Paper- 11: CAPITAL MARKET ANALYSIS & CORPORATE LAWS

Time Allowed: 3 Hours **Full Marks:** 100

The figures in the margin on the right side indicate full marks.
Please: (1) Answer all bits of a question at one place.
(2) Answers to each question should start from a new page.
Example: Q. No. 2/3/any should start from a new page.

SECTION - I (60 Marks)
(Capital Market Analysis)

Answer Question No. 1 (compulsory) and answer any two from the rest in this Section.

Question 1.

(a) In each of the cases given below one out of four options is correct. Indicate the correct answer and give workings/ reasons briefly in support of your answer. [2×6]

(i) Maruti has a beta of 0.865. If the expected market return is 17.50 and the risk freer rate of return is 8.50%, what is the appropriate required return of Maruti (using the CAPM)?

A. 16.825%;
B. 16.582%;
C. 16.285%;
D. 16.258%.

(ii) The following portfolio details of a mutual fund are available:

Stock	Shares	Price (₹)
A	2,00,000	35
B	3,00,000	40
C	4,00,000	20
D	6,00,000	25

The fund has accrued management fees with the portfolio manager totaling ₹40,000. There are 40 lakhs units outstanding. What is the NAV of the fund?

A. 10.25;
B. 10.39;
C. 10.49;
D. None of the above.

(iii) The spot value of Nifty is 4430. An investor bought an one month Nifty for 4410 call option for a premium of ₹ 12. The option is:

A. At the money;
B. Out of the money;
C. In the money;
D. Insufficient data.

(iv) MS Ltd. has a debt-equity mix of 30/70. If MS Ltd.'s debt Beta is 0.30 and Beta for its activity (or project) is 1.21, what is the Beta for its Equity?

A. 1.65;
B. 1.60;
C. 1.52;
D. None of the above.

(v) Nifty Index is currently quoting at 1329.78. Each lot is 250. Mr. Bose purchases an April contract at 1364. He has been asked to pay 10% initial margin. What is the amount of initial margin?

A. ₹ 33,244.00;
B. ₹ 136.40;
C. ₹ 132.97;
D. ₹ 34,100.00.

(vi) An investor purchased an asset at a cost of ₹ 1,300. Simultaneously he purchases a put option to sell the said asset at a minimum price of ₹ 1,300 at a premium of ₹ 70. Premium is payable immediately and expiration is 2 months. What is the cost of strategy and Break-even Point?

A. ₹ 70 and ₹ 1,370;
B. ₹ 70 and ₹ 1,230;
C. ₹ 1,370 and ₹ 1,230;
D. None of the above.

Answer:

(i) C. 16.285%

Required rate of return:
= 8.50% + (17.5% - 8.5%) × 0.865
= 8.50% + 9.0% × 0.865
= 8.50% + 7.785%
= 16.285%

(ii) C. ₹ 10.49

The following portfolio details of a fund are available:

Stock	Shares	Price	Value (₹)
A	2,00,000	35	70,00,000
B	3,00,000	40	1,20,00,000
C	4,00,000	20	80,00,000
D	6,00,000	25	1,50,00,000
Total			4,20,00,000

NAV of the fund = (₹4,20,00,000 - ₹ 40,000)/40,00,000 = ₹ 10.49

(iii) C. In the money

In case of call option, if spot value > exercise price = In the money
Here, 4430 > 4410

(iv) **B. 1.60**

$\beta_A = \beta_d (D/V) + \beta_e (E/V)$

Or, $1.21 = 0.30\ (0.3) + \beta_e \times 0.7$

$= 0.09 + 0.7\ \beta_e$

Or, $\beta_e = (1.21 - 0.09)/0.7 = 1.12/0.7 = 1.60$

(v) **D. ₹ 34,100.00**

The closing price for the spot index was 1329.78. The rupee value of stocks is thus 250 × 1329.78 = ₹ 3,32,445.00

The closing futures price for the April contract was 1364.00, which has a rupee value of 1364 x 250 = ₹ 3,41,000.00 and therefore requires a margin of ₹ 34,100.

