

FINAL EXAMINATION

December 2013

F-P11(CMC)

Syllabus 2008

Capital Market Analysis & Corporate Laws

Time Allowed: 3 Hours

Full Marks: 100

The figures in the margin on the right side indicate full marks.

Working Notes should form part of the answer.

- Please: (a) Answer all bits of a question at one place.
(b) Open a new page for answer to a new question.
(c) Attempt the required number of questions only.

SECTION I (60 Marks)

(Capital Market Analysis)

Answer Question No. 1 (carrying 20 marks) which is compulsory and answer any two (carrying 20 marks each) from the rest in this Section.

1. (a) In each of the cases given below, one out of four is correct. Indicate the correct answer (= 1 mark) and give workings/reasons briefly in support of your answer (= 1 mark): 2×7=14
- (i) MS. NABANITA, an investor, has purchased a 3 months Call option on the equity share of SPARK LTD. for ₹ 15 with exercise price of ₹ 360. It has a present market price per share of ₹ 336. At the end of 3 months Ms. Nabanita expected the share price to be in the following range of ₹ 300 to ₹ 400 with varying probability:
- | | | | |
|----------------|-------|-------|-------|
| Expected price | ₹ 300 | ₹ 350 | ₹ 400 |
| Probability | 0.30 | 0.40 | 0.30 |
- What will be the expected value of Call option price at maturity date? (Ignore times value of money).
- A. ₹ 34
B. ₹ 25
C. ₹ 12
D. Insufficient information
- (ii) The Co-efficient of Correlation of the share price of ASILIN LTD. with the market and standard deviation for the share prices are 0.9 and 3% respectively. The standard deviation of the market price is 2.5%. What will be the required rate of return on the stock of ASILIN LTD. if the return on 182 days T-Bill is 6% and of the market portfolio is 12.50%?
- A. 15.50%
B. 13.02%
C. 9.20%
D. None of the above

Please Turn Over

- (iii) MR. AMRUT, an investor, can earn a return of 16 per cent by investing in equity shares on his own. Now he is considering a recently announced equity based Mutual Fund Scheme in which initial expenses are 5.50% and annual recurring expenses are 1.1%. How much should the Mutual Fund earn to provide Mr. Amrut, a return of 16 per cent?
- A. 18.03%
B. 17.45%
C. 15.43%
D. Insufficient Data
- (iv) ANKRIT LTD. has an excess cash of ₹ 9,00,000 which it wants in short-term marketable securities. The securities invested will have an annual yield of 10%. If the expenses relating to investment in securities is ₹ 15,000, what would be minimum period for the company to Breakeven its investment expenditure? (Ignore time value of money.)
- A. 5 months
B. 2 months
C. 1.5 months
D. None of the above
- (v) MAXWELL LTD. issued 8% 6 year bond in the market. The issue price is ₹ 80 and the redemption price is ₹ 110. For SURESH, an investor with marginal Income tax rate of ₹ 40% and Capital Gain tax rate of 15% (assuming not indexation), What is the post tax yield to maturity?
- A. 9.68%
B. 9.56%
C. 9.76%
D. None of (A), (B) (C)
- (vi) The Beta Co-efficient of Equity Stock of INDSUN LTD. is 1.5. The risk free rate of return is 12% and the required rate of is 16% on the market portfolio. If the dividend expected during the coming year is ₹ 2.50 and the growth rate of dividend and earnings is 8% at what price the stock of Indsun Ltd. can be sold (based on CAPM)?
- A. ₹ 25.00
B. ₹ 22.50
C. ₹ 18.43
D. Insufficient Data
- (vii) MS. CHAITALI, a prospective investor has collected the following information pertaining to two securities-1 and 2:

Securities	Return (%)	Variance (%) ²	Weight in the Portfolio
Security-1	16	484	0.5
Security-2	13	256	0.5

If the variance of the Portfolio is 132(%)², the Co-efficient of Correlation between the Securities will be

- A. - 0.68
B. - 0.60
C. - 0.31
D. None of (A), (B) (C)

- (b) Choose the most appropriate one from the stated options and write it down (only indicate A or B or C or D as you think correct): 1×6=6
- (i) Markowitz Mean-Variance Model is used in
- A. Modern Portfolio Analysis
 - B. Traditional Portfolio Analysis
 - C. Modern Capital Market Analysis
 - D. None of the above
- (ii) The System established by the Regulations framed under the Reserve Bank of India Act, 1934, for carrying out interbank and intra-bank funds transfer within India, through the networked centres
- A. Swift Transfer System
 - B. E-banking Online System
 - C. Electronic Fund Transfer System
 - D. None of the above
- (iii) As per the section 4 of IRDA Act, 1999, Insurance Regulatory and Development Authority (IRDA), consists of following number of members:
- A. 9
 - B. 10
 - C. 5
 - D. None of the above
- (iv) Listed Companies whose shares are dematerialised form can have denomination of the following amount for equity shares:
- A. Any denomination not below ₹ 1
 - B. ₹ 10 and ₹ 100
 - C. ₹ 10, ₹ 100 and ₹ 1000
 - D. None of the above
- (v) As per SEBI'S guidelines, a mutual fund should be established as a
- A. Public Limited Company
 - B. Trust
 - C. Private Limited Company
 - D. None of the above
- (vi) In efficient market, the market price is an 'unbiased estimate' of the true value of the stocks (shares). This implies that
- A. The market price always equals the true value
 - B. The market value has no relation to the true value
 - C. Market makes mistakes about true value, which can be exploited by investors
 - D. Market prices contain errors, but these being random can not be exploited by investors

