

FINAL EXAMINATION

June 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: (1) Answer all bits of a question at one place.  
(2) Open a new page for answer to a new question.  
(3) 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) MR. DEBASHIS has formed a portfolio and the characteristics of his portfolio are given below:

Security	Sontex Ltd.	Polar Ltd.	Treasury Bill	Index Fund
Weight	0.07	0.25	0.25	0.43
Beta ( $\beta$ )	1.72	0.89	?	?

Beta of his portfolio is :

- (A) 0.8229  
(B) 0.7729  
(C) 0.4629  
(D) None of the above
- (ii) ZENION LTD. issued right shares that increased the market value of the shares of the company by ₹ 180 crore. The existing base year average is ₹ 750 crore. If the aggregate market value of all the shares included in the index before the right issue made is ₹ 1200 crore, what will be the new base year average?  
(A) ₹ 782.30 crore  
(B) ₹ 862.50 crore  
(C) ₹ 978.20 crore  
(D) Insufficient information
- (iii) The shares of NABANI LTD. are trading at ₹ 370. If put options with a strike price of ₹ 380 are priced at ₹ 20, the intrinsic value and time value of the options respectively are:  
(A) ₹ 8, ₹ 8  
(B) ₹ 10, ₹ 10  
(C) ₹ 8, ₹ 10  
(D) Incomplete information

Please Turn Over

- (iv) The Co-efficient of Correlation between returns of MOONSHINE LTD. and SENSEX is 0.98. The expected returns on the stock of Moonshine Ltd. and Sensex are 16% and 13.77% respectively. The return on 182 day T Bill is 6.35%. If the standard deviation of the returns of Moonshine Ltd. is 21%, what would be the standard deviation of SENSEX's return?
- (A) 15.83%  
(B) 16.51%  
(C) 22.42%  
(D) None of (A), (B), (C)
- (v) Consider the following data of SUN INDIA MUTUAL FUND (Growth Plan):

	₹ in crore
Value of investments	2757.00
Receivables	221.00
Other current Assets	643.00
Liabilities	390.00
Accrued Expenses	87.00

If the number of outstanding units is 155 crore and sales charge is 2.20% on the NAV, the public offering price will be:

- (A) ₹ 20.74  
(B) ₹ 20.81  
(C) ₹ 21.41  
(D) Insufficient information
- (vi) BSE Index is currently quoting at 1620. Each lot is 300. MS ASHA, an investor purchases a July contract at 1710. She has been asked to pay 8% initial margin. What is the amount of initial margin required to be paid by her?
- (A) ₹ 31800  
(B) ₹ 41040  
(C) ₹ 44810  
(D) None of the above
- (vii) MR. MOHON has purchased a stock of MAXI OILS LTD. (MOL). Currently the company pays dividend of ₹ 8.50 per share. Thereafter the dividend is expected to grow at a constant rate of 6.5% p.a. The stock of MOL has beta of 1.40. If the risk-free rate of return is 7.5% p.a. and the expected market return is 12% p.a., what would be the stock's expected price four years from now?
- (A) ₹ 137.79  
(B) ₹ 159.53  
(C) ₹ 163.18  
(D) None of the above

- (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) The following Act empowers the government departments to accept filing, creating and retention of official documents in the digital format:
- (A) Indian Companies Act, 1956
  - (B) E commerce Act, 2011
  - (C) Information Technology Act, 2000
  - (D) None of the above
- (ii) The Board for Financial Supervision (BFS) was constituted in November, 1994 as a Committee of:
- (A) The Ministry of Finance
  - (B) The Central Board of Directors of the RBI
  - (C) The Ministry of Company Affairs
  - (D) Incomplete information
- (iii) Following is not a Money Market Instrument:
- (A) Treasury Bill
  - (B) Certificate of Deposit
  - (C) Equity Shares
  - (D) Commercial Paper
- (iv) Which of the following statements is/are true?
- (A) If market price = face value, then Coupon Rate > YTM > Current Yield
  - (B) If market price < face value, then Coupon Rate > Current Yield > YTM
  - (C) If market price > face value, then Coupon Rate > Current Yield > YTM
  - (D) If market price = face value, then Coupon Rate < Current Yield < YTM
- (v) Which of the following option strategies involve the purchase of call options and writing of put options are exactly the same exercise price?
- (A) Synthetics
  - (B) Spreads
  - (C) Conversions
  - (D) None of the above
- (vi) A process of investment by a Sponsor or a Syndicate of Investors/Sponsors directly in a Company is referred as
- (A) Bought out deal
  - (B) Buy back of shares
  - (C) Irredeemable preference shares
  - (D) Deferred shares