(vii) **A. ₹ 70 and ₹ 1,370**

Cost of strategy = Premium = ₹ 70

Break-even Point = ₹ 1,300 + ₹ 70 = ₹ 1,370

(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 consider correct). **[1x5]**

(i) The contract of insurance is required to fulfill certain principles of insurance. From below mentioned alternative find which of them is not the principle of insurance:

A. Insurable Interest;
B. Proximate Cause;
C. Market Risk;
D. Subrogation.

(ii) The Security Market Line shows the linear relationship between the expected returns and —

A. alpha of the portfolio;
B. Betas of the securities;
C. variance of the portfolio;
D. none of the above.

(iii) A special contract under which the owner of the contract enjoys the right to buy or sell without the obligation to do so is called:

A. Forward;
B. Option;
C. Spot;
D. Future.

(iv) An issue where an allotment is made to less than 50 persons, is called —

A. Rights Issue;
B. Bonus Issue;
C. Bought out deal;
D. Private Placement.

(v) Which among the following increases the NAV of a Mutual Fund Scheme?

A. Value of investments;
B. Receivables;
C. Accrued Income;
D. All of the above.

Answer:

(i) C. Market Risk
(ii) B. Betas of the securities
(iii) B. Option
(iv) D. Private Placement
(v) D. All of the above

(c) Fill in the blanks in the following sentences by using appropriate word(s) / phrase(s) / number(s): [1x3]

(i) In relation to the activity of the commercial banks, when one party sells a security to another party with an agreement to buy it back at a specified time and price, it is called _____________.

(ii) SENSEX is calculated using the ___________________ methodology.

(iii) The variability in a security's return resulting from changes in the level of interest rates is referred to as __________________ risk.

Answer:

(i) Repurchase agreements
(ii) Free-float Market Capitalization
(iii) interest rate

Question 2.

(a) "Despite the assertions of technical analysis, technical analysis is not a sure-fire method." — Describe the criticisms of Technical Analysis in this ground. [4]

Answer:

Despite the assertions of technical analysis, technical analysis is not a sure-fire method. The various limitations of technical pointed but by its critics are as given under :

i) Difficult in interpretation: Technical analysis is not as simple as it appears to be. While the charts are fascinating to look at, interpreting them correctly is very difficult. It is always easy to interpret the charts long after the actual point of time. As such, fundamentals argue that charting techniques are no different from palmistry.

ii) Frequent changes: With changes in market, chart patterns keep on changing. Accordingly, technical analysts change their opinions about a particular investment very frequently. One day they put up a buy signal. A couple of weeks later, they see a change pattern and put up a sell signal.

iii) Unreliable changes: Changes in market behaviour observed and studied by technical analyst may not always be reliable owing to ignorance or intelligence or manipulative tendencies of some participants.

iv) Judgemental Bias: A false piece of information or wrong judgment may result in trade at a lower than market price. If the technicians fail to wait for confirmation, they incur losses.

(b) Six Mutual Funds experienced the following results during a 7 year period:

Mutual Funds	Average Annual Return	Standard Deviation	Correlation with Market
A	**18.4%**	**27.0%**	**0.81**
B	**14.8%**	**18.0%**	**0.65**
C	**15.1%**	**8.0%**	**0.98**
D	**22.0%**	**21.2%**	**0.75**
E	**-9.0%**	**4.0%**	**0.45**
F	**26.5%**	**19.3%**	**0.63**
Market	**13.0%**	**12.0%**	
Risk Free Rate	**9.0%**		

(i) Rank these portfolios using Sharpe's method, and Treynor's method.

