INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE
Kunnamangalam, Kozhikode, Kerala-673 570

EXECUTIVE POSTGRADUATE PROGRAMMES
eEPF-03 / ePGP-02, Oct 2011

Advanced Corporate Finance
End-Term Examination

Note:

i) **Figures to the right indicate marks.**
ii) **Total Time: 3.00 hrs. (inclusive of 15 mins for quiz II)**
iii) **Total marks End Term (50) quiz (14).**
iv) **Please return the quiz II (multiple choice questions) sheet within the first 15 mins.**
v) **This is a closed book examination**

I. **Answer the following question. All questions are compulsory and each question carries equal marks. Total marks for this section** **(25)**

1. Everron Batteries Ltd. has hired you as a consultant. The firm had after tax operating earnings in 1998 of Rs. 180 million and net income of Rs. 100 million and it has paid a dividend of Rs. 50 million for the year. The book value of equity at the end of 1998 was Rs. 1.25 billion and the book value of debt was Rs. 350 million. The firm raised Rs. 50 million of new debt during 1998. The market value of equity at the end of 1998 was twice the book value of equity (at the end of 1998) and the market value of debt was the same as the book value of debt. The firm has a cost of equity of 12% and a after tax cons of debt of 5%. Estimate the economic value added by Everron Batteries Ltd.

2. Suppose that in Japan the interest rate is 8% and inflation is expected to be 3%. Meanwhile, the expected inflation rate in France is 12%, and the English interest rate is 14%. To the nearest whole number, what is the best estimate of the one-year forward exchange premium (discount) at which the pound will be selling relative to the French franc?

3. Big B ventures, a Mumbai based company is considering a project to be set up in the US. The project will entail a initial outlay of $200 million and is expected to generate the following cash flow over its five year life:

year	1	2	3	4	5
cash flow (in Mn $)	50	70	90	105	80

The current spot exchange rate is Rs. 46 per US dollar, the risk free rte in India is 11 % and the risk free rate in the US is 6 %. Big B's ventures required a rupee return (on a project of this kind) of

18%. Calculate the NPV of the project using the home currency approach as well as the foreign currency approach.

4. The spot price of silver is \$9 per ounce. The storage costs are \$0.24 per ounce per year payable quarterly in advance. Assuming that interest rates are 10% per annum for all maturities, calculate the futures price of silver for delivery in 9 months.

5. Firm A is planning to acquire firm B. Financial information for the two firms prior to and to the merger is shown below.

Particulars	A	B
Stock Price	25	20
EPS	1.5	1
Total Shares Outstanding	100,000	50,000
Total Earnings	150,000	50,000
Market Value of Equity	25,00,000	10,00,000

Will this merger have a bootstrap effect? Please show your calculations clearly.

II. Write brief notes on the following. All questions are compulsory and carry equal marks. Total marks for this section. **(25)**

1. How is EVA as a technique different from simple Residual Income Valuation. In the case on Vyaderm Pharmaceuticals how does one solve for the problems of the Dermatology division. How does one ensure that there is some incentive for employees in subsequent years too without compromising on the objectivity of EVA.
2. From the cooper industries' case discussed in class how does one address the following issues. What alternatives does the acquiring company do with the target cos. Debt, (ii) what impact does the current EPS of acquiring company have on its decision to fix the exchange ratio.
3. Describe the different ratios that can be used to evaluate IPOs, to which kind of company is each such ratio suitable. Discuss this in connection with the assignment that you have submitted as part of ACF.
4. How does anti dilution clauses protect the interest of PEs (private equity players). Why is convertible preference shares an object of choice of Private Equity players. IF
5. Explain the difference between P/E ratio, P/E/G ratio and the relative P/E ratio. Also explain the different types of P/E ratios. Discuss the factors that determine P/E ratios. Discuss this in connection with the assignment that you have submitted as part of ACF. Relative Valuation

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EXECUTIVE POSTGRADUATE PROGRAMMES
eEPF-03 / ePGP-02, July 2011

Management of Financial Institutions

End-Term Examination

Closed book examination   Duration: 3 hours   Max Marks: 60

Please follow these instructions carefully:

Answer any 5 (five) of the given 7 (seven) Questions.
No. of pages = 1 (one)
Each Question carries 12 marks. Total = 5 @ 12 = 60 marks.
Provide answers based on textbook and class discussions. No vagueness accepted.
Question numbers must be stated clearly in the left margin for each answers.
Each answer must commence on a fresh page.
In respect of Questions 3 and .4, all sub-questions must be together at one place.
Illegible handwriting or untidy work will not be assessed.

