

# Spring Semester 2011

## **“Financial Analysis & Portfolio Management (Fin 630)”**

Assignment No. 01

Total Marks: 20

### **Question #01**

Ellite Corporation has total assets of Rs. 6,000,000 of which Rs. 1,000,000 is inventory, Rs. 500, 000 is cash, Rs. 1,000, 000 is account receivable, Rs. 500, 000 is marketable securities and the balance is fixed assets. Ellite Corporation has total liabilities of Rs. 2,500, 000 of which current liabilities are Rs. 15, 00,000.

- 1. Calculate the current and quick ratio for Ellite Corporation.**
- 2. If Ellite Corporation takes 250,000 from cash and pays off Rs. 250,000 of current liabilities, what happens to its current ratio and quick ratio?**
- 3. If Ellite Corporation sells the inventory of Rs. 10, 00, 000 and places the proceeds from the sale of inventory in marketable securities, what happens to its current ratio and quick ratio?**

### **Question #02**

Currently Alpha Corporation's shares are selling at \$60 per share and company is paying dividend of \$5 per share. Dividends are expected to grow at an annual rate of 3% for foreseeable future. Required rate of return for investors is 12%

At the same time, Heller Corporation's shares are selling at \$58 per share and company is paying dividend of \$4 per share. Dividends are expected to grow at an annual rate of 5% for foreseeable future. Required rate of return for investors is 12%

- a) Calculate the current value of each stock on the basis of Dividend Discount Model.**
- b) On the basis of above calculation, determine either each stock is overvalued or undervalued.**

### **Note:**

**Show complete working (formula and calculations) for each part of question.**

## Important Tips

1. This Assignment can be best attempted from the knowledge acquired after watching video lecture no. 1 to lecture no 12 and reading handouts as well as recommended text book).
2. Video lectures can be downloaded for free from [www.youtube.com/vu](http://www.youtube.com/vu).

## Assignment Schedule

Opening Date and Time	19 <sup>th</sup> April , 2011 At 12:01 A.M. (Mid-Night)
Due Date and Time	22 <sup>nd</sup> April , 2011 At 11:59 P.M. (Mid-Night)

**Note:** Only in the case of Assignment, *24 Hrs extra / grace period* after the above mentioned due date is usually available to overcome uploading difficulties which may be faced by the students on last date. This extra time should only be used to meet the emergencies and above mentioned due dates should always be treated as final to avoid any inconvenience.

## Important Instructions:

Please read the following instructions carefully before attempting the assignment solution.

### Deadline:

- Make sure that you upload the solution file before the due date. No assignment will be accepted through e-mail once the solution has been uploaded by the instructor.

### Formatting guidelines:

- Use the font style "Times New Roman" and font size "12".
- It is advised to compose your document in MS-Word 2003.
- Use black and blue font colors only.

### Solution guidelines:

- For acquiring the relevant knowledge don't rely only on handouts but watch the video lectures and use other reference books also.
- Show complete working (formula and calculations) for each part of question.
- Marks will be deducted if complete working is not provided.

### Rules for Marking

Please note that your assignment will not be graded or graded as Zero (0) if:

- It has been submitted after due date
- The file you uploaded does not open or is corrupt
- It is in any format other than .doc (MS. Word)
- It is cheated or copied from other students, internet, books, journals etc...