(ii) Compare the ranking in part (i) and explain the reasons behind the differences. [10+2]

Answer:

Sharpe Index = $\frac{R_p - R_f}{\sigma}$

$A = \frac{18.4\% - 9\%}{27\%} = 0.3481$ IV

$B = \frac{14.8\% - 9\%}{18\%} = 0.3222$ V

$C = \frac{15.1\% - 9\%}{8\%} = 0.7625$ II

$D = \frac{22\% - 9\%}{21.2\%} = 0.6132$ III

$E = \frac{-9\% - 9\%}{4\%} = (-)4.5$ ---

$F = \frac{26.5\% - 9\%}{19.3\%} = 0.9067$ I

Treynor's method = $\frac{R_p - R_f}{\beta}$

Calculation of β

$$\beta = \frac{\sigma_{sec} \times r_{sec\&mkt}}{\sigma_{mkt}}$$

$$\beta_A = \frac{27 \times 0.81}{12} = 1.8225$$

$$\beta_B = \frac{18 \times 0.65}{12} = 0.975$$

$$\beta_C = \frac{8 \times 0.98}{12} = 0.6533$$

$$\beta_D = \frac{21.2 \times 0.75}{12} = 1.325$$

$$\beta_E = \frac{4 \times 0.45}{12} = 0.15$$

$$\beta_F = \frac{19.3 \times 0.63}{12} = 1.0133$$

	Rank
$A = \frac{18.4\% - 9\%}{1.8225} = 5.158$	V
$B = \frac{14.8\% - 9\%}{0.975} = 5.949$	IV
$C = \frac{15.1\% - 9\%}{0.6533} = 9.337$	III
$D = \frac{22\% - 9\%}{1.325} = 9.811$	II
$E = \frac{-9\% - 9\%}{0.15} = (-)120$	---
$F = \frac{26.5\% - 9\%}{1.0133} = 17.270$	I

Reason for Difference in Ranking:

Sharpe Index considered standard deviation or total risk as its measure of risk whereas Treynor index considered only the systematic risk as its measure of Risk.

Treynor Index gives Importance to correlation of security & market and establishes a link through correlation between market risk and security risk where as Sharpe index considered only the security S.D.

Portfolio 'C' is ranked II in Sharpe Index but pushed back to IIIrd position as per Treynor Index owing to the reason of correlation effect. The same is also evident in Portfolio A & B.

(c) What are advantages of share repurchase over dividends? [4]

Answer:

The advantages of share repurchase over dividends are as follows:

(i) Cash dividend implies a commitment on the part of company to continue payments in future, as investors keep expecting them. However, share repurchase is an one time affair.

(ii) The decision to repurchase the shares offers a company more flexibility as to number of shares, the period etc.

(iii) Share repurchase are more focused in terms of paying out cash only to those shareholders who need it. However, dividends are paid to all.

(iv) Share buyback provide a way of increasing control in the firm. If only outsiders tender their shares, automatically insiders control increases.

Question 3.

(a) Your client is holding the following securities:

Particulars of Securities	Cost (₹)	Dividends (₹)	Market Price (₹)	Beta
Shares in A Co.	**8,000**	**800**	**8,200**	**0.8**
Shares in B Co.	**10,000**	**800**	**10,500**	**0.7**
Shares in C Co.	**16,000**	**800**	**22,000**	**0.5**
PSU Bonds	**34,000**	**3,400**	**32,300**	**1.0**

Assuming a risk free rate of 14%, calculate:

(i) Expected rate of return in each, using the Capital Asset Pricing Model (CAPM).

(ii) Average return of the portfolio. [4+2]

Answer:

(i) Calculation of expected Return on Market Portfolio (ER_m)

Investment	Cost (₹)	Dividends (₹)	Capital Gains (₹)
Shares in A Co.	8,000	800	200
Shares in B Co.	10,000	800	500
Shares in C Co.	16,000	800	6,000
PSU Bonds	34,000	3,400	-1,700
	68,000	5,800	5,000

$$ER_m = \frac{5,800 + 5,000}{68,000} \times 100 = 15.88\%$$

Calculation of Expected Rate of Return on Individual Security:

Shares in A Co.	14% + 0.8(15.88% - 14.00%)	= 15.50%
Shares in B Co.	14% + 0.7(15.88% - 14.00%)	= 15.32%
Shares in C Co.	14% + 0.5(15.88% - 14.00%)	= 14.94%
PSU Bonds	14% + 1.0(15.88% - 14.00%)	= 15.88%

(ii) Calculation of the Average Return of the Portfolio:

$$= \frac{15.50\% + 15.32\% + 14.94\% + 15.88\%}{4}$$

$$= 15.41\%$$

(b) Write down the benefits of CAPM model in the field of portfolio management. [3]

Answer:

CAPM model of portfolio management can be effectively used to:

1. Investments in risky projects having real assets can be evaluated of its worth in view of expected return.
2. CAPM analyses the riskiness of increasing the levels of gearing and its impact on equity shareholders returns.
3. CAPM suggests the diversification of portfolio in minimisation of risk.