Please Turn Over

2. (a) Discuss about the functions of new issue market for Securities in India. 6
 (b) MR. MARIN KUMAR, an investor is evaluating the prospects of investing in two companies ZEE LTD. and PADMALAY LTD. He has collected the following information pertaining to two companies and market:

Company/Market	Beta	Standard Deviation (%)	Co-variance with Sensex (%) ²
ZEE LTD.	NA	45	205
PADMALAY LTD.	1.2	40	NA
SENSEX	1.0	15	225

Further it is gathered that risk-free interest is 7%.

Considering the assumptions of regression (characteristic) line hold good, you are required to find:

- A. (i) Beta of Zee Ltd.
 (ii) Covariance of return on Padmalay Ltd. with that of return on Sensex.
 B. The Co-efficients of Correlation between
 (i) Return on ZEE LTD. and return on Sensex.
 (ii) Return on PADMALAY LTD. and return on Sensex.
 C. The Variance of the Portfolio formed using Zee Ltd. and Padmalay Ltd. in the proportion of $\frac{2}{3}$ and $\frac{1}{3}$ respectively.
 D. Whether the un-systematic risk of the portfolio is less than individual companies? $2+2+(2+2)+(5+1)=14$

3. (a) Tabulate the main differences between Futures and Options. 5
 (b) For an important business offer made by your client ZENION LTD., the offeree is ready to send a digitally signed e-mail, accepting the offer. Your client wants to know if the same is legally binding. Advise the client suitably. 5
 (c) The stock of ASHREEN LTD. is currently trading at ₹ 400 and Call option exercisable in three months time and has an exercise rate of ₹ 390.40. The standard deviation of continuously compounded stock price change for ASHREEN LTD. is estimated to be 20% per year.

The annualized Treasury bill rate corresponding to this option life is 6%. The company is going to declare a dividend of ₹ 12 and it is expected to be paid in two months time.

Requirements:

- (i) Calculate the value of a three month Call option on the stock of ASHREEN LTD. (using Black and Scholes Model).
 (ii) What would be worth of PUT option if current price of stock is considered to be ₹ 388.12.

Note: Extracted from the Table:

(1) Natural Logarithm: $\ln(0.99416) = -0.005857$

$\ln(1.02459) = 0.02429$

(2) Value of e^{-x} : $e^{-0.02} = 0.9802$, $e^{-0.015} = 0.9851$

(3) For $N(X)$: Where $X \geq 0$: $N(0.1414) = 0.5562$

$N(0.0414) = 0.5165$

Where $X \leq 0$: $N(-0.1414) = 0.4438$

$N(-0.0414) = 0.4835$

(4) $PVIF(6\%, \frac{1}{4} \text{ year}) = 0.9852$, $PVIF(6\%, \frac{1}{6} \text{ year}) = 0.9901$

$8+2=10$

4. (a) What do you mean by Venture Capital? Explain its salient features. 2+4=6

- (b) MS. KRITIKA, an investor, has invested in three Mutual Fund Schemes as per listed below:

Particulars	MF-SG	MF-BN	MF-ZN
Date of Investment	01.12.2012	01.01.2013	01.03.2013
Amount of Investment	₹ 1500000	₹ 500000	₹ 300000
Net Asset Value (NAV) at entry date	₹ 10.50	₹ 10.25	₹ 10.10
Dividend received upto 31.3.2013	₹ 25000	₹ 8000	NIL
NAV as at 31.3.2013	₹ 10.40	₹ 10.30	₹ 9.90

Required:

What is the effective yield on per annum basis in respect of each of the three schemes to MS. KRITIKA upto 31.3.2013.

Take one year = 365 days, (Ignore time value of money.)

Show calculations upto two decimal points. 2×3=6

- (c) The settlement price of SEPTEMBER NIFTY FUTURES contract on a particular day was 4585. The minimum trading on Nifty Futures is 100. The initial margin is 8% and the maintenance margin is 6%.

The index closed the following levels on the next five days:

Day	Settlement Price (₹)
1	4690
2	4760
3	4550
4	4480
5	4570

Required:

Calculate the Mark To Market (MTM) Cash flows, the daily closing balances and Net Profit/(Loss) in the account of MR. M. KOTARI an investor who has gone

- (i) Long at 4585
(ii) Short at 4585 4+4=8

SECTION II (40 Marks)

(Corporate Laws)

Answer Question No. 5 (carrying 10 marks) which is compulsory and answer any two (carrying 15 marks each) from the rest in this Section.

