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Question Paper Code: CMB419

MBA IV Semester End Examinations (Regular) - May/June, 2018

Regulation: .–R16

Strategic Investment and Financing Decision

(MBA)

Time: 3 Hours (Elective : Finance) Max Marks: 70

Answer ONE Question from each Unit
All Questions Carry Equal Marks
All parts of the question must be answered in one place only

UNIT – I

1. (a) What is risk? Explain different types of risks associated with equity investment. [7M]
   (b) M/s. Khan and Co., a Mumbai based company issues a pure discount bond of Rs.1000/- face value for Rs.520/- for a period of five years. As a investor, compute the interest rate of the bond and suggest whether it is an attractive investment for an investor who is seeking 15% return. [7M]
2. (a) Differentiate disclosed and undisclosed orders and Explain about stop loss orders [7M]
   (b) Mr. Naveen is evaluating two stocks shown in Table 1: [7M]

Table 1

Stock A		Stock B	
Return	Probability	Return	Probability
-30	20	-10	10
0	40	0	25
30	30	10	40
70	10	20	25

Advice Mr.Naveen based on risk of the stock.

UNIT – II

3. (a) Define capital budgeting. Explain the advantages of net present value and payback period methods. [7M]
   (b) Mr. Vijay an investor, has furnished following information about the two investment alternatives shown in Table 2. Evaluate based on [7M]
      i. Expected return
      ii. Standard deviation
      iii. Standard deviation and expected return.

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Table 2

Probability	Return	
	Security "A"	Security "B"
0.5	4	0
0.4	2	3
0.1	0	3

Suggest which one is good for investment.

4. (a) The earnings per share of a company is Rs.10/- It has an IRR of 15% and capitalization rate of its risk class is 12.5%. If Walters Model is used
   i. What would be the optimum payout ratio of the firm?
   ii. What would be the price of the share at this payout?

   [7M]

   (b) An investor holds shares of "XYZ" company bought at Rs.335/- and present price is Rs.421/-. The dividend paid is 35%. Compute the dividendyield and holding period return, if face value of the share is Rs.10/-. [7M]

UNIT – III

5. (a) What are government bonds? Explain any five features of government bonds. [7M]

   (b) A perpetual bond Rs.100/- is currently selling for Rs.95/-. The coupon rate of interest is 13.5% and appropriate discount rate is 15%. Calculate the value of the bond. Should it be bought? What is its yield to maturity?

   [7M]

6. (a) Explain Macullay's bond duration concept with an example. [7M]

   (b) Mr.Amit a safe investor decides to invest in a bond. He is evaluating a bond, Bond "A" with 7% coupon having maturity period of four years. The face value is Rs.1000/-. The bond currently yields 10%. Evaluate and advice Mr.Amit based on Maculay's Duration. [7M]

UNIT – IV

7. (a) Discuss Walters the relevance theory of dividend which supports the argument that dividend decision has an impact shareholders value and value of the firm. [7M]

   (b) A company expects to pay a dividend of Rs.7/- per share next year that is expected to grow at 6%. It retains 30% of earning. Assume a capitalization rate of 10%, you are required to calculate
   i. Expected earnings per share.
   ii. Return on equity.

   [7M]

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8. (a) Explain dividend model and state its assumptions. [7M]

   (b) The return of ABC Company at present is 21%. This is assumed to continue for next four years after that it is assumed to have a growth rate of 10% indefinitely. The dividend paid for the recent year is 32%. The required rate of return is 20% and present price is Rs.60/-. Compute the estimated price assuming two stage model. [7M]

UNIT – V

9. (a) Define portfolio management. Explain the objectives of portfolio management. [7M]

   (b) Information shown in Table 3 is available regarding performance of three mutual funds namely A, B and C respectively. Rank them with Sharpe's and Treynor's Index. [7M]

Table 3

Funds	Rp	Sd	Beta
A	25.38	4	0.23
B	25.11	9.01	0.56
C	25.01	3.55	0.59

10. (a) Explain the capital asset pricing model theory. State its underlying assumptions. [7M]

    (b) Mr.Kiran is having units in mutual fund for the past three years as shown in Table 4. Advice him to evaluate the fund's performance by comparing it to market using Treynors Index. [7M]

Table 4

Particulars	Fund	Market
Return (%)	70.66	41.40
Standard Deviation	41.31	19.44
Risk free rate (%)	12	12
Beta	1.12	-

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