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**Presidency University**

**Bengaluru**

**School of Management**

**Make-up Examination - July 2024**

**Date**: 3 July 2024

**Time**: 9:30am – 12:30pm

**Max Marks**: 100

**Weightage**: 50%

**Semester**: III

**Course Code**: MBA3005

**Course Name**: Investment Management

**Department:** SOM

**Instructions:**

1. *Read the all questions carefully and answer accordingly.*
2. *Do not write any information on the question paper other than roll number.*
3. *Question paper consists of 3 parts.*

**PART A**

**Answer any 10 Questions. Each question carries 3 marks. (10Qx 3M= 30)**

1. The Edward Corporation recently paid a dividend of $4 per share. Dividends have been growing at an annual rate of 8 % and its growth rate is expected to continue in the foreseeable future. If the required rate of return for Edward’s stock is 14%, What is the value of stock? (CO:02 Knowledge)
2. The Jackson Corporation has a required rate of return of 16% and its current dividend is $3 per share. If the current price of Jackson’s stock is $55 per share, what is the growth rate of its dividends? (CO:02 Knowledge)
3. Jim Evans is considering purchasing the common stock of the Alpine Corporation. Alpine’s Current Market price is $50 per share. According to Jim’s analysis, Alpine has a present value of $55 per share. What should Jim do? (CO:02 Knowledge)
4. Jennifer Miles is seriously thinking about investing in the common stock of the Holmes Company. Holmes has a current market price of $35 per share; Jennifer has estimated that Holmes should be selling for $30 per share. Should Jennifer purchase the stock? CO:02 Knowledge)
5. Assume that you are an investment adviser who has instructed one of your clients to invest their $100000 in U.S Treasury notes due to mature in 2 years. If your client becomes worried that a general increase in the level of interest rates will reduce the market value of his bond portfolio, what should you say to allay your client’s fears? (CO:03 Knowledge)
6. Assume you are an investment counsellor and one of your clients reads something about interest-rate risk and is worried that if market interest rates declined her coupon interest income will likewise decline. Her bond investments have maturities raging from 15 to 30 years. What advice is appropriate for this client? (CO:03 Knowledge)
7. Assume Risk free rate is 9% and Market return is 15%. The expected returns and betas are given below for three stocks. (CO:03 Knowledge)

|  |  |  |
| --- | --- | --- |
| Stock | Expected Return% | Expected beta |
| H | 14 | 1.20 |
| I | 15 | 0.75 |
| J | 20 | 1.50 |

Which stock(s) are undervalued? Overvalued?

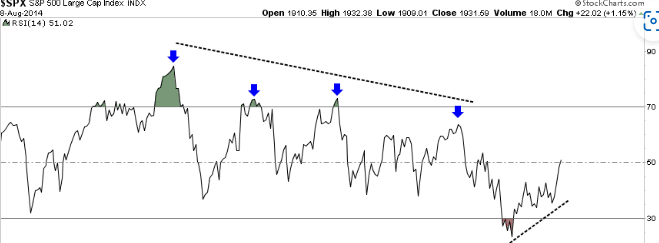
1. Mr. Ed Moss is considering investing in the stock of the Shemp Corporation. Ed expects Shemp to earn a return of 16 percent. Shemp’s beta is 1.4, Risk free rate is 8 percent, and Market return is 14 percent. Should Ed invest in the Shem Corporation? (CO:02 Knowledge)
2. The Logan Corporation currently has earnings that are $4 per share. In recent years earnings have been growing at a rate of 7.5 percent, and this rate is expected to continue in the future. If the Logan Corporation has a retention rate of 40% and a required rate of return of 14 percent, what is its current value? (CO:02 Knowledge)
3. The Evan company is expecting earnings per share next year to be $5. If earnings have been growing at a rate of 8 percent year in the past and this growth is expected to continue in the future, determine the current required rate of return for this company’s stock. Assume a dividend payout of 60 percent and a current price of $65. (CO:02 Knowledge)
4. Name and explain a few common candlestick patterns used in technical analysis

. (CO:04 Knowledge)

