

# Financial Management (ECON F315)

## Assignment-2

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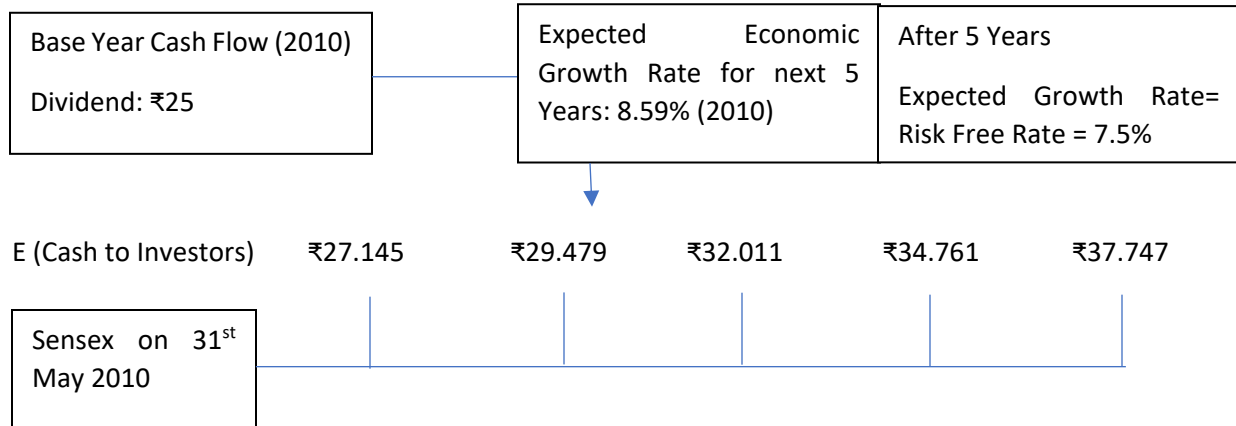
Q-2) Calculate Implied ERP using Generic Index  
and Industry Specific Index.

(Base Year 2010)

# Implied ERP

**Company: Infosys Limited**

**Index: BSE Sensex**



$$16944 = \frac{27.145}{(1+r)} + \frac{29.479}{(1+r)^2} + \frac{32.011}{(1+r)^3} + \frac{34.761}{(1+r)^4} + \frac{37.747}{(1+r)^5} + \frac{40.578}{(r-0.075)(1+r)^5}$$

Implied Equity Risk Premium

=

r= Implied Expected Return on Stock =7.76%

Minus

Risk Free Rate= India 5 Year Govt Bond Yield= 7.5%

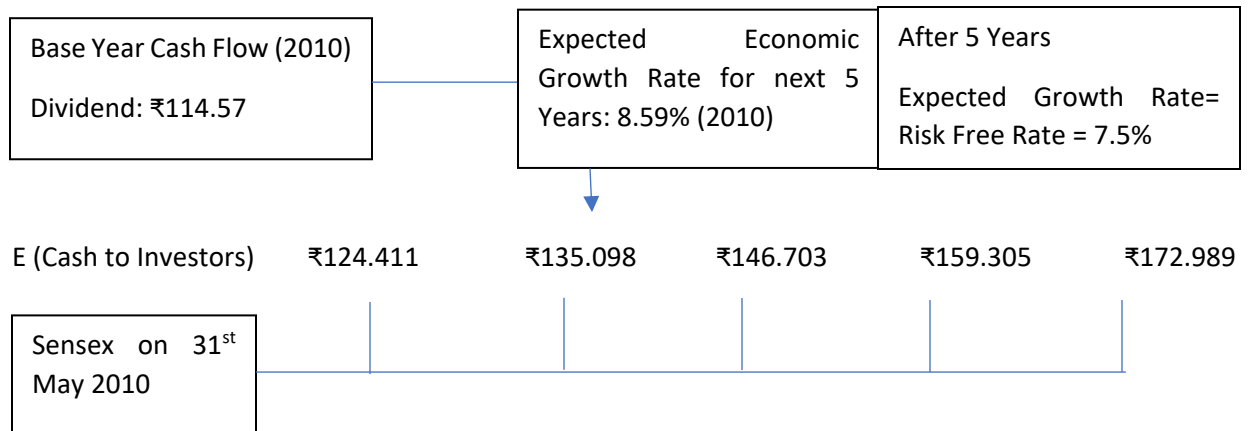
**Implied Equity Risk Premium for the Stock (31<sup>st</sup> May 2010) =**

**=7.76%-7.5%**

**= 0.26%**

## Company: Persistent Systems Limited

### Index: BSE Sensex



$$16944 = \frac{124.411}{(1+r)} + \frac{135.098}{(1+r)^2} + \frac{146.703}{(1+r)^3} + \frac{159.305}{(1+r)^4} + \frac{172.898}{(1+r)^5} + \frac{185.963}{(r-0.075)(1+r)^5}$$