2. (a) Briefly discuss about the two categories of underwriters in India. 6
- (b) MR. GOPAL KUTTY established the following spread on the SOFTEX LTD.'S stock:
- (i) Purchased one 3 month Call Option with a premium of ₹ 5.25 and an exercise price of ₹ 475.00
- (ii) Purchased one 3 month Put Option with a premium of ₹ 3.50 and an exercise price of ₹ 425.00

The current price of Softex Ltd.'s stock is ₹ 451.00

You are required to determine Mr. Gopal Kutty's profit or loss if—

- (A) The Price of Softex Ltd.'s stock stays at ₹ 451.00 after 3 months
- (B) The Price of Softex Ltd.'s stock falls to ₹ 401.00 after 3 months
- (C) The Price of Softex Ltd.'s stock rises to ₹ 476.00 after 3 months

[Market lot of each contract is 650 shares]

3+2+2=7

- (c) MS. NABANITA, during the initial offer of TEMPLAN MUTUAL FUND, invested in 10000 units having face value of ₹ 10 for each unit on 1st August, 2010. The dividend operated by the Templan Mutual Fund was 10% on 31.3.2011 and Ms. Nabanita found that her annualised yield was 180%. On 31.12.2012, 25% dividend was given by the Mutual Fund (Templan).

Ms. Nabanita redeemed all her balance of 11384.664 units on 31.3.2013, when her annualized yield was 80%. (Assume that dividends were reinvested)

Required:

What are the NAVs as on 31.3.2011, 31.12.2012 and 31.3.2013?

2+2+2+1=7

3. (a) The Information Technology Act 2000, though appears to be self sufficient, takes mixed stand when it comes to many practical situations.

Outline few places where it loses its certainty.

5

- (b) MR. ABHISHEK an analyst at ASHLEEN SECURITIES LTD. is evaluating the prospects of investing in two companies SPARK LTD. and ELECTRA LTD. The projects of returns for the stocks of these two companies along with their probabilities are as follows:

Probability	Returns associated with (in %)	
	Spark Ltd.	Electra Ltd.
0.20	90	11
0.10	75	29
0.30	60	33
0.25	20	60
0.15	30	55

You are required to—

- (i) Calculate the expected returns, standard deviations of returns and Correlation Co efficient between the two stocks.
- (ii) Compare the risk and return of these two stocks with a portfolio of these stocks in equal proportions.
- (iii) Determine the expected rate of Return of a ZERO RISK portfolio consisting of the above two stocks.

6+4+5=15

4. (a) What do you mean by ETF (Exchange Traded Funds)? State in brief the applications of it. 2+4=6
- (b) ZENITH TEXTILES LTD. (ZTL) has under consideration refunding of ₹ 3 crore outstanding Bonds at ₹ 1000 per value as a result of recent decline in long term interest rates. The bond refunding plan involves issue of ₹ 3 crore of New Bonds at the lower interest and the proceeds to call and retire the ₹ 3 crore outstanding bonds.

The details of the new bonds are:

- (i) Sale at per value of ₹ 1000 each
- (ii) 11 per cent coupon rate
- (iii) 20 years maturity
- (iv) Flootation costs ₹ 400000 and
- (v) A 3 month period of overlapping interest

ZTL's outstanding Bonds were initially issued 10 years ago with a 30 year maturity and 13 per cent coupon rate of interest.

They were sold at ₹ 12 per bond discount from per value with flootation costs amounting to ₹ 150000 and their call at ₹ 1130.

ZENITH's Marginal tax rate is 35 per cent.

Required:

- (i) Analyse the Bond refunding proposal.
- (ii) Would you recommend it? Why?