(c) The unit price of RSS Scheme of a mutual fund is ₹ 10. The public offer price (POP) of the unit is ₹ 10.305 and the redemption price is ₹ 9.75. Calculate: (i) Front-end load, and (ii) Back-end load. [2+2]

Answer:

(i) Calculation of Front-end load

$$\text{Public Offer Price} = \frac{\text{Net asset value}}{1 - \text{Front} - \text{end load}}$$

Where, Public offer price ₹ 10.305; Net asset value ₹ 10, let Front-end load be F.

Accordingly,

$$10.305 = \frac{10}{(1-F)}$$

10.305 (1-F) = 10

10.305 - 10.305F = 10

10.305F = 10.305 - 10

F = 0.305/10.305 = 0.0296

Therefore, Front-end load =2.96%

(ii) Calculation of Back-end load (B)

$$\text{Redemption Price} = \frac{\text{Net asset value}}{1 - \text{Back} - \text{end load}}$$

Where redemption price is ₹ 9.75 and let back-end load be B.

Accordingly,

$$9.75 = \frac{10}{(1-B)}$$

9.75 (1-B) = 10

9.75 - 9.75 B = 10

-9.75B = 10 - 9.75

B = 0.25/9.75 = 0.0256

Therefore, Back-end load = 2.56%

(d) The possible returns and associated probabilities of Securities X and Y are given below:

Security X		Security Y	
Probability	**Return %**	**Probability**	**Return %**
0.05	**6**	**0.10**	**5**
0.15	**10**	**0.20**	**8**
0.40	**15**	**0.30**	**12**
0.25	**18**	**0.25**	**15**
0.05	**22**	**0.10**	**18**
0.10	**20**	**0.05**	**20**

Calculate the expected return and standard deviation of Security X and Y. [7]

Answer:

Calculation of Expected Return and Standard Deviation of Security X

Probability (P)	**Return % (R)**	**(P×R)**	$(R-\overline{R})$	$(R-\overline{R})^2P$
0.05	6	0.30	-9.4	4.418
0.15	10	1.50	-5.4	4.374
0.40	15	6.00	-0.4	0.064
0.25	18	4.50	2.6	1.69
0.05	22	1.10	6.6	2.178
0.10	20	2.00	4.6	2.116
		$\overline{R}$ = 15.40		$\sum(R-\overline{R})^2P = 14.84$

Expected return of Security X = 15.40%

Standard of Deviation of Security X

$$\sigma_X{}^2 = 14.84$$

$$\sigma_X = \sqrt{14.84} = 3.85$$

Calculation of Expected Return and Standard Deviation of Security Y

Probability (P)	**Return % (R)**	**(P×R)**	$(R-\overline{R})$	$(R-\overline{R})^2P$
0.10	**5**	0.50	-7.25	5.2563
0.20	**8**	1.60	-4.25	3.6125
0.30	**12**	3.60	-0.25	0.0188
0.25	**15**	3.75	2.75	1.8906
0.10	**18**	1.80	5.75	3.3063
0.05	**20**	1.00	7.75	3.0031
		$\overline{R}$ = 12.25		$\sum(R-\overline{R})^2P = 17.0876$

Expected return of Security Y = 12.25%
Standard Deviation of Security Y

$$\sigma_Y^{\ 2} = 17.0876$$

$$\sigma_Y = \sqrt{17.0876} = 4.13$$

Analysis- Security X has higher expected return and lower level of risk as compared to Security Y.

Question 4.

