per cent. What is the intrinsic value of the equity share of Vertigo?

4. The expected dividend per share of Vaibhav Limited is Rs. 5.00. The dividend is expected to grow at the rate of 6 per cent per year. If the price per share now is Rs. 50.00, what is the expected rate of return?

Q.4 **Answer the following. (Any two)** (18)

1. Explain the steps in traditional approach of portfolio construction.

2. Two securities P and Q are considered for investment. Compute the risk and return of the portfolio assuming the two securities, whose correlation coefficient of returns is –0.84, are combined in the following proportions in the portfolio: (a) 0: 100, (b) 10: 90, (c) 20: 80, (d) 50: 50, (e) 80: 20, (f) 90: 10, (g) 100: 0. The historical risk-return of the two securities is as follows:

Security	Risk (%)	Return (%)
P	20	15
Q	30	20

3. The following risk-return combinations of portfolios are available to an investor. Assume the risk tolerance level for the investor is 30 per cent, rank the portfolios and select the best portfolio that fits investor requirement.

Portfolio	A	B	C	D	E	F	G	H	I	J
Return (%)	10	18	25	28	30	27	27	30	35	13
Risk (%)	15	20	25	24	29	25	23	28	30	17
Risk penalty	7.5	13.33	20.83	19.2	28.03	20.83	17.63	26.13	30	9.63
Portfolio utility	2.5	4.67	4.17	8.8	1.97	6.17	9.37	3.87	5	3.37