

# FINAL EXAMINATION

December 2013

P-14(AFM)  
Syllabus 2012

## Advanced Financial Management

Time Allowed: 3 Hours

Full Marks: 100

*The figures in the margin on the right side indicate full marks.*

*Answer Question No. 1 which is compulsory.*

*From Section A: Answer any two questions.*

*From Section B: Answer any one question.*

*From Section C: Answer any one question.*

*From Section D: Answer any one question.*

1. Answer all questions:

- (a) Mr. Kiritee Prasad can earn a return of 16 per cent by investing in equity shares on his own. Now he is considering a recently announced equity-based Mutual Fund Scheme in which initial expenses are 5.70 per cent and annual recurring expenses are 1.70 per cent.

How much should the Mutual Fund earn to provide Mr. Kiritee Prasad a return of 16 per cent? 3

- (b) The following table gives details of the market value of a Pharma Fund of a portfolio manager during the year along with the value of cash flows into the Fund:

(₹ in crores)

Time (years)	Market value of Pharma Fund	Cash flow
0.25	93	(+) 5
0.50	99	(+) 2
0.75	105	(+) 7
1.00	115	—

The value of the Fund at the beginning was ₹ 90 crores. Calculate Time Weighted Rate of Return (TWROR). 3

- (c) (i) Draw a relationship between call option and put option in put-call Parity theory. 3  
(ii) A 8-version Laptop is priced at \$ 461.5 at New York. The same version Laptop is priced ₹ 30,500 in New Delhi.

Calculate the exchange rate in New Delhi, if over the next year, price of the Laptop increased by 8% in New Delhi and 5% in New York.

Determine the price of Laptop at New Delhi and New York. 2

- (d) The Beta Co-efficient of Moon Light Ltd. is 1.40. The Company has been maintaining 8% rate of growth in dividends and earnings. The last dividend paid was ₹ 4 per share. Return on Government securities is 12% Return on Market Portfolio is 18%. The current market price of one share of Moon Light Ltd. is ₹ 32. What will be the equilibrium price per share of Moon Light Ltd.? 2

- (e) The equity of Southern India Automobiles Ltd. (SIAL) is ₹ 750 crores. Its Debt is worth ₹ 330 crores. 84% of the value is attributable to CAR & AUTO Accessories segment which has an Asset Beta of 1.25. The balance value is applied on MISC. Accessories division, which has an Asset Beta of 1.10. Compute Equity Beta, if the Debt Beta is 0.15. 2

- (f) ADITYA BIRLA CHEMICALS LTD. adopts constant WACC approach and believes that its cost of Debt and Overall Cost of Capital is at 9% and 12% respectively. If the ratio of the market value of Debt to the market value of Equity is 0.8, what rate of return do Equity Shareholders earn? (Assume that there are no taxes.) 3

Please Turn Over

(g) The Capital of Pigments Ltd. is as follows:

9% preference shares of ₹ 10 each	₹ 3,00,000
Equity shares of ₹ 10 each	₹ 8,00,000
Following further information is available:	
Profit after tax	₹ 2,70,000
Equity dividend paid	20%
Market price of Equity Shares	₹ 40 each

Compute: Earnings Per Share (EPS) and Price Earning Ratio (PE Ratio).

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SECTION A

(Answer any two of the following.)

2. (a) Following information is available regarding four Mutual Funds:

Mutual Fund	Return %	Standard Deviation ( $\sigma$ )	Beta ( $\beta$ )
A	12	15	0.80
B	16	22	0.76
C	21	37	1.15
D	13	24	1.32

Risk free rate of return is 10% and face value is ₹ 100 each.

Evaluate the performance of these Mutual Funds using Sharpe Ratio and Treynor's Ratio. Comment on the evaluation after ranking the Funds.

(b) What makes commodity trading attractive?

(c) Distinguish between 'Inter Corporate Deposits' and 'Public Deposits'.

6+3+3=12

3. (a) Who are the participants of Commodity Market?

(b) Explain the following commonly used terms in Commodity Market:

(i) Forward contract

(ii) Futures market

(c) Explain 'Final Settlement' and 'Pay-out mechanism of final settlement' in a clearing house.

3+4+5=12

4. Explain in brief:

(i) SEBI regulations and

(ii) RBI Guidelines relating to infrastructure sector.

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