

ANURAG GROUP OF INSTITUTIONS

Venkatapur (V), Ghatkesar (M), R.R. Dist

School of Business Management (2015-16)
SECURITY ANALYSIS & PORTFOLIO MANAGEMENT (A9300/F)

Course File TEACHING PLAN (2015-16)

S.NO	TOPIC	NO. OF CLASSES	REFERENCES
UNIT-1 INTRODUCTION			PRASANNA CHANDRA, “INVESTMENT ANALYSIS AND PORTFOLIO MANAGEMENT”
1.	a) Investment Environment in India	1	
2.	Overview of Indian Financial System	1	
3.	Securities Trading in Stock Markets	2	
4.	Investment Alternatives, The Investment Management Process	2	
5.	b) Security Analysis: Fundamental Analysis	2	
6.	Technical Analysis	2	
7.	Efficient Market Hypothesis (EMH)	2	
Total		12	
UNIT -2 FINANCIAL AND SECURITIES MARKET			
8	Structure and functions of call money market	1	
9	Government securities market	1	
10	T-Bill Market, Commercial Bills Market, commercial Paper	1	
11	Certificate of Deposits, Securities Markets	1	
12	Organization and structure, Listing, Trading and Settlement Procedures	2	
13	Regulation of Primary and Secondary Markets- SEBI	2	
Total		8	
UNIT-3 PORTFOLIO ANALYSIS			&
14	The risk and returns from investing	1	
15	Markowitz Portfolio Theory	2	
16	Mean Variance Approach	2	
17	Portfolio Selection – Efficient Portfolios	2	
18	The single Index Model-Capital Asset Pricing Model	2	
19	Arbitrage Pricing Theory	2	
Total		11	
UNIT-4 BOND ANALYSIS, VALUATION & MANAGEMENT			PUNITHAVATHI PANDIAN “SECURITY ANALYSIS AND PORTFOLIO MANAGEMENT”
20	Types of bonds	1	
21	Interest rates, Term Structure of interest rates	1	
22	Measuring Bond yields, Yield to Maturity	1	
23	Yield to call, Holding Period Return	2	
24	Bond Pricing Theorems	2	
25	Bond Duration, Active and Passive Bond Management Strategies	2	
26	Bond Immunization, Bond volatility, Bond Convexity	2	

	Total	11
	UNIT-5	
27	a) EQUITY VALUATION: Equity Analysis and Valuation	1
28	Balance sheet Analysis Equity valuation Models	1
29	Intrinsic Value and Market Price	2
30	The P/E Ratio and Earnings Multiplier Approach	1
31	CAGR, Price/ Book Value	2
32	Price/ Sales Ratio	1
33	Economic Value Added (EVA) and MVA	2
34	b) Mutual Funds : Types of Mutual Funds Schemes	1
35	Structure, NAV (Net Asset Value)	1
36	Risk and Return, Performance Evaluation Models	1
37	Sharpe model, Treynor Model, Jensen Model	1
38	Fama's Decompositon	1
39	Trends in Indian Mutual Funds	1
	Total	16
	Total No. of Classes	58

Unit-1 Introduction

Short Answer Questions

1. Define Investment
2. What is Efficient Market Hypothesis
3. Indian Financial System
4. Define Investment Alternatives
5. What is Security Analysis

Long Answer Questions

1. Explain the Investment Environment in India
2. Explain how securities are traded in Stock Markets with an Example
3. Explain various types of Investment Alternative
4. Explain the Investment Process
5. Distinguish between top down and bottom up approach to fundamental analysis.
6. Explain the tools of Technical Analysis

Unit-2 Financial And Securities Market

Short Answer Questions

1. Define Listing & Trading
2. Define Financial Markets

3. What is Commercial Paper
4. Define Securities Markets
5. What is Primary and Secondary Markets

Long Answer Questions

1. Explain the structure and functions of Security Markets
2. Explain the various types of securities available in Financial Market
3. Explain the Listing, Trading and Settlement Procedures
4. Explain the Regulation of SEBI
5. Explain the Securities Market Organization and its Structure

Unit-3 Portfolio Analysis

Short Answer Questions

1. Define Risk and Return
2. Define Arbitrage
3. What is Capital Asset Pricing Model

Long Answer Questions

1. Explain Markowitz Portfolio Theory with its Assumptions
2. You decide to invest 30% of your portfolio in Stock C and 70% in Stock D. The return on Stock C is 18% and the return on Stock D is 24%. What is your portfolio's expected return?
3. Explain Arbitrage Pricing Theory with its Assumptions
4. Explain CAPM with its Assumptions
5. What is Portfolio Selection and Explain briefly about Efficient Portfolios
6. The returns of two assets under four possible states of nature are given below:

State of Nature	Probability	Return on asset 1	Return on asset 2
1	0.20	-5%	10%
2	0.30	15%	12%
3	0.40	18%	14%
4	0.10	22%	18%

- a) What is the standard deviation of the return on asset 1 and on asset 2?
- b) What is the covariance between the returns of the two assets?
- c) What is the coefficient of correlation between the returns on assets 1 and 2?