Note:

Extracted from the Table of PV

Interest rate	7%	7.15%	8.45%	11%	13%
PVIF (20 years)	0.25842	0.25128	0.19743	0.12403	0.08678
PVIFA (20 years)	10.59401	10.47161	9.49787	7.96336	7.02477

3+3+2+1=9

- (c) Identify the hedging strategies that would be required using the Index Futures under the following circumstances:

Stock	Position	Beta	No. of shares	Price ₹	Hedge needed
SBI	Long	1.30	1000	1900	Full
RIL	Long	1.20	1000	800	Full
BHEL	Short	1.10	1000	300	90%
TSL	Short	0.80	1000	400	80%
Infosys	Long	1.00	1000	1800	120%

2+3=5

Please Turn Over

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). 1×5=5
- (i) There are 11 directors in GROW WELL LTD. a Public Limited Company. It has a Managing Director and a nominee of IDBI. How many directors are liable to retire by rotation?  
(A) Four  
(B) Six  
(C) Seven  
(D) Eight
- (ii) The concept of Corporate Governance was initiated on the recommendation of the report by  
(A) Mr. Narayana Murthy  
(B) Mr. Kumar Mangalam Birla  
(C) Dr. Y. V. Reddy  
(D) None of the above
- (iii) The nationality of a company is decided by:  
(A) Place of residence of the directors in charge of management of the company  
(B) Place of registered office of the company  
(C) Place where the books of accounts of the company are kept  
(D) None of the above
- (iv) Prospectus is not required to issued by/in respect of:  
(A) Private limited company  
(B) Sweat equity shares  
(C) Rights issue  
(D) For all of the above
- (v) Under the RTI Act, A second appeal against the decision of Public Information Officer shall lie within \_\_\_\_\_ from the time by which the decision should have been made or receipt of a decision, prefer an appeal to the relevant Information Commissioner, (Fill in the gap from the below):  
(A) 30 days  
(B) 60 days  
(C) 90 days  
(D) None of the above
- (b) Fill in the Blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1×5=5
- (i) The key features of Corporate Governance are given in section \_\_\_\_\_ of the Companies Act, 1956.
- (ii) The Competition Commission of India was established in the year \_\_\_\_\_.
- (iii) The minimum number of subscribers sign in the memorandum of Association of a public limited company at the time of its formation is \_\_\_\_\_.
- (iv) An applicant for access to information \_\_\_\_\_ (shall/shall not) be required to give any reason for requesting access to that information.
- (v) As per clause 49 of the listing agreement, independent directors should account for atleast \_\_\_\_\_ % of board of directors of listed companies.

6. (a) JUPITER TEXTILES LTD. was incorporated on 1st June, 2009. On 1st March, 2012 a political party approaches the company for a contribution of ₹12 lakhs for political purpose.
- Your advice is sought in respect of the under mentioned issues :
- Is the company legally authorized under the Companies Act, 1956 to give this political contribution?
  - Will it make any difference, if the company was in existence on 1st April, 2009?
  - Can the company be penalised for violation of the applicable provisions relating to political contribution?
  - What are the disclosure requirements in this regards? 2+1+2+2=7
- (b) State the importance of going Concern Concept in preparation of Corporate Financial Statements in India. How is the term 'Foreseeable future' defined in this context? 6+2=8
7. (a) The Public Information Officer of KOLKATA MUNICIPAL CORPORATION has turned down the request for information lodged by MS MITRIKA ROY on the grounds that the request was sent through an e mail and on the ground that the same was in Bengali and not in English.
- Are his contentions correct in law as per the Right to Information (RTI) Act, 2004? 4
- (b) Hon ble Justice Mr. H. JALAN, a retired High Court Judge, attained the age 61 years on 31st December, 2011. The Central Government appointed him as the Chairperson of the Competition Commission of India with effect from 1st January, 2012. You are required to state with reference to the provisions of the Competition Act, 2002, the term for which he may be appointed as Chairperson of the Competition Commission of India.
- Whether he can be reappointed as such and till when he can remain as Chairperson of the Competition Commission of India? 4
- (c) Briefly sketch the requirements of Section 292A of the Companies Act, 1956 relating to Audit Committee. 7
8. (a) At the time of winding up of SIMON HOTEL LTD. (SHL), a supplier of company named MKG LTD., presents to the official liquidator, a Court decree in their favour ordering payment of certain sum. The claim of MKG LTD. is that they should be paid in preference over the claims of the workmen for their dues. The same is not accepted by the workmen.
- Examine the validity of the rival claims in the light of the provisions of the Companies Act, 1956. 6
- (b) "A good CORPORATE GOVERNANCE should have certain basic principles"— Enumerate them. 6
- (c) VKS TEXTILES PVT. LTD., which is a private company which is not a subsidiary of any public company, does not furnish the details of its investments in Indian companies as required by note (1) Schedule VI to the Companies Act, 1956. The company is of the view that Section 372 of the Companies Act, 1956 is not applicable in its entirety to all the companies, i.e. public and private.
- Is the said view of VKS TEXTILES PVT. LTD. in accordance with law? 3