Name: Enrolment No:	

UPES

End Semester Examination, May 2024

Program: Integrated B.Com-MBA **Semester : VI**

Subject/Course: Alternative Investment Management **Max. Marks: 100**

Course Code: FINC 3057 **Duration : 3 Hours**

Instructions: Refer Financial Table for PV and FVs

SECTION A (Section A has 10 questions of 2 marks each)
10Qx2M=20Marks

Q 1		Marks	CO
(i)	Hierarchical structure comprising of task and sub task Analyzing risks (determine likelihood, consequence, urgency, and customer priorities and preferences and determine risk handling priorities) is called as a. Risk Monitoring b. CPM c. Risk Controlling d. Risk Assessment	**2**	**CO1**
	Describe the following	**2**	**CO1**
(ii)	In which legal forms can an AIF be set up?		
(iii)	Can an AIF opt to be close-ended or open-ended, as it desires?	**2**	**CO1**
(iv)	Is there a limit on the amount of leverage that can be undertaken by a Category III AIF?	**2**	**CO1**
	Fill in the Blanks		
(v)	Certainty Equivalent Value range between ……	**2**	**CO1**
(vi)	Private Placement Refers to ……	**2**	**CO1**
(vii)	Category II AIF are……	**2**	**CO1**
(viii)	Yield to Maturity is defined as …….	**2**	**CO1**
(ix)	Current Yield is …….	**2**	**CO1**
(x)	Validity of the certificate of registration of an AIF is……	**2**	**CO1**

<table>
<tr><td colspan="4">SECTION B
4Qx5M= 20 Marks</td></tr>
<tr><td>Q 2</td><td>In what categories can an applicant seek registration as an AIF?</td><td>5</td><td>CO2</td></tr>
<tr><td>Q 3</td><td>How can the investors redress their complaints against AIFs?</td><td>5</td><td>CO2</td></tr>
<tr><td>Q 4</td><td>Par Value = Rs 100
Coupon Rate or Interest Rate= 10%
Years to Maturity = 5 years
Required Rate of Return= 12%
Assess Value of Bond</td><td>5</td><td>CO2</td></tr>
<tr><td>Q 5</td><td>Rohit purchased Rs 4000 par value bond for Rs 3600. The coupon payment on this bond is Rs 480(12%). One year later he sells the bond for Rs 3500. Calculate the holding period return?</td><td>5</td><td>CO2</td></tr>
<tr><td colspan="4">SECTION-C
3Qx10M=30 Marks</td></tr>
<tr><td>Q 6</td><td>Keltron Ltd is proposing to start a new project of manufacturing electronic goods. The initial outlay would be Rs.80 lakh and would take one year to commence. The probability of success is 60%. If the project is not successful it can do intensive marketing incurring a cost of Rs.16 lakh or can terminate the project for Rs.50 lakh. If marketing is successful the probability of which is 90%, Keltron Ltd will receive annual cash inflows of Rs.30 lakh from the end of year 2 to year 5 and if the marketing is not successful, Keltron Ltd may terminate the project for Rs.40 lakh at the end of year 2.
If the project is successful in the beginning, the company will generate an annual inflow of Rs.20 lakh during the first year of its operation and Rs.30 lakh p.a. for the next four years. However at the end of one year Keltron Ltd may either continue to manufacture and sell the same quality of electronic goods or incur additional expenditure of Rs.20 lakh and manufacture superior quality of electronic goods. If improvement in quality is made, it expects the following probability distribution of cash inflows per annum from year 2 to year 5:
<table>
<tr><th>Probability</th><th>Annual CF (Rs. lakh)</th></tr>
<tr><td>0.2</td><td>36</td></tr>
<tr><td>0.5</td><td>40</td></tr>
<tr><td>0.3</td><td>44</td></tr>
</table></td><td>10</td><td>CO3</td></tr>
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<table>
<tr><td></td><td>The cost of capital of the firm is 12%.
Based on the Sensitivity criterion, you are required to advise Keltron Ltd the strategy to be adopted</td><td></td><td></td></tr>
<tr><td>Q 7</td><td>A company has the following estimates of the present values of the future cash flows after taxes associated with the investment proposal concerned with expanding the Refinery capacity. It intends to use a decision tree approach to get a clear picture of the possible outcomes of this investment. The Refinery expansion is expected to cost Rs. 3,00,000 . The respective PV of Future CFAT and probabilities is given below:
<table><tr><td>With Expansion (Rs.)</td><td>Without Expansion (Rs.)</td><td>Probabilities</td></tr><tr><td>3,00,000</td><td>2,00,000</td><td>0.2</td></tr><tr><td>5,00,000</td><td>2,00,000</td><td>0.4</td></tr><tr><td>9,00,000</td><td>3,50,000</td><td>0.2</td></tr><tr><td></td><td></td><td></td></tr></table>Advise the company regarding the Financial Feasibility of the Project.</td><td>10</td><td>CO3</td></tr>
<tr><td>Q 8</td><td>A company is currently paying a dividend of Rs.2.00 per share. The dividend is expected to grow at a 15 percent annual rate for three years that at 10 percent for the next three years, after which it is expected to grow at a 5 per cent rate forever. What is the present price of equity valuation as per equity valuation model if the capitalization rate is 9 per cent?</td><td>10</td><td>CO3</td></tr>
<tr><td colspan="4">SECTION-D
2Qx15M= 30 Marks</td></tr>
<tr><td>Q 9</td><td>Read the case and answer the following questions