Unit -4 Bond Analysis, Valuation & Management

Short Answer Questions

1. What is Interest Rate
2. Define Bond Immunization
3. What is Yield to Maturity
4. What is Holding Period Return
5. What is Bond Duration

Long Answer Questions

1. An 8% coupon, 30-year maturity bond with par value of Rs. 1,000 paying 60 semi-annual coupon payments of Rs. 40 each. Suppose that the interest rate is 8% annually, or $r = 4%$ per six-month period. Calculate the Valuations of the Bond
2. Distinguish between Active and Passive Bond Management
3. Explain Bond Pricing Theories
4. Explain the Types of Bonds and its Valuation in Brief

Unit – 5 Equity Valuation And Mutual Funds

Short Answer Questions

1. Define Equity Analysis
2. What is Intrinsic Value
3. Types of Mutual Funds
4. What is Economic Value Added
5. What is Earnings Multiplier Approach

Long Answer Questions

1. Explain the recent trends in Mutual Fund Industry
2. Explain the types of Mutual fund Schemes
3. Explain the Performance Evaluation Models with Examples
4. The following table provides information regarding the portfolio return and risk

Portfolio	Expected return	σ
1	10	4
2	12	7
3	13	5
4	46	12
5	20	14

- a) The treasury bill rate is 5%. Which portfolio is the best
- b) Would it be possible to earn 13 percent return σ of the 4%.
- c) If σ is 12% what would be the expected return
5. Explain briefly about Equity Analysis and Valuation

MODEL QUESTION PAPER

SECTION – A (SHORT ANSWER QUESTIONS)

Answer All The Questions

(5x4=20M)

1. Efficient Frontier
2. Investment strategies to be followed at falling stock market
3. Bond Immunization
4. Strengths and Weaknesses of Technical Analysis
5. Term structure of Interest rates

SECTION – B (LONG ANSWER QUESTIONS)

(5x8=40)

1. Explain how securities are traded in Stock Markets with an Example

OR

Explain the structure and functions of Security Markets

2. Explain Markowitz Portfolio Theory with its Assumptions

OR

An 8% coupon, 30-year maturity bond with par value of Rs. 1,000 paying 60 semi-annual coupon payments of Rs. 40 each. Suppose that the interest rate is 8% annually, or $r = 4%$ per six-month period. Calculate the Valuations of the Bond

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- a) What is the standard deviation of the return on asset 1 and on asset 2?
- b) What is the covariance between the returns of the two assets?
- c) What is the coefficient of correlation between the returns on assets 1 and 2?

OR

Explain Arbitrage Pricing Theory with its Assumptions

4. Explain Bond Pricing Theories

OR

Explain the Listing, Trading and Settlement Procedures

5. The following table provides information regarding the portfolio return and risk

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- a) The Treasury bill rate of 5 %. Which portfolio is the best
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c) If σ Is 12% what would be the expected return

OR

Explain briefly about Equity Analysis ad Valuation

CASE STUDIES

Unit -1 Introduction

Case Study on Fundamental Analysis

Rajiv had just joined an investment company. He wanted to prove his theory of the stock market at his work place. He had an understanding of all quantities models, economic impact and market sentiment on the movement of stock market from his course on fundamental analysis in college. Rajiv wanted to convince his colleagues about the simplicity of fundamental analysis by using simple known techniques to identify market potential. It appeared to him that Indian stock market s can make use of this and that a straightforward fundamental analysis can do the trick to baet the other investment companies. Rajiv began his fundamental analysis on the day Budget 2002 was announced. The objectives of the budget as segregated in terms of its various components were:

1. Strengthen the growth of rural economy, especially agriculture and allied activities.
2. Nurture the revolutionary potential of the new knowledge based industries such as InfoTech, biotechnology and pharmaceuticals.
3. Strengthen and modernise traditional industries such as textiles, leather, agro processing and SSI sector.
4. Remove bottlenecks in power, roads, ports, telecom, railways and airways sector.
5. Accord the highest priority to human resource development through programmes and policies in education health, and social services, with special emphasis on the poorest and weakest sections of society.