(a) Bonds (face value ₹ 1,000 each) of an Engineering Company, which carries AA rating, with five years to maturity and 16% coupon rate, payable half-yearly, is being traded at ₹ 1,040. You as a Fund Manager of Trust Fund, a 80% Debt Fund, want to ascertain the intrinsic value and take a decision accordingly. Given PVIFA$_{7\%,10\ years}$ = 7.024

Your Asset Management Company has laid down the guideline that for AA rated instruments, discount rate to be applied is 364- Day T Bill rate + 4% (T-Bill rate is 10%)

Required –

i. Intrinsic value of the bond

ii. Action on bond

iii. Yield to maturity of the bond. **[4+2+4]**

Answer:

i. Computation of intrinsic value

1. Present value of interest cash flow

Particulars	Value
Face value	₹ 1,000
Coupon rate	16%
Interest payable	Half-yearly
Period to maturity	5 years
Half-yearly interest amount [16% x ₹ 1,000 x 6 months/ 12 months]	₹ 80
No. of interest payments for the next five years [5 yrs. X 2 per year]	10
Discount rate	14%
Annuity factor for 10 period at 7% (i.e. half of discount rate)	7.024
Present value of cash flows on account of interest flow	₹ 562

2. Present value of maturity proceeds

Particulars	Value
Maturity proceeds (Face Value)	₹ 1,000
PV factor at 7% at the end of 10 periods	0.508
Present value of maturity proceeds	₹ 508

3. Intrinsic value

Intrinsic value = PV of Interest flows + PV of Maturity Proceeds
= ₹ 562 + ₹ 508 = ₹ 1,070

ii. Action on bond

Particulars	₹
Value of bond [Expected Price = Intrinsic value]	1,070
Actual market price per bond	1,040
Evaluation [Actual Price vs. Expected Price]	Actual price is lower
Inference	Bond is underpriced
Action	BUY

iii. Yield based on Current Market Price

Particulars	Face value	Intrinsic value
Value of bond	₹ 1,000 [V_1]	₹ 1,070 [V_2]
Yield percentage [Annualized]	16% p.a. [R_1]	14% p.a. [R_2]

If the present value is ₹ 1,040 [V_M] i.e. between ₹ 1,000 and ₹ 1,070. Current yield [Y] is between 14% p.a. [R_2] and 16% p.a. [R_1]. Therefore by interpolation, current yield is 14.86% p.a. or 7.43% [Half yearly].

$$\text{Yield to maturity [Y]} = R_2 + \frac{[V_2 - V_M]}{[V_2 - V_1]} \times [R_1 - R_2]$$

$$= 14\% + [(₹\ 1{,}070 - ₹\ 1{,}040) / (₹\ 1{,}070 - ₹\ 1{,}000)] \times [16\% - 14\%]$$

$$= 14\% + [₹\ 30/₹\ 70] \times 2\%$$

$$= 14\% + 0.43 \times 2\%$$

$$= 14\% + 0.86\% = 14.86\%.$$

(b) "Preference share is a hybrid security because it has features of both ordinary shares and bonds." — Write about the general forms of preference shares. [4]

Answer:

Preference shareholders have preferential rights in respect of assets and dividends. In the event of winding up the preference shareholders have a claim on available assets before the ordinary shareholders.

The general forms of preference shares are as follows:

- Cumulative and Non-cumulative Preference Shares: The cumulative preference share gives a right to demand the unpaid dividend of any year, during the subsequent years when the profits are ample.

- Cumulative Convertible Preference Shares: The cumulative convertible preference (CCP) share is an instrument that embraces features of both equity shares and preference shares, but which essentially is a preference share. The CCPs are convertible into equity shares at a future specified date at a predetermined conversion rate once it is converted into equity shares, it passes all the characteristics of an equity share.

- Participating and Non-participating Preference Shares: Participating preference shares are those shares which are entitled to a fixed preferential dividend and, in addition, carry a right to participate in the surplus profits along with equity shareholders after dividend at a certain rate has been paid to equity shareholders.