1. How can traders interpret candlestick patterns to forecast price movements? (CO:04 Knowledge)

**PART B**

**Answer any 4 Questions. Each question carries 10 marks. (4Qx 10M= 40)**



1. Identify the chart pattern followed in the figure. How can chart patterns assist in identifying potential trend. (4.5 marks)
2. How does the concept of "breakout" apply to chart patterns, and what does it signify? (2.5 marks) (CO:04 Application)
3. Consider the following two bonds with the same yield-to-maturity (YTM) of 6%: Bond A is a 15-year, 25% coupon bond, and bond B is a 5-year, 5% coupon bond. (Assuming a Face Value of $1,000)
4. Compute the prices for both bonds. (3 marks)
5. What happens to the prices of these bonds if the YTM increases to 7% in the next year, everything else being the same? (Hint: calculate the price for next year with YTM = 7%) (4 marks)

(CO:02 Application)

The returns on securities 1 and 2 under five possible states of nature are given below:

|  |  |  |  |
| --- | --- | --- | --- |
| State of nature | Prob. | Return on SBI (in %) | Return on HDFC (in %) |
| 1 | 0.1 | -10 | 5 |
| 2 | 0.3 | 15 | 12 |
| 3 | 0.3 | 18 | 19 |
| 4 | 0.2 | 22 | 15 |
| 5 | 0.1 | 27 | 12 |

Compute: (a) Expected return on securities. (b) Covariance between the returns on securities

(CO:03 Application)

1. (a) The risk-free rate is 8 percent and the expected return on the market portfolio is 14 percent. The beta of stock Q is 1.25. Investors believe that the stock will provide an expected return of 17 percent. Compute the alpha of the stock. (4 marks)

(b) Explain any three factors which influences the market risk premium? (3 marks)

(CO:02 Application)

1. Mr Christopher provides the following information of his portfolio for the year 2023:

|  |  |  |
| --- | --- | --- |
| Asset | Amount Invested Rs | Returns % |
| RIL | 500000 | 20% |
| SBI | 800000 | 12% |
| TISCO | 1000000 | 22% |

From the above, (a) Compute the Portfolio Return (5 marks). (b) Explain the expected return on a portfolio of risky assets?

(CO:03 Application)

1. The Share Price of Tata Steel for a 5-year period is given below:

|  |  |
| --- | --- |
| Year | Closing Rs |
| 2018 | 683 |
| 2019 | 650 |
| 2020 | 720 |
| 2021 | 780 |
| 2022 | 715 |
| 2023 | 800 |

Considering the above, compute:

* 1. CAGR of Returns for a period of 5 Years from 2018 to 2023 (4.5 marks)
  2. Real Return of Tata Steel for the 5 Year period assuming an average Inflation of 7% p.a. (2.5 marks) (CO:01 Application)

**PART C**

**Answer the following Questions. (2Qx 15M= 30)**

1. You are employed as a Financial Analyst with M/s Morgan Stanley. You are assigned the task of computing the Intrinsic Value per Equity Share of M/s Chaya Agro Ltd. The data that is provided to you is as follows:

|  |  |
| --- | --- |
| **Particulars** |  |
| Paid up Equity Share Capital | ₹300 Lacs |
| Face Value per Share | ₹ 10 |
| Profit after Tax for the Year ended 31st March 2023 | ₹800 Lacs |
| Dividend Payout Ratio | 40% |
| Return on Equity (ROE) | 25% |
| Beta of the Company | 1.35 |
| Risk Free Rate of Return | 7.5% pa |
| Market Rate of Return | 18% pa |
| Market Price per Share | ₹240 |

Considering the above information, you are required to

1. Compute the Intrinsic Value per Equity Share
2. Comment on whether this Share is Overpriced or Underpriced (CO:03 Analysis)
3. Ms Zoya is new to investing and wants to invest in Bonds / Debentures for a period of 5 years. Ms Zoya’s Personal Banker has recommended the following two bonds for investment, the details of which are given below:

|  |  |  |
| --- | --- | --- |
| Sl. No. | Particulars |  |
| 1 | 6 Year Muthoot Finance Debenture with a Annual Coupon of 8% currently trading in the market for ₹ 954 with a Face Value of ₹1000 |  |
| 2 | 6 Year India Bulls Housing Zero Coupon Debenture with a Principal Value of Rs 1000 paying interest @ 8% pa compounded annually and trading in the market currently at ₹ 1024 |  |

Ms Zoya has recently read about Duration of a Bond and wants to invest in only ONE of the above Debentures whichever has a lower price variability. As a Investment expert, you are required to:

1. Compute the Duration of both these Debentures
2. Indicate the price variability of these Debentures for one percentage change in Interest Rate
3. Suggest to Ms Zoya as to which of these Debenture should she invest, considering her investment objective (CO:04 Analysis)