

Unit 4

Q.1) => B) the sensitivity of their earnings to the business cycle.

Q.2) => D) ALL OF THE ABOVE

Q.3) => A) output.

Q.4) => C) Influence of industry capacity on pricing

Q.5) => B) power of suppliers and threat of substitutes.

Q.6) => B) market concentration.

Q.7) => C) decreases pricing power and greater ease of exit increases pricing power.

Q.8) => A) Growth.

Q.9) => A) An energy exploration firm in financial distress that owns drilling rights for offshore areas

Q.10) => A) Asset-based models.

Q.11) telecom industry is more concerned about increasing profitability by maximizing acquisition, enhancing customer loyalty, and minimizing customer churn rates. Also, leading service providers in the telecom industry are relying on price analysis to optimize price and minimize default rates to improve customer service and satisfaction. Also, telecom companies are advocating the need for price analysis to identify the most profitable customers and target the right audience through effective customer segmentation. Furthermore, with the help of pricing analytics, renowned companies in the telecom space can enhance their salesforce effectiveness and enhance marketing spends to optimize their ROI.

Porter's five competitive forces are:

(1) rivalry among existing competitors;

(2) threat of new entrants

(3) threat of substitute products

(4) bargaining power of buyers

(5) bargaining power of suppliers.

Q.12) =>

Macroeconomic Influences:-

Cyclical or structural trends ,inflation may have significant effects on the demand for an industry's products or services. An industry's sales and profitability may be impacted by gross domestic product, interest rates, credit availability, and/or inflation.

Technological Influences

New technologies create new or improved products that can radically change an industry and change how other industries use the products to conduct their operations. This might create the risk for the other industries those are not coping with new technology .

Demographic Influences

Changes in population size, the distribution of age and gender, and other demographic characteristics may have significant effects on economic growth and the amount and types of goods and services consumed.

Governmental Influences

Governments may have a significant influence on industries through their ability to control tax rates and their status as major purchasers of goods and services from a range of industries. Governments may also exert their influence indirectly by empowering other regulatory or self-regulatory organizations to govern the affairs of an industry.

Social Influences

Societal changes involving how people work, spend their money, enjoy their leisure time, and conduct other aspects of their lives can significantly affect the sales of various industries.

Q.13) =>

Cash dividend :- A company pays regular cash dividends whenever it distributes a share of its profits in cash to its shareholders based on a regular dividend payment schedule

Extra dividend :- A company may also issue a dividend outside of the usual schedule to supplement the regular cash dividend with an extra payment. This is called an extra dividend or special dividend.

Stock dividend :- In these instances, a company chooses to distribute profits in the form of additional shares instead of using cash.

Stock split:- In a stock split, a company gives its shareholders X number of shares for every Y number of shares that are owned. For example, in a two-for-one stock split, shareholders receive one additional share for every share previously owned.

Reverse stock split:- A reverse stock split is the opposite of a stock split. In a reverse stock split, a company reduces the number of shares outstanding by a set multiple. For example, if a company announces a 1-for-4 reverse stock split, shareholders will receive 1 share for every 4 they own. Thus, an investor with 10,000 old shares will end up with just 2,500 new shares. A reverse stock split results in an increase in the price per share but does not affect a company's market value or shareholders' total cost basis. For example, the same investor owning 10,000 shares at \$1 will now have 2,500 shares worth \$4. However, his investment in dollar terms remains \$10,000.

share repurchase:- the company uses cash to buy back its own shares. Once repurchased, the shares do not participate in subsequent voting or dividend issues. The shares are also not considered when computing the earnings per share

Q.14)

- A measure of equity cash usage, free cash flow to equity calculates how much cash is available to the equity shareholders of a company after all expenses, reinvestment, and debt are paid.
- Free cash flow to equity is composed of net income, capital expenditures, working capital, and debt.
- The FCFE metric is often used by analysts in an attempt to determine the value of a company.
- FCFE, as a method of valuation, gained popularity as an alternative to the dividend discount model (DDM), especially for cases in which a company does not pay a dividend.

Q.15) =>

$D_0=12$

$R=10\%$

$\text{INTRINSIC VALUE} = D_0/(1+R)$

TIME	DIVIDEND	PRESENT VALUE
1	13.44	12.21818182
2	14.6496	12.10710744
3	15.908	11.95191585
4	17.2454	11.77884024
5	362.1534	224.8687683
	TOTAL	272.9248136

INTRINSIC VALUE OF ITC IS 272.92, CURRENTLY ITS AND UNDERVALUED SHARE.

Q.16) => MARKET capitalisation = $\$50.00 \times 160,000 = \$ 80,00,000.00$

EV = market capitalisation + market value of preference + debt - cash - short term investment

Market value of long-term debt = \$700,000

Book value of long-term debt = \$1,000,000

Book value of total debt= \$2,100,000

Book value total debt =book value of short term debt + book value long term debt

\$2,100,000= book value of short term debt+\$1,000,000

Book value of short term debt =\$1100000

Assume ,

Book value of short term debt = market value of short term debt

Market value of total debt = \$1100000 +\$700,000=19,00,000

Ev /EBITDA =(**\$ 80,00,000.00** +19,00,000-\$200000)/ \$1,000,000
=9.7

Q.17)

Expected Dividend payout is 40%, ke is 12% and expected growth is 4%,

TO FIND FUNDAMENTAL P/E

Assume ,market price= intrinsic value

$P_0 = V_0$

$$V_0 = \frac{D_0}{(K_e - g)}$$

$$P_0 = \frac{D_0}{(K_e - g)}$$

Divide both side by cost of next year earning

$$\frac{P_0}{E} = \frac{D_0/E}{(K_e - g)}$$

DIVIDEND / earning per share = dividend payout ratio

$$\text{Fundamental P/E} = \frac{40\%}{(12\% - 4\%)} = 5$$

UNIT 2

Q.2)=> C. restructure companies to increase cash flow.