Implied Equity Risk Premium

=

r= Implied Expected Return on Stock =8.23%

Minus

Risk Free Rate= India 5 Year Govt Bond Yield= 7.5%

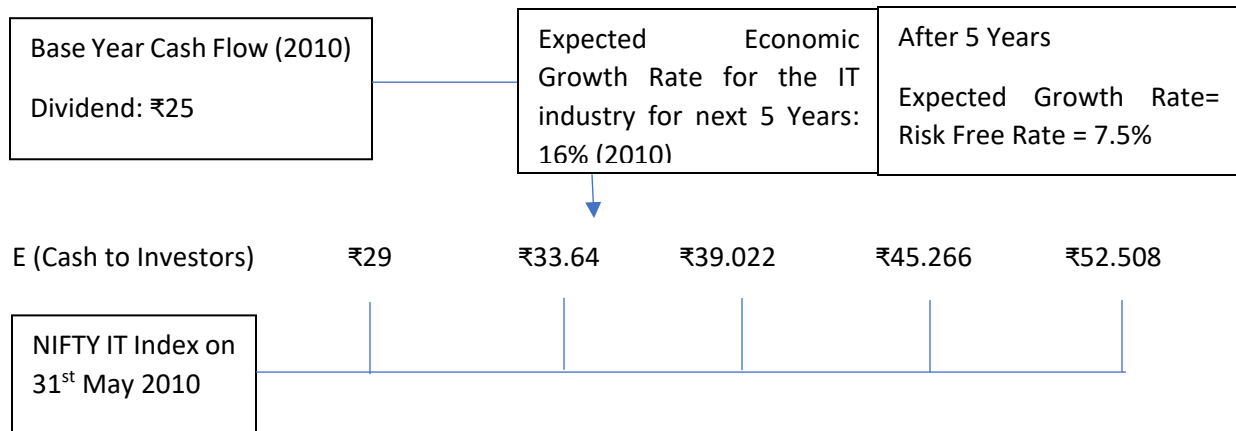
**Implied Equity Risk Premium for the Stock (31<sup>st</sup> May 2010) =**

**=8.23 %-7.5 %**

**= 0.73 %**

**Company: Infosys Limited**

**Index: NIFTY IT Sectoral Index**



$$5761.95 = \frac{29}{(1+r)} + \frac{33.64}{(1+r)^2} + \frac{39.0224}{(1+r)^3} + \frac{45.266}{(1+r)^4} + \frac{52.508}{(1+r)^5} + \frac{56.446}{(r-0.075)(1+r)^5}$$

Implied Equity Risk Premium

=

r= Implied Expected Return on Stock =8.11%

Minus

Risk Free Rate= India 5 Year Govt Bond Yield= 7.5%

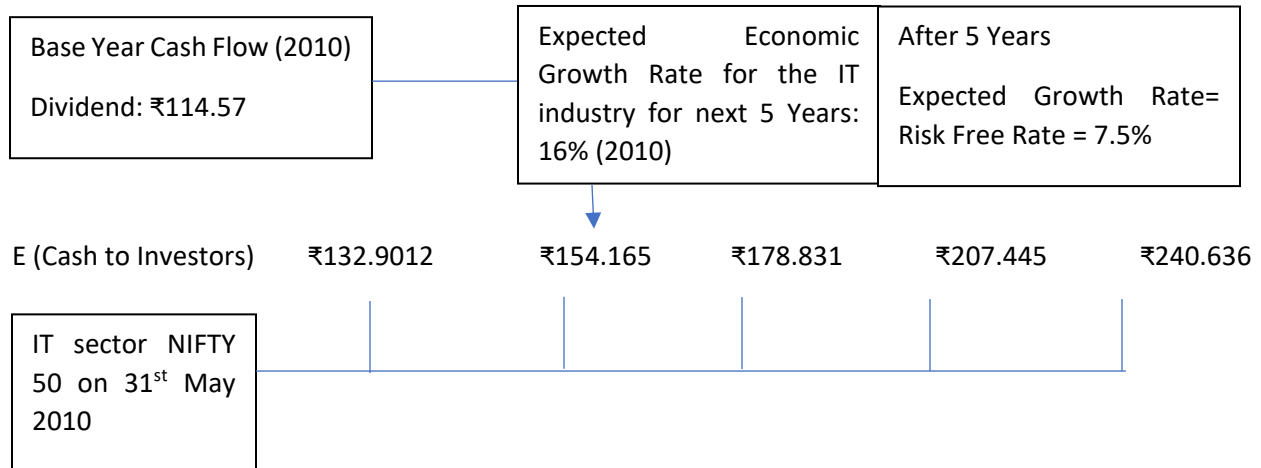
**Implied Equity Risk Premium for the Stock (31<sup>st</sup> May 2010) =**

**=8.11 %-7.5 %**

**= 0.61 %**

## Company: Persistent Systems Limited

### Index: NIFTY IT Sectoral Index



$$5761.95 = \frac{132.901}{(1+r)} + \frac{154.165}{(1+r)^2} + \frac{178.831}{(1+r)^3} + \frac{207.445}{(1+r)^4} + \frac{240.636}{(1+r)^5} + \frac{258.683}{(r-0.075)(1+r)^5}$$

Implied Equity Risk Premium

=

r = Implied Expected Return on Stock = 10.56 %

Minus

Risk Free Rate = India 5 Year Govt Bond Yield = 7.5%

**Implied Equity Risk Premium for the Stock (31<sup>st</sup> May 2010) =**

**= 10.56 % - 7.5 %**

**= 3.06 %**