# Z 4523

## M.B.A. DEGREE EXAMINATION, NOVEMBER/DECEMBER 200ι

### Third Semester

### BA 1727 — SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT

### (Regulation 2005)

Time : Three hours                                    Maximum : 100 marks

Answer ALL questions.

PART A — (10 × 2 = 20 marks)

1. Define an investment.

2. What is a security analysis?

3. What is the meaning of company analysis?

4. Distinguish between market value and book value of shares.

5. How is technical analysis different from fundamental analysis in investment management?

6. How charts are interpreted in technical analysis?

7. Explain the term portfolio.

8. What is arbitrage pricing theory?

9. Define debt market.

10. State the criteria for evaluation of portfolio.

PART B — (5 × 16 = 80 marks)

11. (a) Describe the wide array of investment avenues.

Or

(b) What are the qualities required for successful investing?

12. (a) When you 'buy' or sell shares (or debentures) of a company, what points should you bear in mind?

Or

(b) Describe the key initiatives taken by SEBI.

13. (a) Describe two commonly used ways of decomposing ROE into its underlying determinants.

Or

(b) The financials of GSM Ltd ; are given below :

Financials of GSM Ltd ;

|  | | (Rs. in crores) | | | |
|---|---|---|---|---|---|
|  | 2001 | 2002 | 2003 | 2004 | 2005 |
| Net sales | 1020 | 1090 | 1210 | 1350 | 1520 |
| Cost of goods sold | 734 | 807 | 883 | 959 | 1095 |
| Gross profit | 286 | 283 | 327 | 391 | 425 |
| Operating expenses | 72 | 74 | 85 | 105 | 120 |
| Operating profit | 214 | 209 | 242 | 286 | 305 |
| Non-operating surplus/deficit | 11 | 14 | 18 | −12 | −5 |
| PBIT | 225 | 223 | 260 | 274 | 300 |
| Interest | 40 | 45 | 60 | 66 | 55 |
| Profit before tax | 185 | 178 | 200 | 208 | 245 |
| Tax | 35 | 38 | 40 | 52 | 50 |
| Profit after tax | 150 | 140 | 160 | 156 | 195 |
| Dividends | 60 | 60 | 65 | 65 | 70 |
| Retained earnings | 90 | 80 | 95 | 91 | 125 |
| Equity share capital (Rs. 10 par) | 200 | 200 | 200 | 250* | 250 |
| Reserves and surplus | 400 | 480 | 575 | 616 | 741 |
| Share holders' funds | 600 | 680 | 775 | 866 | 991 |
| Loan funds | 400 | 450 | 550 | 600 | 615 |
| Capital employed | 1000 | 1130 | 1325 | 1466 | 1606 |
| Net fixed assets | 600 | 650 | 710 | 850 | 900 |
| Investments | 50 | 55 | 60 | 70 | 80 |
| Net current assets | 350 | 425 | 555 | 546 | 626 |
| Total assets | 1000 | 1130 | 1325 | 1466 | 1606 |
| Market price per share (end of year) | 60 | 55 | 65 | 57 | 75 |

*bonus shares were issued in the ratio of 1 : 4.

Required :

(i) Calculate the following for the last five years : Return on equity ; Book value per share ; EPS ; Bonus adjustment factor ; Adjusted EPS ; PE ratio (prospective) : PE ratio (restrospective) ; Retention ratio.

(ii) Calculate the CAGR of sales, CAGR of EPS, and volatility of ROE.

(iii) Estimate the EPS for the next year (2006) using the following assumptions.

(1) net sales will increase by 12 % (2) cost of goods sold will increase by 11% (3) operating expenses will increase by 10% (4) there will be nil non-operating surplus or deficit (5) interest will decrease by 2% (6) effective tax rate will increase by 2%.

14.  (a)  Explain the Dow theory.

Or

(b)  Explain the following technical indicators :

(i) new highs and lows (ii) volume, (iii) short interest ratio and (iv) put/call ratio.

15.  (a)  Spell out the key steps involved in portfolio management.

Or

(b)  The following information is available :

|                           | Stock A | Stock B |
|---------------------------|---------|---------|
| Expected return           | 16%     | 12%     |
| Standard deviation        | 15%     | 8%      |
| Coefficient of correlation|    0.60 |         |

(i)  What is the covariance between stocks of A and B?

(ii)  What is the expected return and risk of a portfolio in which A and B have weights of 0.6 and 0.4.

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