K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
PGDM (IB) – 2017 – 20 BATCH
VI TRIM – END TERM PAPER
(Elective)
Security Analysis & Portfolio Managment

Date : 12/04/2019 ***Time : 3 Hours*** ***Marks : 50***

Question 1 (20 marks)

You are handling a portfolio of a client, structured as under:

Security	Value
Stock A	30,000
Bond B	70,000

Stock A represents Equity Shares of A Ltd., which has achieved a turnover of Rs 5000 Crores per the latest financials, and has managed an Asset Turnover Ratio of 0.5. The ROCE achieved by A Ltd. was 25% and the Interest Coverage Ratio was 5. Corporate Taxes were 40% and they had 50 Million Shares outstanding. They stuck to a retention ratio of 0.6. The dividends and prices of shares were expected to grow @ 10% and these shares are currently trading @ Rs 1320 per share.

Bond B represents Bonds of B Ltd., carrying an annual coupon of 10% and which are currently trading @ Rs 125 and have Face Value of Rs 100 per Bond. These have 5 years to maturity.

The risk prevalent on Securities of A & B Ltd. are 20% and 4% respectively and the covariance between them is 0.025.

Answer the following questions:

1. *What is the Expected Return for the Portfolio?*
2. *What is the Expected Level of Risk in the Portfolio?*
3. *Comment on the probable client profile?*
4. *In order to diversify the portfolio optimally, what corrective steps would you take to push his portfolio towards the Minimum Variance Frontier?*
5. *As a portfolio manager, what would you expect if you start adding Government Bonds & Securities to the Portfolio, will the Frontier still remain? If not, what could probably happen, explain in the context of a Capital Allocation Line?*

Question 2 (10 marks)

Explain in brief:

a) Arbitrage Pricing Theory
b) Hedgers, Arbitrageurs & Speculators
c) Efficient Market Hypothesis

Question 3 (10 marks)

You are analysing an equally weighted portfolio, consisting of Stocks of Samsung, LG & Onida. The Expected Returns are 25%, 20% and 18% respectively.

The covariances between them are:

	Covariances		
	Samsung	LG	Onida
Samsung	0.10	0.05	0.04
LG	0.05	0.08	0.025
Onida	0.04	0.025	0.06

Calculate the expected return and the risk in the portfolio?

Question 4 (10 marks)

Explain the fundamental differences (Use Diagrams also where appropriate) between:

a) Capital Allocation Line and Security Market Line
b) M-Square and Jensen's Alpha

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