Q.3)=> A. have stricter reporting requirements than a typical investment firm because of their use of leverage and derivatives.

Q.4)=> C. car insurance company.

Q.5)=> A. an endowment.

Q.6)=> C. Minimum total return requirement of 8%.

Q.7)=> B. high within each asset class and low among asset classes.

Q.8)=> B. incorporate forecasts of future economic conditions.

Q.9)=> high-risk portfolio include investing in currencies, options, or futures. Each of these asset types uses the power of leverage, which enables investors to multiply their buying power in the market. To be successful in these strategies requires investors to be well-educated in trade execution and research. Investors need to monitor these investments closely, be able to stomach fast-paced trading scenarios, and be able to develop an exit strategy to preserve capital and gains. derivative product are risky investment .young individual might be the risk seeker , he is wiling to take the risk to gain return above -averaged , but the ability of taking the risk might be low because individual might not have good source of income to hold this position.

Q.10)

The IPS document usually follows the structure below:

- ✓ Description of the client
- ✓ Purpose of the IPS
- ✓ Duties and responsibilities of all parties – client, advisor, custodians
- ✓ The steps that will be undertaken to keep the IPS updated and procedures to be followed in the response to various contingencies
- ✓ The client's investment objectives
- ✓ The client's investment constraints
- ✓ Information on how the investment policy should be executed and includes the permissibility and exclusion of assets

- ✓ Evaluation and Review
- ✓ Guidance on obtaining feedback for investment results
- ✓ Appendices
- ✓ Strategic asset allocation (SAA) – also known as the policy portfolio which provides the baseline portfolio allocation
- ✓ Rebalancing policy

Q.11)

Liquidity:- The IPS should detail the likely withdrawal of funds from the portfolio. When a client has a known liquidity requirement, the portfolio manager should allocate a portion of the portfolio to cover this liability by ensuring that the allocated assets can quickly be converted to cash whenever the obligation needs to be met.

Time Horizon:- The IPS should state the time horizon over which the client is investing. Illiquid or risky assets may be unsuitable for an investor with a short time horizon as they may not have sufficient time to recover from investment losses.

Tax Concerns:- Different investors will have different tax status. The tax status should be stated in the IPS. Often, tax regimes will treat capital gains and income differently. Capital gains may be subject to a lower tax rate payable only when they are realized rather than when they are received. In this instance, there is a time value of money benefit to deferring tax. A taxable investor may, for example, wish to hold a portfolio which emphasizes capital gains over dividend income.

Legal and Regulatory Factors:- The IPS should outline any applicable legal or regulatory restrictions. In some countries, pension funds are subject to restrictions on their portfolio composition. In the case of individuals, they may have access to privileged information on a particular listed company by virtue of directorship and as such are restricted from trading on that company ahead of the release of company financial results

Unique Circumstances:- The IPS should also cover any unique circumstances that are applicable. A client may have religious or ethical objections to investing in particular stocks or sectors. These types of considerations are

often referred to as ESG (environment, social, governance) factors and investing in accordance with ESG factors is referred to as SRI (socially responsible investing)

Q.12)=> Environmental, social and governance factors are collectively referred to by the acronym “ESG”. ESG integration is the practice of considering environmental, social, and governance factors in the investment process. The integration can be implemented across all asset classes, including equities, fixed income, and alternative investments. ESG issues can be sub-divided into 3 main groups:

environmental issues: climate change, pollution, deforestation, etc.

social issues: customer satisfaction, gender and diversity, labor standards, etc.

governance issues: bribery and corruption, executive compensation, lobbying, etc.

Investors may exclude or engage with companies with strict consideration of these issues. Alternatively, investors may

ask their asset managers to consider these issues in the investment process. For example, an investor might not want to buy polled-investment vehicles that own oil & gas and/or military equipment stocks.

Q.13)

DIVERSIFICATION RATIO = It is ratio of standard deviation of equally weighted portfolio to the standard deviation of randomly selected security

The Variance of a equally weighted portfolio is 324%%

Whereas Average variance for n stocks is 625%%.

SD OF equally weighted portfolio = 18%

Sd of average variance of stock = 25%

DIVERSIFICATION RATIO = $18\%/25\% = 72\%$

Q.14)

Investor	risk tolerance	time horizon	liquidity need	income need
Individuals	Varies by individual	Varies by individual	Varies by individual	Varies by individual
Banks	Quite low	Short term	High to meet repayment of deposits	To pay interest on deposits and operational expenses
Endowments	Typically high	Very long term	Typically quite low	To meet spending commitments
Insurance	Typically quite low	Short term for property and casualty; long term for life insurance companies	High to meet claims	Typically low
Mutual funds	Varies by fund	Varies by fund	Varies by fund	Varies by fund
Defined Benefit	Typically quite high	Typically long term	Varies by maturity of the plan	High for mature funds; low for growing funds

Q.15)

- Defined-benefit plan is an employer-sponsored retirement plan where employee benefits are computed using a formula that considers several factors, such as length of employment and salary history
- Pensions are defined-benefit plans.

- In contrast to defined-contribution plans, the employer, not the employee, is responsible for all of the planning and investment risk of a defined-benefit plan.
- Benefits can be distributed as fixed-monthly payments like an annuity or in one lump-sum payment.
- The surviving spouse is often entitled to the benefits if the employee passes away.