Paper-11 Capital Market Analysis & Corporate Laws

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

Working notes should form part of the answers.
Wherever necessary, suitable assumptions should be made and indicated in answer by the candidates.

Section I
(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

Question 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) [7 x 2]

(i) 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.

(ii) 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).

(iii) Consider the following data of Sun India Mutual Fund (Growth Plan):

Particulars	₹ in crore
Value of investments	2,757.00
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) ₹ 21.41;
(B) ₹ 20.81;
(C) ₹ 20.74;
(D) Insufficient information.

(iv) Ureka Ltd. has an excess cash of ₹ 9,00,000 which it wants to invest in short-term marketable securities. Expenses relating to investment will be ₹ 21,000. If the securities invested will have an annual yield of 10%, what would be the period of investment so as to earn a pre-tax income of 6%? (Ignore time value of money)
(A) 6.50 months;
(B) 9.50 months;
(C) 10.00 months;
(D) Insufficient data.

(v) Petronet Ltd. has both European Call and Put options traded on NSE. Both options have an expiration date of 6 months and exercise price of ₹ 40. The call and put are currently selling for ₹ 12 and ₹ 5 respectively. If the risk-free rate of interest is 8% p.a., what would be the stock price of Petronet Ltd? [Given PVIF $_{8\%,0.5\ yr.}$ = 0.9615]
(A) ₹ 55.46;
(B) ₹ 45.46;
(C) ₹ 31.46;
(D) None of (A),(B), (C).

(vi) The Stock of Ventex Ltd. (FV ₹ 10) quotes ₹ 920 on NSE and the 3 months futures price quotes at ₹ 950 and borrowing rate is given as 8% p.a. If the expected annual dividend yield is 15% p.a. payable before expiry, then the theoretical price of 3 month Ventex Ltd. Futures would be:
(A) ₹ 948.80;
(B) ₹ 939.90;
(C) ₹ 928.40;
(D) ₹ 936.90.

(vii) The NAV of each unit of a closed-end fund at the beginning of the year was ₹ 18. By the end of the year its NAV equals ₹ 18.50. At the beginning of the year each unit was selling at a 2% Premium to NAV and by the end of the year each unit is selling at a 4% discount to NAV. If the closed-end fund paid year end distribution of income of ₹ 2.50 on each unit, the rate of return to the investor in the fund during the year would be:
(A) 10.35%;
(B) 11.51%;
(C) 11.95%;
(D) None of the above.

(b) Choose the most appropriate one from the stated options and write it down: [6×1]

(i) An investor has received bonus shares from Albuno Ltd., a listed company, in the ratio of 1:2. After the receipt of bonus shares:
(A) There is no change in stockholding and it remains the same;
(B) There is no change in stockholding, but more shares available for trading;
(C) Stockholding has gone up with more shares available for trading;
(D) Stockholding has gone up.

(ii) Arbitrage pricing theory model helps to:
(A) Reduce risk;
(B) Eliminate arbitrage;
(C) Identify the equilibrium asset price;
(D) None of the above.

(iii) 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.

(iv) Following is not a Money Market Instrument:
(A) Treasury Bill;
(B) Certificate of Deposit;
(C) Equity Shares;
(D) Commercial Paper.

(v) 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.

(vi) 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.

Question 2.

(a) 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	01.12.2013	01.01.2014	01.03.2014
Amount of Investment	₹ 15,00,000	₹ 5,00,000	₹ 3,00,000
Net Asset Value (NAV) at entry date	₹ 10.50	₹ 10.25	₹ 10.10
Dividend received upto 31.03.2014	₹ 25,000	₹ 8,000	NIL
NAV as at 31.03.2014	₹ 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 31.03.2014.
Take one year = 365 days, (Ignore time value of money)
Show calculations upto two decimal points.

(b) What do you mean by Underwriting? State the different types of methods of Underwriting. Also lit out the advantages of Underwriting.

(c) Mr. Venkataraman's portfolio consists of six securities. The individual returns of each of the security in the portfolio is given below:

Security	Proportion of investment in the portfolio	Return
Wipro	10%	18%
Latham	25%	12%
SBI	8%	22%
ITC	30%	15%
RNL	12%	6%
DLF	15%	8%

Calculate the weighted average of return of the securities consisting the portfolio.

[6+(2+3+5)+4]

Question 3.

(a) A stock that pays no dividends is currently selling at ₹ 100. The possible prices for which the stock might sell at the end of one year with associated probabilities are:

End of year price	Probability
₹ 90	0.1
₹ 100	0.2
₹ 110	0.4
₹ 120	0.2
₹ 130	0.1

(i) Calculate the expected rate of return by year end,
(ii) Calculate the standard deviations of the expected rate of return.

(b) A prospective investor has collected the following information pertaining to returns on stocks A & B.

Stock	Correlation Coefficient (with market)	Standard Deviation	Expected Return
A	0.6	0.3	0.12
B	0.4	0.2	0.11

Expected market return = 0.10
Risk free rate of return = 0.06
Variance of market return = 0.01

You are required to find out:

(i) The beta for an equally weighted portfolio of stocks A & B.
(ii) The required rate of return as per CAPM for portfolio of 50% each of A & B.
(iii) Are A & B are under-priced, overpriced or correctly priced according to CAPM?