- Redeemable and Irredeemable Preference Shares: Subject to an authority in the articles of association, a public limited company may issue redeemable preference shares to be redeemed either at a fixed date or after a certain period of time during the life time of the company. The Companies Act, 1956 prohibits the issue of any preference share which is irredeemable or is redeemable after the expiry of a period of twenty years from the date of issue.

(c) Mr. Zed established the following spread on the Puri Corporation's stock: (i) Purchased one 2-month call option with a premium of ₹ 30 and an exercise price of ₹ 550. (ii) Purchased one 2-month put option with a premium of ₹ 5 and an exercise price of ₹ 450.
Puri Corporation's stock is currently selling at ₹ 500. Determine profit or loss, if the price of Puri Corporation's:
(i) remains at ₹ 500 after 2 months.
(ii) falls at ₹ 350 after 2 months.
(iii) rises to ₹ 600.
Assume the option size is 100 shares of Puri Corporation. [6]

Answer:

(i) Total premium paid on purchasing a Call and Put Option
= (₹ 30 per share x 100) + (₹ 5 per share x 100)
= ₹ 3,000 + ₹ 500 = ₹ 3,500
In this case, Zed exercises neither the call option nor the put option as both will result in a loss for him.
Ending Value = - ₹ 3,500 + zero gain
= - ₹ 3,500
i.e., Net Loss = ₹ 3,500

(ii) Since the price of the stock is below the exercise price of the call, the call will not be exercised. Only put is valuable and is exercised.
Total Premium paid = ₹ 3,500
Ending Value = - ₹ 3,500 + ₹ [(450 - 350) x 100] = - ₹ 3,500 + ₹ 10,000
= ₹ 6,500
∴ Net Gain = ₹ 6,500

(iii) In this situation, the put is worthless, since the price of the stock exceeds the put's exercise price. Only call option is valuable and is exercised.

Total Premium paid = ₹ 3,500
Ending Value = - ₹ 3,500 + [(₹ 600 - ₹ 550) x 100]
Net Gain = - ₹ 3,500 + ₹ 5,000 = ₹ 1,500

SECTION II (40 Marks)

(Corporate Laws)

Answer Question No.5 (compulsory) and also answer any two from the rest in this Section.

Question 5.

(a) Fill in the Blanks in the following sentences by using appropriate word(s)/ phrase(s)/ number(s): [1x6]

(i) _______________ means a person liable to contribute towards the assets of the company in the event of its being wound up.

(ii) The _________________ debentures give an option to the holders to convert them into preference or equity shares at stated rates of exchange after a certain period.

(iii) The Doctrine of ___________________ provides that an outsider must read the Memorandum and Articles of a company.

(iv) As per RTI Act, every ______________ Officer shall deal with requests for information and shall render reasonable assistance to any person seeking such information.

(v) The minutes of the Board Meeting should be entered in the minutes book within ________ days from the conclusion of the meeting.

(vi) Alteration of share capital requires the passing of _______________ resolution.

Answer:

(i) Contributory
(ii) convertible
(iii) Constructive Notice
(iv) Public Information
(v) 30
(vi) ordinary.

(b) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C or D as you consider correct): [1×4]

(i) In the context of classification of risk, cash/reserve management risk will fall under:
(A) Liquidity Risks;
(B) Legal Risks;
(C) System Risks;
(D) Credit Risks.

(ii) Under Competition Act, 2002, penalty for offences in relation to furnishing of information may extend to rupees:
(A) ₹ 1 crore;
(B) ₹ 25 lakhs;
(C) ₹ 10 lakhs;
(D) ₹ 50 lakhs.

(iii) The Board may appoint additional directors only if it is authorized by:
(A) Articles of Association;
(B) Memorandum of Association;
(C) Company Law Board;
(D) Shareholders in the AGM.

(iv) 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.

Answer:
(i) (A) Liquidity Risks
(ii) (A) ₹ 1 crore
(iii) (A) Articles of Association
(iv) (B) Place of registered office of the company

Question 6.