6. Strengthen India's role in the world economy through rapid growth of exports, higher foreign investment and prudent external debt management.
7. Establish a credible framework of fiscal discipline

The Indian economies expected growth by 5.9%, as against 6.8 % in the previous year is a positive signal for inquiry. More importantly, an industrial recovery seems finally to be underway from the cyclical downturn of the previous two years. The growth of GDP from manufacturing is expected to almost double to 7 % in 1999-2000 from 3.6% in 1998-99. The growth in GDP from the construction sector is expected to accelerate to 9.0% from 5.7%. The performance of infrastructure sectors is expected to be improving remarkably. The inflation rate had dropped to international levels of 2 to 3 percent. The balance of payment survived the twin shocks of the East Asian crisis and post-pokhran sanctions with a low current account deficit and sufficient acquittal inflows. This is supported by the continuing rise in foreign exchange reserves by over US\$204 billion, leading to relatively stable exchange rate. Export performance has improved at par with the better performing emerging economies. The restoration of the confidence in industry, hence will be best reflected in the rise in the stock markets during the year 2001-2002.

Questions:

1. Does Rajiv prove any point?
2. Should Rajiv Perform any further analysis to confirm his findings?
3. What will be the impact of a global market slowdown on Rajiv's estimates?

Unit -2 Financial and Securities Market

Case on Insider Trading

SEBI's investigation started when it received a complaint from Tata Finance Limited (TFL) alleging various irregularities and violations committed by Dilip Pendse, former Managing Director of TFL, relating to disclosure of the letter of offer of March 2001 for its rights issue of convertible preference shares. Accordingly, SEBI had ordered an investigation into the allegations of insider trading and violations of fraudulent and unfair trade practices

A Preliminary inquiry by an independent chartered accountant (AF Ferguson) has revealed several operational lapses and irregularities committed by the earlier management team. SEBI also probed the alleged circular trading based on an inspection of the books of the finance company. The probe was initially instituted after the regulator came across a reference to circular trading in the report prepared by chartered accountancy firm on irregularities in Tata Finance

SEBI had found Dilip Pendse, guilty of violation the SEBI regulations, 1992 by using unpublished, price-sensitive information. Pendse communicated information to his wife Anuradha Pendse and an acquaintance, Anjali Bele, which was not in ordinary course of business

Anuradha Pendse, Beke and their companies –a Nalini Properties PVT LTD and Anjudi Properties PVT LTd are alleged to have sold 290000 Tata Finance Shares based on this information.

SEBI also found brokers Jhunjunwala (JSBPL) and Malini Sanghvi (MSSPL) guilty along with Anuradha PEndse, Anjali Beke, and afew others, they were found to have violated the provision of Regulation 6(D) of SEBI (Prohibition of Fradulent and Unfair Trade Practices relating to securities Markets) regulations,1995

Brokers Jhunjunwala and Malini Sangvi gave ante-dated contracts in form B to the sellers. The brokers in turn issued the contracts to the ultimate buyers, India Emerging and Sarjan Securities. SEBI found the back dating and falsatisfaction of contract notes, bills and books of accounts was done with a view to create an issues on that the transactions had taken place only during September 2000 even though the transaction had actually taken place in March 2001. By doing so, JSBPL and MSSPL, Anuradha Pendse. Nalini Properties, Anjudi Proeprties, Anjali Beke, India emerging and sarjan securities have violated the provisions of SEBI's Feradulent and Unfair Trade Practices regulations

Other than SEBI, the Reserve Bank of India had also undertaken a routine inspection of TFL's accounts. The Department of company Affairs had also consulted the Reserve Bank of India and other regulators in connection with financial irregularities involving TFL and the Ferguson report.

SEBI has, in December 2003, prohibited Dilip Pendse from dealing in securities and associating with the market for six months on the establishment of insider trading charges.

The insider trading investigation is not linked to the main dispute, viz. TATA's allegation that pendse siphoned off overRs430 crores through fraudulent transactions when he was the managing director of RFL.

The Tata group investigating into the mismanagement of funds at TFL, suspected criminal breach of trust, falsification of accounts and cheating against those involved. Tata Finance terminated the services of the five senior executives of the company based on these allegations. They were involved in "Unauthorised financial transactions" along with the former managing director, Dilip Pendse. These transactions include diversion of funds to Tata Finace's Subsidiary, Niskalp Investment and Trading Co. LTD and other associate companies, Niskalp and the associate companies were found to have deployed a substantial part of these funds in trading/speculative activities in certain specific scripts in the stock market. These activities have also led to sizable loosed in Niskalp and the associate companies

Case Questions

1. What are issues related to insider trading in the case?
2. How can regulators curb such insider trading activities even before receiving an indication from the company?
3. What are the implications of the case proceeding for investor protection?

