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)

(i) Mr. jain has the following portfolio of four shares:

Name	Beta	Investment ₹ lakh
AB Ltd.	0.25	0.60
CD Ltd.	0.35	1.50
PQ Ltd.	1.15	2.25
LM Ltd.	1.85	4.50

The risk free rate of return is 7% and the market rate of return is 14%. What will be the Portfolio Beta.

A. 0.3093
B. 1.3093
C. 1.25
D. 1.5139

(ii) The beta of stock of Ananda Ltd. is 2.00 and is currently in equilibrium. The required return on the stock is 12% and expected return on the market is 10%. Suddenly due to change in the economic conditions, the expected return on the market increases to 12%. Other things remaining the same what would be new required return on the stock?

A. 16.0%
B. 15.0%
C. 20.0%
D. 22.5%

(iii) The buy and sell value of two securities in stock exchange are as under:

Security	Buy Value (₹)	Sell Value (₹)
L	5,00,000	2,00,000
M	3,00,000	7,00,000

The Gross Exposure Margin is

A. ₹ 17,00,000
B. ₹ 1,00,000
C. ₹ 12,00,000
D. ₹ 7,00,000

(iv) 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

(v) The share price of Vaibhavi Ltd. (F. V. ₹ 10) quotes ₹ 500 in the NSE and the 3 months future price quotes at ₹ 525. The borrowing rate is 12% p.a. If the expected annual dividend yield is 15% payable before expiry, then the price of 3 months Vaibhavi Ltd's future would be:

A. ₹ 500.00
B. ₹ 513.50
C. ₹ 516.50
D. Insufficient information.

(vi) A convertible bond with a face value of ₹ 1,000 has been issued at ₹ 1,350 with a coupon rate of 1.5%. The conversion rate is 14 shares per bond. The current market price of the bond is ₹ 1,475 and that of stock is ₹ 80. The premium over conversion value is —

A. 24.06%
B. 33.33%
C. 31.70%
D. 37.25%

(vii) 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

[7 × 2]

(b) Choose the most appropriate one from the stated options and write it down:

(i) The Mutual Funds that are listed in the stock Exchanges are —

A. Growth schemes
B. Closed–End Scheme
C. Open –End Scheme
D. None of the above

(ii) A ________can be seen as a method for company to invest in itself by buying shares from other investors in the market.

A. Initial Public Offer
B. Rights issue
C. Buy back
D. Book Building

(iii) Interest rate sensitivity for bonds with embedded options is most accurately measured by:

A. Convexity
B. Effective duration
C. Modified duration
D. Macaulay duration

(iv) Issue of shares to its employees or directors at discount or for consideration other than cash for providing know-how or making available rights in the nature of intellectual property rights or value addition.

A. Seasoned Equity
B. Green Shoe option
C. Bought Out Deal
D. Sweat Equity

(v) 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

(vi) Which of the following is not a group of Mutual fund:

A. Income Oriented funds
B. Tax Relief Funds
C. Bond Funds
D. Area Funds

Question 2.

(a) 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.

(b) How many levels of Market Efficiency can be identified? State in details.

(c) What is Credit Wrapping?

(d) Write down the benefits of CAPM model in the field of portfolio management.

[10+5+2+3]

Question 3.

(a) What are the differences between Futures and Options?

(b) The following two types of securities are available in the market for investment:

Security	Return (%)	Standard Deviation (%)
Gilt-edge Security	**8**	**0**
Equity	**25**	**30**

Using the above two securities, if you are planning to invest ₹ 1,00,000 to construct a Portfolio with a standard deviation of 24%, then what will be the return of such portfolio (in ₹)?

(c) What is Money Market? Write about the importance of Money Market.

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

[4+5+7+4]

Question 4.

(a) What is Mezzanine Finance?

(b) Explain the procedures for buy back of its shares by a company.

(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.

(d) "Many corporate executives are faced with the challenge of managing the risks associated with low cost basis and restricted-stock holdings." — Describe the risk management strategies each of which has an unique characteristics and requirements.

[2+7+6+5]

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 one from the stated options and write it down:

(i) ABC private company has reduced to a single member and continued business more than 6 months. The company's liability will be —

A. Limited
B. Unlimited
C. No change in liability
D. All of the above

(ii) Mr. Saha is a promoter of a company. Before the company is fully incorporated, he enters into a contract on its behalf with a third party. Under the common law, would a valid contract exist and, if so, who would be the parties to the contract?

A. No contract would exist
B. A contract would exist and it would be between unformed company and the third party
C. A contract would exist and it would be between Mr. Saha and third party
D. A contract would exist and it would be between Mr. Saha and the company

(iii) A public limited company may in the general meeting, resolve to capitalize any part of the amount standing to the credit of any of its reserve accounts, up to the recommendation of the —

A. Managing director
B. Board of directors
C. Financial advisor
D. Shareholders

(iv) After incorporation of a company, the first AGM (Annual General Meeting) should be held within:

A. 12 months
B. 16 months
C. 18 months
D. 24 months

(v) The term 'company' is defined under which section of the Companies Act, 1956?

A. Sec 4(2)
B. Sec 5(4)
C. Sec 1(3)
D. Sec 3(1)

(vi) Which of the following is not a characteristic of a company?

A. Separate entity
B. Transferability of shares
C. Doctrine of ultra vires
D. Perpetual succession and common seal

[6 × 1]

(b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/ number(s):

- **(i)** The ______________ was established in October 2003 under the Competition Act, 2002.
- **(ii)** The Doctrine of __________________ provides that an outsider must read the Memorandum and Articles of a company.
- **(iii)** The objectives of the ________________ Act are to give effect to the Fundamental Right to Information, which will contribute to strengthening democracy, improving governance, increasing public participation, promoting transparency and accountability and reducing corruption.
- **(iv)** A ____________ is a person who undertakes, does and goes through all the necessary and other preliminary activities with an objective of bringing the company into existence.

[4 × 1]

Question 6.

(a) What are the procedures to be adopted for the alteration of object clause in the Memorandum?

(b) A company is not authorised by its Memorandum of Association to run a canteen but it is obliged to do so under Section 46 of the Factories Act, 1948. Under the facts and circumstances, should the company undergo the formalities of changing its objects clause?

(c) Write a brief note on Director Identification Number (DIN).

(d) What are the provisions to be maintained to issue debentures at a discount?

[6+2+4+3]

Question 7.

(a) What are the conditions to be satisfied in case of an amalgamation in the nature of merger?

(b) "It is now a universally accepted proposition of corporate governance practice that boards appoint appropriately composed remuneration committees to work out executive remuneration on their behalf." — Explain the responsibilities which are normally assigned and duties to be performed by a remuneration committee in this regard.

(c) You are required to examine with reason whether the following transaction can be termed as loan to directors requiring the approval of the Central Government as required under section 295 of the Companies Act, 1956:
Sale of company's flat to a director at prevailing market price, out of which the director pays 50% (fifty per cent) immediately and contracts to pay balance amount in 10 equal annual installments.

[5+5+5]

Question 8.

(a) What is Voluntary Winding Up? What are the methods involved in a Voluntary Winding Up?

(b) A company is registered in Kolkata and its head office is in New Delhi. Can the company make arrangement to issue shares from Patna? Explain.

(c) Internal control consists of five interrelated components. What are those components in Internal Control?

(d) Differentiate between Memorandum of Association and Articles of Association.

[4+2+5+4]