(a) State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties. [4]

Answer:

Evaluating the going concern uncertainties:

In Order to evaluate various going concern uncertainties an Auditor needs to follow certain procedures which may include:

1) Analyze and discuss cash flow, profit and other relevant forecasts with management
2) Review events occurring after the balance sheet date for items affecting the entity's ability to continue as a going concern.
3) Analyze and discuss the entity's latest available interim financial statements.
4) Review the terms of debentures and loan agreements and determine whether any have been breached.
5) Read minutes of the meeting of shareholders, the board of directors and important committees for reference to financing difficulties.
6) Review the status of matters under litigation and claims
7) Confirm the existence legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assess the financial ability of such parties to provide additional funds.
8) Consider the entity's position concerning unfilled orders.

(b) In which cases the directors can be removed from office by the Central Government? [4]

Answer:

The Central Government, may in certain circumstances, remove managerial personnel from office on the recommendation of the Tribunal. The Central Government may use this power where in its opinion there are circumstances suggesting —

(i) That any person concerned in the conduct and management of the affairs of the company is or has been guilty of fraud, misfeasance, persistent negligence or default in carrying out his obligations and functions under the law or breach of trust or

(ii) That the business of the company is not or has not been conducted and managed by such person in accordance with sound business principles or prudent commercial practices or

(iii) That the company is or has been conducted and managed by the person concerned in a manner, which is likely to cause, or has caused serious injury or damage to the interest of the trade, industry or business to which such company pertains, or

(iv) That the business of the company is or has been conducted and managed by the persons concerned with intent to defraud its creditors, members or any other person or otherwise for a fraudulent or unlawful purpose or in a manner prejudicial to public interest.

The person/s against whom a case is presented shall be given an opportunity of being heard and then suitable decision will be taken.

(c) 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, 2005? [5]

Answer:
Section 6(1) of the RTI Act, 2005 enjoins that a person desirous of obtaining information shall make a request in writing or through electronics means in English or Hindi or in the official Language of the Area, in which the Application is being made, to the Public Information Officer. The Section makes two things clear:

(i) The request can be through electronic Media. E-mail is an accepted from of Electronic Communication.
(ii) The request can be in English or Hindi or in the official language of the Area in which the application is being submitted.

In Kolkata, Bengali is the official language of the Area.

Therefore, the refusal on the grounds that the request was not in English and that the same was sent through e-mail, is not justified.

(d) Define the term, "acquisition" as per the Competition Act, 2002. [2]

Answer:
As per section 2(a) of the Competition Act, 2002, "acquisition" means, directly or indirectly, acquiring or agreeing to acquire—

(i) shares, voting rights or assets of any enterprise; or
(ii) control over management or control over assets of any enterprise;

Question 7.
(a) What are the transactions to which Section 372A of the Companies Act, 1956 does not apply? [5]

Answer:
Transactions excluded: Section 372A of the Companies Act, 1956 is not applicable to –
1. Loan/Guarantee/ Security/ Investment made/ given by -
   i. A Banking Company, or
   ii. An Insurance Company, or
   iii. A Housing Finance Company, or

iv. A Company established with the object of financing industrial enterprises or providing infrastructural facilities,
v. A Company whose principal business is the acquisition of shares, stock, debentures or other securities
vi. A Private Company, unless it is a subsidiary of a Public Company.

2. Investment made in shares allotted u/s 81(1)(a), i.e. Right Shares
3. Loan made by a Holding Company to its wholly-owned subsidiary.
4. Guarantee given or security provided by a Holding Company, in respect of loan made to its wholly owned subsidiary, or
5. Acquisition by a Holding Company by way of subscription, purchase or otherwise, the securities of its wholly-owned subsidiary.

(b) List out the conditions to be satisfied in case of an amalgamation in the nature of merger? [5]

Answer:
Amalgamation in the nature of merger is such an amalgamation, which satisfies all the following conditions:

i. All the assets and liabilities of the transferor company become the assets and liabilities of the transferee company;
ii. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than Transferee Company and its nominees) become equity shareholders of the transferee company after amalgamation;
iii. The consideration is to be discharged by way of issue of equity shares in the transferee company to the shareholders of the transferor company on the amalgamation;
iv. The business of the transferor company is to be carried on by the transferee company;
v. No adjustments are intended to be made to the book values of the assets and liabilities of the transferor company.