Unit – 3 Portfolio Analyses

Case Studies on Portfolio

You have recently graduated as a major in finance and have been hired as a financial planner by Radiant Securities, a financial services company. Your boss has assigned you the task of investing Rs10, 00,000 for a client who has a 1 year investment horizon. You have been asked to consider only the following investment opportunities. T-Bills, Stock-A, Stock-B, Stock – C and market index.

The economies cell of Radiant Securities has developed the probability distribution for the state of the economy and the equity researchers of Radiant Securities have estimated the rates of return under each state of the economy. You have gathered the following information from them

State of the Economy	Probability	T-Bills	Stock –A	Stock -B	Stock-C	Market Portfolio
Recession	0.2	6.0%	(15.0%)	30.0%	(5.0%)	(10.0%)
Normal	0.5	6.0	20.0	5.0	15.0	16.0
Boom	0.3	6.0	40.0	(15.0)	25.0	30.0

Your client is a very curious investor who has heard a lot relating to portfolio theory and asset pricing theory. He requests you to answer the following questions.

- What is the expected return and the standard deviation of return for stocks A,B,C and the market portfolio
- What is the covariance between the returns on A and B? Returns on A and C?
- What is the coefficient of correlation between the returns on A and B? Returns on A and C?
- What is the expected return and standard deviation on a particular in which stocks A and B are equally weighted? In which the weights assigned to Stocks A , B and C are 0.4, 0.4 and 0.2 respectively?
- The Beta coefficients for the various alternatives based on the historical analysis are as follows

Security	Beta
T- Bills	0.00
A	1.20
B	(0.70)
C	0.90

- What is the SML relationship
 - What is the alpha for Stocks A, B and C
- f) Suppose the following historical returns have been earned for the stock market and the stock of company D

Period	Market	D
1	(5%)	(12%)
2	4	6
3	8	12
4	15	20
5	9	6

What is the beta for stock D? How would you interpret it?

- What is the Capital Market Line (CML)? Security Market Line (SML)? How is CML related to SML

- h) What is the systematic risk? Unsystematic Risk? Present the formulae for them
- i) What is the basic difference between the CAPM and the APT?

Unit -4 Bond Analysis, Valuation and Management

Case Study on Bond Analysis:

Ravi Rao is the Chief Executive Officer of Capmart Limited, an investment advisory firm. Ravi Rao has been requested to give a seminar to a group of finance executives drawn from state run universities. He has been requested to explain the basic concepts and tools useful in bond analysis. Ravi Rao has asked you to help him to make his presentation. In particular, you have to answer the following questions

- a) How is the value of bond calculated
- b) What is the value of a 9 year, Rs1000 par value bond with a 10 percent annual coupon, if its required rate of return is 8 %?
- c) What is the value of the bond described in part (b) if it pays interest semi annually, other things being equal?
- d) What is the YTM of a 6 year, Rs1000 par value bond with a 10 percent annual coupon if it sells for Rs 1050?
- e) What is the YTM of the bond described in part (d) if the approximate formula is used?
- f) What is the yield to call of the bond described in part (d) if the bond can be called after 3 years at a premium of Rs50?
- g) What is the realised yield to maturity of the bond described in part (d) if the reinvestment rate applicable to the future cash flows from the bond is 8 percent?
- h) The holders of the bond described in part (d) expect that the bond will pay interest as promised, but on maturity bondholders will receive only 90 percent of par value. What will be difference between the expected YTM and stated YTM? Use the approximate YTM formula
- i) What is the difference between the annual percentage rate and the effective annual yield?
- j) What is the difference between interest rate risk and reinvestment risk?
- k) List the key financial ratios that have a bearing on debt rating
- l) What is a yield curve
- m) What factors determine interest rates?

Unit -5 Equity Valuation

Case Study on Equity valuation

Anand heads the portfolio management schemes division of Phoenix Investment, a well known financial services company. Anand has been requested by Arrow Technologies to give an investment seminar to its senior managers interested in investing in equities through the portfolio management schemes of Phoenix Investments, Manish, the contact person of Arrow Technologies, suggested that the thrust of the seminar should be on equity valuation. Anand has asked you to help him with his presentation.

