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P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Third Semester, Master of Business Administration (MBA)

Semester End Examination; Jan. / Feb. - 2021

Investment Management

Time: 3 hrs *Max. Marks: 100*

***Note**: i) Answer all **FOUR** full questions from **PART - A** and **PART - B** (Case study) is compulsory.*

ii) Scientific calculators are allowable. iii) PV and FV tables are allowable.

Q. No.	Questions PART - A	Marks

1 a. Differentiate between capital and money market. Explain the following money market instruments: — 10

i) Commercial Paper ii) Treasury Bills

b. Investigate attributes of ideal investment. — 10

OR

2 a. Mr. Swaroop got retired from services. He received 50 lacs rupees from superannuation fund, he wants to invest those in some investment which can fetch him fixed returns. So kindly advise him appropriate investment alternatives which will fetch him fixed return along with secured principal amount? Explain any two instruments in detail. — 10

b. Suppose that the index consist of only five shares: Stock *A*, *B*, *C*, *D*, *E* their detail is given as below, — 10

Sl. No.	Company *Y*	Total Shares	Held by promoters	Market (price / share)
1	*A*	5000	2000	200
2	*B*	3000	1000	500
3	*C*	1000	200	150
4	*D*	1000	400	250
5	*E*	2000	500	50

The base year index is 1000 and the market capitalization is 1000000. Estimate the value of index today using free float capitalization method.

3 a. "Stocks are considered to be risky but bonds are not". Elucidate the statement. — 10

b. Arjun buys bond with four years to maturity. The bond has a coupon rate of 9% and is prices ` 100 in the market. Estimate the duration of the bond. — 10

OR

4 a. Explain various bond value theorems with examples. — 10

b. Prem is considering the purchase of a bond currently selling at ` 878.50. The bond has four years to maturity, face value of ` 1000 and 8% coupon rate. The next annual payment is due after one year from today. The required rate of the return is 10%. Compute the Yield to maturity of the bond. — 10

5 a. The company is expected to enjoy an above normal growth rate of 10% for first 4 years. After four years the growth rate of dividend is assumed to decline linearly to 6% thereafter the growth rates stabilize at 6% infinitely. The next year dividend is ` 2 Equity investors require a return of 14%.What is the intrinsic value per share? 10

b. What do you understand by valuation and why there is need for valuation? 10

OR

6 a. Current dividend on an equity share of IAL is ` 4. The company is expected to enjoy an above normal growth rate of 18% for 6 years. Thereafter the growth rate will fall and stabilize at 12%. Equity investors require a return of 18% from IAL stock. What is the intrinsic value per share of IAL LTD? 10

b. From the following information of Best Ltd. ascertain the following:
The current intrinsic value of share Recent EPS = INR 2.00, growth rate (constant) = 5%, dividend payout Ratio = 50%, required Rate of Return = 10%. After five years the P/E ratio is 10.5. 10

7 a. Explain the utility of the economic analysis and state the economic factors analyzed as a part of fundamental analysis. 10

b. Compute the relative strength index of Company *A*'s share 10

Day	1	2	3	4	5	6	7	8	9	10
Price	300	310	312	317	320	340	330	350	352	240

OR

8 a. Explain the following technical indicators: 10

i) Inverted head and shoulders
ii) Triangles
iii) Doji
iv) Inverted Hammer

b. What is market efficiency? Explain different forms of market efficient hypothesis. 10

PART - B (Case Study Compulsory)

9. Abhishek's has ` 50,000 to make one time investment. His son has entered higher secondary school and he needs his money back after two years for his son's educational expenses. As Abhishek's outflow is one time outflow, duration is simply two years. Now he has a choice of two types of bonds.

Bond *A* has a coupon rate of 7% and Maturity period of four years with a current yield of 10%. Current price is 904.90.

Bond *B* has a coupon rate of 6% and Maturity period of one year with a current yield of 10%. Current price is 963.64.

a. Advice Abhishek's in what proportion he has to invest in each bond? 10

b. How much of each bond he has to purchase such that his portfolio is completely immunized? 10

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