(c) What is Voluntary Winding Up? What are the methods involved in a Voluntary Winding Up? [1+4]

Answer:
Voluntary winding up means winding up by the members of the company or creditors of the company without the interference by the Tribunal.

The following are the methods of voluntary winding up:

(i) By passing a ordinary resolution: If there is a fixed period for which a company has been established as per the articles of association, the company may by passing an ordinary resolution in a general meeting decide to wind up after the expiry of the specified period.

(ii) By Special Resolution: A company may at any time pass a special resolution that it be wound up voluntarily. No reasons need by given where the members pass a special resolution for the voluntary winding up of the company. Even the articles cannot prevent the exercise of this statutory right.

(iii) A voluntary winding up shall be deemed to commence at the time when the resolution, either special or ordinary is passed for its voluntary winding up.

(iv) The company shall have to give a notice within 14 days of the passing of the resolution for voluntary winding up of the company by advertisement in the Official Gazette and also in some newspaper circulating in the district of the registered office of the company.

Question 8.

(a) Examine with reference to the relevant provisions to the Competition Act, 2002 whether a person purchasing goods not for personal use, but for resale can be considered as a 'consumer'. [5]

Answer:

The given problem relates to section 2 (f) of the Competition Act, 2002.

As per section 2 (f) 'consumer' means any person who –

i. Buys any goods for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any user of such goods other than the person who buys such goods for consideration paid or promised or partly paid or partly promised, or under any system of deferred payment when such use is made with the approval of such person, whether such purchase of goods is for resale or for any commercial purpose or for personal use ;
ii. Hires or avails of any services for a consideration which has been paid or promised or partly paid and partly promised, or under any system of deferred payment and includes any beneficiary of such services other than the person who hires or avails of the services for consideration paid or promised, or partly paid and partly promised, or under any system of deferred payment, when such services are availed of with the approval of the first-mentioned person whether such hiring or availing of services is for any commercial purpose or for personal use.

Thus, a person who purchases goods for resale or for any commercial purpose (and not for personal use) is also a 'consumer'.

(b) "Synergy is the magic force that allows for enhanced cost efficiencies of the new business. Synergy takes the form of revenue enhancement and cost savings." — What are the benefits can a company get from synergy in the field of merger? [4]

Answer:

By merging, synergy helps the companies hope to benefit from the following:

1) Staff reductions - As every employee knows, mergers tend to mean job losses. Consider all the money saved from reducing the number of staff members from accounting, marketing and other departments. Job cuts will also include the former CEO, who typically leaves with a compensation package.

2) Economies of scale - Size matters. Whether it's purchasing stationery or a new corporate IT system, a bigger company placing the orders can save more on costs. Mergers also translate into improved purchasing power to buy equipment or office supplies— when placing larger orders, companies have a greater ability to negotiate price with their suppliers.

3) Acquiring new technology - To stay competitive, companies need to stay on top of technological developments and their business applications. By buying a smaller company with unique technologies, a large company can keep or develop a competitive edge.

4) Improved market reach and industry visibility - Companies buy companies to reach new markets and grow revenues and earnings. A merger may expand two companies' marketing and distribution, giving them new sales opportunities. A merger can also improve a company's standing in the investment community: bigger firms often have an easier time raising capital than smaller ones.

(c) Define 'Promoter' as per section 2(69) of the Companies Act, 2013. [4]

Answer:

As per section 2(69) of the Companies Act, 2013, 'Promoter' means a person—

(a) who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or

(b) who has control over the affairs of the company, directly or indirectly whether as a shareholder, director or otherwise; or

(c) in accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act.

Provided that nothing in sub-clause (c) shall apply to a person who is acting merely in a professional capacity.

(d) Mention any two cases where a special notice is required for a resolution. [2]

Answer:

A special notice is required for a resolution in the following cases:

- Appointment of an auditor other than the retiring auditor;
- Provision that a retiring auditor shall not be re-appointed;
- Removal of a director before the expiry of his period;
- Appointment of a director in place of one who is removed.