(c) Describe the various risks associated with derivatives?

(d) Mention few services which are offered by a merchant bank. Write the distinctions between merchant banks and commercial banks.

[4+(3+1+3)+4+(2+3)]

Question 4.

(a) An investor has the following position on options of ONGC:

(i) Long one call option with a premium of ₹ 25 per stock at an exercise price of ₹ 400.
(ii) Long one put option with a premium of ₹ 5 per stock at an exercise price of ₹ 300.

The prevailing market price of the ONGC is ₹ 350. Options are European options with expiration period of 3 months.

You are required to find out the profit or loss to the investor in the following market situations:

(i) At expiration if the price of the ONGC remained at present level.
(ii) At expiration if the price of the ONGC rises to ₹ 500.
(iii) At expiration if the price of the ONGC falls to ₹ 250.

(b) What do you mean by Exchange Traded Funds (ETF)? State the applications of it.

(c) Shares of Vinani Ltd. has a beta factor of 1.8. The NIFTY has yielded a return of 17%, 6.75% ₹ 100 Treasury Bills are traded at ₹ 108. Ascertain –

i. Expected return on shares of Vinani Ltd. under CAPM.
ii. Alpha Factor of shares of Vinani Ltd. if the past 5 years actual return on shares of Vinani Ltd. are – 22.50%, 26.30%, 25.70%, 23.40% and 27.60%.

[(2+2+2)+(2+6)+(3+3)]

Section II

(Corporate Laws)

Answer **Question 5** (carrying 10 marks) which is compulsory and answer **any two** (carrying 15 marks each) from the rest in this section.

Question 5.

(a) Choose the most appropriate alternative from the stated options and write it down: [6×1]

(i) 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.

(ii) Prospectus is not required to issue by/in respect of:
(A) Private limited company;
(B) Sweat equity shares;
(C) Rights issue;
(D) All of the above.

(iii) Under Competition Act, 2002, penalty for offences in relation to furnishing of information is:
(A) ₹ 5 lakhs;
(B) ₹ 25 lakhs;
(C) ₹ 10 lakhs;
(D) ₹ 50 lakhs.

(iv) 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.

(v) The Government has allowed foreign institutional investors such as pension funds, mutual funds investment trust etc. to invest in the Indian Capital Market provided they are registered with:
(A) RBI;
(B) SEBI;
(C) Central Government;
(D) Registrar of the companies.

(vi) As per Clause----- of the Listing Agreement, a listed company is required to obtain a certificate from the auditors of the entity as regards compliance of conditions of corporate governance as stipulated in that clause. (Fill in the gap from the below)
(A) 45;
(B) 46;
(C) 49;
(D) None of the above.

(b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/ number(s): [4×1]

(i) The Competition Commission shall consist of a Chairperson and not less than two and not more than _________ other Members to be appointed by the Central Government.

(ii) The minimum number of subscribers sign in the Memorandum of Association of a public limited company at the time of its formation is ___________.

(iii) The information sought for by an applicant under the RTI Act shall be furnished within ____________ days.

(iv) The _________________ has the power to fill up the casual vacancy caused in the Board.

Question 6.

(a) Jupiter Textiles Ltd. was incorporated on 1st June, 2011. On 1st March, 2014 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:
(i) Is the company legally authorized under the Companies Act, 1956 to give this political contribution?
(ii) Will it make any difference, if the company was in existence on 1st January, 2011?
(iii) Can the company be penalised for violation of the applicable provisions relating to political contribution?
(iv) What are the disclosure requirements in this regards?

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

(c) A company may issue Sweat Equity Shares of a class of shares already issued if few conditions are fulfilled. State those conditions which are required to be fulfilled.

[(2+1+2+2)+4+4]

Question 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, 2005?

(b) Akash had applied for the allotment of 1,000 shares in a company. No allotment of shares was made to him by the company. Later on, without any further application from Akash, the company transferred 1,000 partly-paid shares to him and placed his name in the Register of Members. Akash, knowing that his name was placed in the Register of Members, took no steps to get his name from the Register of Members. The company later on made final call. Akash refuses to pay for this call. Referring to the provisions of the Companies Act, 1956, examine whether his refusal to pay for the call is tenable and whether he can escape himself from the liability as a member of the company.

(c) State few objectives to change the object clause of the Memorandum of Association. Also list the procedures to be adopted for alteration of object clause in the Memorandum of Association.

[4+4+(2+5)]

Question 8.

(a) A, who was appointed as a Director at the last AGM resigned. The Board filled up the vacancy by appointing B. But within few days of his becoming Director, B died. The Board wishes to appoint C in place of B in the next board Meeting. Can the Board do so?

(b) What is Project Governance? State the benefits of Project Governance?

(c) X, a chemical manufacturing company distributed ₹ 20 lacs to scientific institutions for furtherance of scientific education and research. Referring to the provisions of the Companies Act, 1956 decide whether the said distribution of money was "Ultra vires" the company?

(d) In the case of winding up by the Tribunal, state the powers of the Liquidator, with the sanction of the Tribunal.

[3+(2+2)+2+6]