The capital asset pricing model (CAPM) is a mathematical model that offers an explanation about the relationship between investment risk and return. By dividing the covariance of an asset's return by the variance of the market, an asset value can be determined. To ascertain the risk level of a particular asset, the market is evaluated as a whole. Unlike the DCF model, the time value of money is not considered. This model assumes the investors understands the risk involved and trades without cost. Two types of risk is associated with the CAPM model: unsystematic and systematic. Unsystematic risks are company-specific risk. For example, the value of an asset can increase or decrease by changes in upper management or bad publicity. To prevent total loss, the model suggests diversification. Systematic risk is due to general economic uncertainty. The marketplace</td><td>15</td><td>CO4</td></tr>
</table>

compensates investors for taking systematic risk but not for taking specific risk. This is because specific risk can be diversified away. Systematic risk can be measured using beta. For example, suppose a stock has a beta of 0.8. The market has an expected annual return of 0.12 and the risk-free rate is .02 Then the stock has an expected one-year return of 0.10.

E( ) = .02 +.8[.12 – .02] = 0.10

According to CAPM, the value of an asset fluctuates because of unpredictable economic shifts. The basis for CAPM is that asset risk is measured by the variance of its return over future periods. (McCullough, 2005) Assets with $\beta < I$ will display average movements in return less extreme than the overall market, while those with a > I will show return fluctuations greater than the overall market. All other measures of risk is not important. CAMP works best for long-term investments.

Ki = the required return on asset i

Rf = risk-free rate of return on a U.S. Treasury bill

βi = beta coefficient or index of non-diversifiable risk for asset i

km = the return on the market portfolio of assets

The Discounted Cash Flow Method, (DCF) summarizes a company cash flow to reflect the time value of money. It can be used to evaluate or compare investments or purchases. Unlike CAPM, DCF uses the present value concept. It puts forth the idea that money invested today should be worth more than money received in the future. Thus, the value of money received in the future is discounted to reflect its lesser value. DCF can be applied to various situations. Business can use the method to prepare budgets and make projections. It can also be used to analyze receipt and disbursements for a particular project or activity. A disadvantage of using DCF is that the model is based on assumptions. (Block, 2008). Predicting future cash flows can be challenging. If the information used to make an investment decision proves to be incorrect, the value of an asset will decline. The success of this model depends on the investor's ability to make good future projections. The advantage of the CDF models is that it allows an investor to track an organization's cash flow. DCF also provides information that allows investors to compute the value of organization.

Long-term financing provide capital deficit businesses funds for the period over 1 year. To achieve balance in their capital structure, corporations may offer preferred or common stock, leasing or bonds.

For most large US companies, bonds are offered as means of raising revenue. A bond typically includes the par or face value, coupon rate and maturity date. A detailed summary of the terms can also be found on the bond indenture. This legal document is administered by an independent financial trustee. In case of default, the trustee can liquated pledged assets or secured debt to bondholders. Debenture or unsecured bonds are offered by some corporations. Rather than offering specific items as collateral, debenture bonds allows a general claim to be placed against assets. Various repayment methods are available to corporations when bonds mature. In addition to the lump-sum single payment, serial payment and conversions are available options. Serial payments are paid on an installment basis

according to their serial number. Conversions are used to retired outstanding debt by converting bonds to common stock. Bond debt offers tax-deductible interest payments. The drawback of bond financing is the debt must be repaid regardless of the economic condition of the company

Long-term leasing has become a popular way for business to finance debt. As such FASB requires certain leases to be included in financial statements. A capital lease or financing lease must be reflected on an organization's balance sheet. In comparison to an operating lease, which is usually short-term, a capital lease is a long term obligation. It also transfers ownership of the property to the lessee at the end of the lease. A capital lease also affects the income statement. The property is amortized over the life of the lease and the expense is deducted on an annual basis. Long-term leasing is a lucrative business. The advantage of this type of financing is the lack of a required down payment; lease obligations are not as restrictive as a bond agreement. Tax benefits such as depreciation on equipment and lease payment on land is tax deductible.

Issuing stock is another tool organizations can use to finance business activities. Offering common stock allows organizations to generate income while relinquishes ownership. Long-term financing is more often associated with the need for fixed assets such as property, manufacturing plants, and equipment where the assets will be used in the business for several years. It is also a practical alternative in many situations where short-term financing requirements recur on a regular basis some control over the organization. Common stock gives shareholders ownership rights and the right to elect board members. Additionally, common stockholders have a residual claim to income. That is all income that is not allotted to preferred shareholders belongs to common shareholders. While a preferred stockholder does not have ownership in a corporation, they have first claims to dividends. Unlike interest due on bonds, it is not mandatory for corporations to pay dividends to preferred stock holders.

Q 1: What are the risks discussed in CAPM Model?**-------4 Marks**

Q 2: How Expected return on a stock can be calculated using Beta **-----4 Marks**

Q 3: Compare and Contrast CAPM with DCF? **-------4 Marks**

Q 4: What are the various means of raising revenue in US Companies and what are the requirements of FASB? **-------3 Marks**

Q 10	How company will assess risk (Standard Deviation)? Which Project company will choose using Sensitivity Analysis ?	**15**	**CO4**

	Project X ('000 Rs.)	**Project Y ('000 Rs.)**	**Probability**
Initial Cash Outlay (t=0)	160	160	
Cash Flow Estimates (t=1-15)			
Worst	24	0	0.25
Most Likely	32	32	0.50
Best	40	64	0.25
Required Rate of Return	9%	9%	
Economic Life (in Years)	15	15	