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FINAL EXAMINATION

June 2014

-P14(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) A mutual Fund had a Net Asset Value (NAV) of ₹ 72 at the beginning of the year. During the year, a sum of ₹ 6 was distributed as Dividend besides ₹ 4 as Capital Gain distributions. At the end of the year, NAV was ₹ 84. Calculate total return for the year. 3

(b) What is meant by "Hard" and "Soft" infrastructure? Explain them in brief. 3

(c) (i) List down any two uses for SWAPS. 3

(ii) A Call Option at a strike price of ₹ 280 is selling at a premium of ₹ 23. At what share price on maturity will it break-even for the buyer of the option?

Will the writer of the option also break-even at the same price? 2

(d) A firm has an equity beta of 1.5 and is currently financed by 20% debt and 80% equity.

What will be the company's equity beta if the company changes its financing policy to 40 : 60 ratio of debt and equity respectively? Corporation tax rate is 34%. 2

(e) The following two types of securities are available in the market for investment:

Security	Return %	Standard Deviation%
Gilt-edge Security	7	0
Equity	25	30

Using the above two securities, if you are planning to invest ₹ 1,00,000 to construct a portfolio with a standard deviation of 24%, what is the return of such portfolio? 2

Please Turn Over

(f) A new project under consideration requires a capital outlay of ₹ 600 lakhs. The required fund can be raised either fully by Equity Shares of ₹ 100 each, or by Equity Shares of the value of ₹ 400 lakhs and by loan of ₹ 200 lakhs at 15% interest.

Assume tax rate of 40%.

Calculate the Profit before tax that would keep the Equity investors indifferent to two options. 2

(g) MEGATRON LTD. paid a dividend of ₹ 2.60 during the last year and the growth rate in the dividends is expected to be 8%. The current market price of the stock is ₹ 30.00. The beta of the stock is 1.60 and the return on the market index is 13%. If the risk-free rate of return is 8%, by how much should the price of the stock be raised in percentage terms so that it is at equilibrium? 3

SECTION A

(Answer *any two* of the following)

2. (a) Following information is available regarding six portfolios:

Portfolio	Average annual return	Standard Deviation	Correlation with market
A	22.0	21.2	0.70
B	18.6	26.0	0.80
C	14.8	18.0	0.62
D	15.1	8.0	0.95
E	26.5	19.3	0.65
F	(-) 9.0	4.0	0.42
Market Risk	12.0	12.0	
Free Rate	9.0		

You are required to:

(i) Rank these Portfolios using Sharpe's method and Treynor's method; and

(ii) Compare the ranking and explain the reasons behind the differences.

(b) Compare and contrast Commodity markets and Equity markets. [(6+2)+4=12]

3. Bright Mutual Fund sponsored an open-ended equity oriented scheme "Kautilya Opportunity Fund". There were two plans, viz. 'X'- Dividend Reinvestment Plan and 'Y' - Bonus Plan.

At the time of Initial Public Offer on 01.04.2003, Mr. Ram and Mr. Hari invested ₹ 1,00,000 each and had chosen 'X' and 'Y' Plan respectively.