To illustrate the equity valuation process, you have been asked to analyse Acme Pharmaceuticals which manufactures formulations and bulk drugs. In particular, you have to answer the following questions:

- a) What is the general formula for valuing any stock, irrespective of its dividend patterns?
- b) How is a constant growth stock valued?
- c) What is the required rate of return on the stock of Acme Pharmaceuticals? Assume that the risk-free rate is 7 %, the market risk premium is 6 % and the stock of Acme has a beta of 1.2
- d) Assume that Acme Pharmaceuticals is a constant growth company which paid dividend of Rs500 yesterday ($D_0 = \text{Rs}5.00$) and the dividend is expected to grow at the rate of 10 percent per year forever
 - i) What is the expected value of stock a year from now
 - ii) What is the expected dividend yield and capital gains yield in the first year?
- e) If the stock is currently selling for Rs.110, what is the expected rate of return on the stock? Assume $D_0 = \text{Rs}5.00$ and a constant growth rate of 10 percent
- f) Assume that Acme Pharmaceuticals is expected to grow at a supernormal growth rate of 25 percent for the next 4 years, before returning to the constant growth rate of 10 percent. What will be the present value of the stock under this condition? What is the expected dividend yield and capital gains yield in year 2? Year 5? Hereafter assume $D_0 = \text{Rs}5.00$ and a 15 percent required return.

PREVIOUS QUESTION PAPERS

Subject Code: R12E21MB04

ANURAG GROUP OF INSTITUTIONS

(Autonomous)

School of Business Management

II-M.B.A-I-Semester Supplementary Examinations, August 2015

Subject: Security Analysis and Portfolio Management

Time: 3 Hours

Max.Marks:60

Section – A (Short Answer type questions)

(10X2=20 Marks)

- Answer all questions, each question carry equal marks.
 1. Capital Market Line
 2. correlation coefficient
 3. Excess Return
 4. Insider Trading
 5. Non Systematic Risk
 6. YTM
 7. Stock Split
 8. Zero-Coupon Bond
 9. Resistance level.
 10. Economic Value Added(EVA)

Section – B (Essay Type Questions)

- Answer all the questions. (5x8=40 marks)
 11. A) What are the factors influence the investment decisions of an investor in stock

market?

OR

- B) How do you measure the return from the investment of equity shares? Explain with an example.
12. A) Explain about Capital Asset Pricing Model with its Assumptions, implications and Limitations.

OR

- B) XYZ Company Limited has forecasted returns on its equity shares with the following probability distribution.

Return	Probability
-20	0.05
-10	0.05
-5	0.1
5	0.1
10	0.15
18	0.25
20	0.25
30	0.05

Compute the following

- Expected Return
- Variance and
- Standard Deviation of Returns.

P.T.O

13. A) Explain various Active and Passive Bond Portfolio Management Strategies.

OR

- B) A Bond with face value 1000 and offering 15% Coupon rate, Currently selling at Rs.950. Five years remain for maturity and redeemable at par. Calculate its YTM.
14. A) What is Common Stock? Explain its features.

OR

- B) Explain various measures to value an Enterprise.
15. A) What is Efficient Market Hypothesis? Explain its different Forms.

OR

- B) What is fundamental analysis? How do you interpret financial statements of a listed company.

Subject Code: R14E21MB04

ANURAG GROUP OF INSTITUTIONS

(Autonomous)

School of Business Management

II-M.B.A-I-Semester Supplementary Examinations, July - 2016

Subject: Security Analysis and Portfolio Management

Time: 3 Hours

Max.Marks:60

Section – A (Short Answer type questions) (10X2=20 Marks)

- Answer all questions, each question carry equal marks.

Write short notes on the following:

1. Investment alternatives
2. EMH
3. Commercial bills market
4. Securities markets
5. Arbitrage pricing theory
6. CAPM
7. Bond immunization
8. Yield to maturity
9. NAV
10. PE ratio

Section – B (Essay Type Questions)

- Answer all the questions. **5x8=40 marks**

11. A) Bring out the difference among Investment, Speculation and gambling.

OR

B) Bring out differences between fundamental analysis and technical analysis.

12. A) During the past 5 years, the returns of a stock were as follows.

YEAR	RETURN
1	0.07
2	0.03
3	-0.09
4	0.06
5	0.10

Compute the following

- d) Cumulative Wealth Index
- e) Arithmetic Mean
- f) Variance and
- g) Standard Deviation

OR

B) What are the financial markets and instruments how do they support investors and stock markets?

P.T.O

13. A) Write a short note on
- i) Bond Immunization
 - ii) Active bond portfolio
 - iii) Passive bond portfolio

OR

B) Explain the bonds and write the features and types of bonds.

14. A) What is Arbitrage pricing theory? How does it explain expected return of a security?

OR

B) Determine the YTM for 5 yrs Bond, offering at 12% Coupon rate of Rs1000 Face value, Currently selling for Rs.931. Calculate YTM ?

15. A) Explain the various types of mutual funds.

OR

B) Explain equity analysis and equity valuation.

