



Institute of Management
JK Lakshmipat University, Jaipur
MID TERM EXAMINATION II -2018

B.Com H (V sem.) Fundamentals of Investment
Subject Code: FN 15
MM: 20Marks

Time: 1.5 Hours

Instructions: All questions are compulsory.

Section A

1. Write Short note on: (1.5 Marks each)
 - a) Dematerialization of securities
 - b) Systematic risk and Unsystematic risk
2. Being a new investor you want to trade (buy and sell) in stock market. Explain in detail the whole process to buy a lot (minimum security size) of coal India ltd. (3 Marks)
3. What is the expected return and expected risk of following two securities? (3 Marks)

State of Weather	Probability	Return on X	Return on Y
Boom	0.1	-15%	35%
Normal	0.3	-5%	15%
Recession	0.4	10%	5%
Depression	0.2	30%	-5%

4. Two securities P & Q generate the following sets of expected returns, standard deviation and correlation coefficient: (3 Marks)

	Security P	Security Q
Expected Return	15%	20%
Standard deviation	50%	30%
r_{PQ}	0.60	

Portfolio is constructed with 40% of funds invested in P and the remaining 60% of funds in Q security. Compute the portfolio return and risk.

P.T.O.

Section B (Case Study)

During January 2008, the maiden public issue of Reliance Power Limited, India, was oversubscribed 73 times and garnered an astronomical \$190 billion. It created many world records. It was the largest subscription of any IPO (initial public offering) anywhere in the history of global capital markets with a record five million applicants. It became 10 top listed companies in India with the largest number of shareholders in any listed company in the world. The high growth Reliance Group companies are known for producing stock-market gains from the moment they are listed. No issue since its inception in the year 1965 had failed to date in the stock market. So the highly oversubscribed issue was keenly awaited to open on February 11, 2008 in the twin stock exchanges National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) of Mumbai, India. But for the first time in history of Indian stock markets the Reliance magic did not work. For a few moments on the opening day, Reliance Power raised 19% to 538 rupees (\$10.94) from the IPO price of 450 rupees (\$9.15). After the initial rise of four minutes the dream vanished and RPL dived to 355 rupees (\$7.23) per share never to re-turn even close to the issue price. By the close of the day, it was down 17% at 372.50 (\$7.57) rupees, Four billion of its market capitalization wiped out and with it, billions of rupees of investors' wealth.

The several reasons were ascribed to the Reliance Power Debacle:

- a) Reliance power was new company, had almost no assets and cash flows.
- b) Indian investor considers IPO as a means of making quick money. Reliance power share were sold out immediately on opening of the issue. This may be a reason of drastic failure of reliance power.
- c) The IPO was not helped by global market mood as US subprime crises happened at the same year and time.
- d) Reliance share was linked to aggressive pricing of the IPO. It was overvalued when compared with peer companies in India. For example IPO price was 450 against the price of NTPC (The government power company) at Rs. 250.

Industry experts believe that in spite of all kinds of analysis the investor cannot safeguard his investment as exemplified in this case. Few failures of mega IPOs like Reliance Power have an adverse impact on the primary market of the country.

Questions:

1. Apart from using Initial Public Offer (IPO) what other methods Reliance Power could use to raise new capital? Explain each one in brief with mentioning merits and demerits. (3 Marks)
2. Do you think sponsors and leading merchant banker involved with new issue of Reliance Power well performed their task of origination? Support your answer with logical facts and figures with explaining meaning of origination. (2 Marks)
3. If, in this case Reliance Power had an agreement with Underwriters; explain what could be the methods of underwriting. What you think about the responsibility of underwriters in this case, if there was an underwriting agreement. (3 Marks)