5. (a) Choose the most appropriate one from the stated options and write it down (only indicate A or B or C or D as you think correct): 1×6=6

- (i) MR. AVISEK, a director of ARIHANT LTD. died in train accident. The Board of Directors would like to appoint MR. ANAND in place of MR. AVISEK. Which of the following statement(s) is/are true?

- A. The company has to call for extra-ordinary general meeting.
B. The company has to continue with existing number of Directors till the next Annual General Meeting.
C. The Board can fill up the vacancy at the Board Meeting.
D. Both (A) and (C)

Please Turn Over

- (ii) Corporate Governance was introspected in 2001 by the Advisory Group Constituted by the Standing Committee on international finance standards and Codes of Reserve Bank of India under the Chairmanship of
- A. Naresh Chandra
 - B. Narayana Murthi
 - C. Dr. Y. V. Reddy
 - D. Narasimham
- (iii) In the context of classification of Risks, R & D risks will fall under:
- A. System Risks
 - B. Management & Operation risks
 - C. Market Risks
 - D. Service Risks
- (iv) "Shelf Prospectus" u/s 60A of the Companies Act, 1956, means a prospectus issued by
- A. Trading companies;
 - B. Manufacturing companies;
 - C. Financial institutions and banks;
 - D. None of the above
- (v) When a person seeks information under the RTI Act with an eligible company, the same shall be dealt with by the following officer of the company:
- A. CEO
 - B. Public Information Officer
 - C. HR Manager
 - D. None of the above
- (vi) The key features of Corporate Governance are given in Section _____ of the companies Act, 1956, (Fill in the gap from the below):
- A. 292A
 - B. 246
 - C. 249A
 - D. None of (A), (B) (C)
- (b) Fill in the Blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1×4=4
- (i) Under Competition Act, 2002, penalty for offences in relation to furnishing of information is _____.
 - (ii) The information sought for by an applicant under the RTI Act shall be furnished within _____.
 - (iii) As per clause 49 of the Listing Agreement, all existing listed entities with a paid-up capital of _____ and above are required to setup an audit committee in a phased manner.
 - (iv) The membership of the Nomination Committee in a listed company consists of at least _____ directors.

6. (a) The Audit Committee of RENUKA TEXTILES LTD. constituted under section 292A of the companies Act, 1956, submitted to the Board of Directors a report containing its recommendations. These recommendations were however not accepted by the Board. In this scenario state your views on the following:
- Can the Board adopt the stand of not accepting the audit committee's recommendations?
 - If yes, that the Board does not accept the recommendations what should the Board do?
 - How should the chairman of the Audit Committee respond?
- 6
- (b) An application was filed by MRS VASUDHA under section 403 of the Companies Act, 1956 seeking direction by the CLB to convene an annual general meeting scheduled to be held on 10th June, 2012, at the factory premises instead of the registered office of the company, which had recently been shifted. In the meeting it is proposed to adopt the accounts and consider reappointments of auditors.
- The company submitted that the applicant was a party to the meeting held for the amendment of Articles 15 and 16 and to substitute a new Article 16, that the petitioner had signed the Minutes and that the necessary Form 23 was filed with the Registrar of companies for shifting the registered office to its new location.
- Is the claim of the applicant tenable?** 4
- (c) There are 9 Directors in NATHAN TEXTILES LIMITED, besides the Managing Director (MD), who is authorized by the Articles to act as Chairman for the Board meetings and also have a casting vote. In a Board meeting, relating to a matter put to vote, the MD did not cast his own vote as director. After the voting there are 4 votes for and 5 votes against. Now the MD wants to exercise his own vote as director and casting vote as Chairman, and move the resolution as passed.
- Is this proper?** 5
7. (a) Can any fine or penalty be imposed on the Public Information Officer of a Government Department where he has deliberately delayed the furnishing of information sought for properly, under the RTI Act, 2004?
- Is such levy automatic?**
- How can the fine or penalty imposed be recovered from him? 5
- (b) The Central Government has formed an opinion that MR. RAJESH. B (a member of the competition commission of India) has acquired such financial interest that it may affect prejudicially his functions as a member of the competition commission and it wants to remove him from his office.
- You are required to state with reference to the provisions of the competition Act, 2002, whether the Central Government can do so and if yes, how? 4
- (c) Outline the key roles in the context of PROJECT GOVERNANCE. 6
8. (a) State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties. 6
- (b) Directors of MOULIN LTD. are not holding any shares in SPARK LTD. Similarly directors of SPARK LTD. are not holding any shares in MOULIN LTD. But wife of Director 'S' of Moulin Ltd. holds 40% of the paid up share capital of Spark Ltd. Board of Directors of Moulin Ltd. entered into a contract with Spark Ltd. for purchase of goods and director 'S' did not disclose his indirect interest in Spark Ltd.
- Examine whether Director 'S' has violated any of the provisions of the companies Act, 1956 and also the validity of the contract. 6
- (c) Critically discuss the role of stakeholders in CORPORATE GOVERNANCE. 3