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Institute of Management & Research, PGDM Institute
Greater Noida
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Plot No. 2, Knowledge Park-III, Greater Noida (U.P.) –201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2024-26)

MID TERM EXAMINATION (TERM -III)

Subject Name: **Security Analysis and investment Management** Time: **01.00 hrs**

Sub. Code: PGF 32 Max Marks: **20**

Note: All questions are compulsory.

Section -A

Read the following use-case and answer the following questions: 10×2 = 20 Marks

Case Study 1 (10 Marks)

Alex, a diligent research analyst at a mid-sized investment firm, tasked with evaluating industry competitors for a potential equity investment. Alex's analytical journey begins with two prominent players—Company A and Company B—whose financial metrics are under scrutiny. With a keen eye for detail and a strong foundation in financial modeling, Alex collects key data points including share prices, EPS, projected growth rates, enterprise values, and EBITDA figures.

Determined to uncover hidden opportunities, Alex meticulously computes critical valuation ratios such as the P/E, PEG, and EV/EBITDA for both companies. By comparing these relative metrics, Alex aims to identify potential undervaluation that could signal a lucrative investment. As market conditions fluctuate, Alex's analysis not only involves recalculating these ratios under different growth scenarios but also interpreting the results to advise the firm's portfolio strategy. The details of the financial parameters of two companies—Company A and Company B are summarized below:

Metric	Company A	Company B
Share Price	$50	$60
Earnings Per Share (EPS)	$5	$3
Expected Annual EPS Growth Rate	10%	15%
Enterprise Value (EV)	$300 million	$200 million
EBITDA	$40 million	$30 million

Question 1: Calculate the P/E Ratio, PEG Ratio, and EV/EBITDA Ratio for each company CO2

Question-2: Compare the results of the three ratios between Company A and Company B. Discuss which company appears to be undervalued based on these relative valuation techniques, noting any differences or conflicts among the metrics. Provide detailed calculations and justification for your conclusion. CO3

Case Study 2 (10 Marks)

Big deals at information technology (IT) services companies guarantee big money annually. More so, if the deal value is over $1 billion. And when announced, they could lead to a bump up in stock prices. Infosys, for instance, bagged a 10-year deal valued at $1.89 billion from Vanguard, an American investment company, on 14 July 2020. Before the deal was announced, the shares of India's second largest IT exporter were trading at Rs.792.95 a piece. Prices rose nearly 5% to Rs. 830.95 after-market hours on 15 July. So, what happens when employees, 'insiders' in a company, pass on such big-ticket deal information to friends and family before they are made public? This is the story of two friends working in two rival IT giants in Bengaluru. One is a chartered accountant (CA) by training and the other, an engineer. The Securities and Exchange Board of India (Sebi), India's market regulator, found the duo guilty of profiting from information that is not publicly available-in other words, insider trading-and has banned them from the securities market for a year. In an order issued on January 31, the Securities and Exchange Board of India (SEBI) has also fined Keyur Maniar Rs 30 lakh and banned him from the securities market for a year. The regulator had already passed an interim order in September 27, 2024, and had impounded the said gains to be deposited in the escrow account. In this final order, the regulator has asked Maniar to disgorge this amount along with a 12 percent interest per annum calculated from July 12, 2020, till the date of deposit to the escrow account.

Maniar was an associate of a former Infosys employee Ramit Chaudhri, who has been accused of passing on the insider information regarding a deal the company had signed. Chaudri, who has not been found liable for insider trading, has been fined Rs 30 lakh and been banned from the market for a year for passing on unpublished price sensitive information (UPSI). The market regulator has asked a person to disgorge more than Rs 2.6 crore of illegal gains made by insider-trading in the Infosys scrip.

Question 1: What are the key provisions of SEBI regulations that were violated in this case? CO1

Question 2: State the challenges faced by regulator towards handling the cases of Insider Trading? CO2