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1. Explain the Roles of Debt, Taxes and Miscellaneous Receipts in Fiscal Policy.

2. Describe the various theories of Term Structure of Interest Rates

3. Answer the following:
a. How does the central banking authority control Monetary Policy? (6 markets)
b. Describe in brief the workings of the G Sec and Forex Markets. (6 marks)

4. With respect to banking, explain briefly:

a. Net Interest Income and Net Interest Margin
b. Non Performing Assets / Non Performing Loans
c. Deposit Insurance
d. Capital Adequacy Ratio (CAR)
e. CAMEL ratings

5. Describe the various offerings by Mutual Funds

6. Write a brief note on the mis-selling of ULIPs, in light of the recent developments

7. Describe the US Mortgage Markets and how it led to the sub-prime crisis. What are the lessons for India?. // end of document

INDIAN INSTITUTE OF MANAGEMENT KOZHIKODE
Executive Education Programme

ePGP-02 / eEPF-03 End-term Exam - April 2011

SECUTIRY ANALYSIS AND PORTFOLIO MANAGEMENT

Closed Book Exam **Time: 3 hrs** **Max. marks: 100**

READ INSTRUCTIONS CAREFULLY

a) Answer all questions

b) Write your name and roll number on the answer booklet.

c) Only calculators (non-programmable) are permitted inside the examination hall. All other devices are strictly prohibited.

d) Examination is closed book

QUESTIONS

Each question carries 10 marks. Answer should not exceed 20 sentences

1) What is portfolio risk? Explain various portfolio theories?

2) Explain Capital Asset Pricing Model? What are its limitations? Explain the advantages of multifactor models over CAPM?

3) Distinguish between money market and capital market? What are the various instruments in capital market and money market?

4) Explain Fundamental Analysis? How is it different from technical analysis?

5) The following information is available.

	Stock A		Stock B
Expected return	12%		26 %
Standard deviation	15%		21 %
Coefficient of correlation		0.30	

a. What is the covariance between stocks *A* and *B*?
b. What is the expected return and risk of a portfolio in which *A* and *B* are weighted 3:7?

6) What is intrinsic value of a stock? What are the various models used in the calculation of the intrinsic value of a stock? How do you determine the over valuation and under valuation of stocks?

7) Explain in detail the concept of random walk hypothesis?

8) Find the duration of a 6% coupon bond making annual coupon payments if it has 3 years until maturity and has a yield to maturity of 10%?

9) Explain in detail various hedging strategies in the options market? Give examples to explain each of the strategies?

10) An analyst wants to evaluate Portfolio X, consisting entirely of US stocks, using both the Treynor and Sharpe measures of portfolio performance. The following table provides the average annual rate of return for Portfolio X, the market portfolio (as measured by the Standard and Poor's 500 Index), and US Treasury bills(T-bills) during the past 8 years.

	Annual Average Rate of Return	**Standard Deviation of Return**	**Beta**
Portfolio X	10%	18%	0.60
S&P 500	12	13	1.00
T-bills	6	n/a	n/a

n/a = not applicable

a) Calculate both the Treynor measure and the Sharpe measure for both Portfolio X and the S&P 500. Briefly explain whether Portfolio X underperformed, equaled, or outperformed the S&P 500 on a risk-adjusted basis using both the Treynor measure and the Sharpe measure.

b) Based on the performance of Portfolio X relative to the S&P 500 calculated in Part A, briefly explain the reason for the conflicting results when using the Treynor measure versus the Sharpe measure.

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