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 × 2]

(i) Aritra Ltd. has both European call and put options traded on NSE. Both options have an expiration date 6 months and exercise price of ₹ 30. The call and put are currently selling for ₹ 10 and ₹ 4 respectively. If the risk free rate of interest is 6% p.a., what would be the stock price of Aritra Ltd.? [Given PVIF $_{(6\%,\ 0.5\ years)}$ = 0.9709]

(A) ₹ 40.87;
(B) ₹ 35.13;
(C) ₹ 45.50;
(D) ₹ 38.67.

(ii) Priya is willing to purchase a 5 years ₹ 1,000 par value PSU bond having a coupon rate of 9%. Her required rate of return is 10%. How much Priya should pay to purchase the bond if it matures at par? [Given PVIFA $_{(10\%,\ 5\ years)}$ = 3.791 and PVIF $_{(10\%,\ 5\ years)}$ = 0.621]

(A) ₹ 962.19;
(B) ₹ 850.30;
(C) ₹ 805.47;
(D) ₹ 965.49.

(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) Mr. A purchased 200 units of Printel mutual Fund at ₹ 40 per unit on 31.03.2013. In 2013-14, he received ₹ 1 as dividend per unit and a capital gains distribution of ₹ 2 per unit. If the NAV as on 31.03.2014 is ₹ 48 per unit, then the return of one year period will be:

(A) 27.5%;
(B) 13.3%;
(C) 10.0%;
(D) 13.62%.

(v) Expected returns on two stocks for particular market returns are given in the following table:

Market Return	**Aggressive**	**Defensive**
7%	4%	9%
25%	40%	18%

The Betas of the two stocks will be:
(A) 1.50, 2;
(B) 2, 1.50;
(C) 0.75, 0.50;
(D) 2, 0.50.

(vi) A stock is currently selling at ₹ 270. The call option to buy the stock at ₹ 266 costs ₹ 12. The time value of the option will be —
(A) ₹ 13;
(B) ₹ 17;
(C) ₹ 5;
(D) ₹ 8.

(vii) The probabilities and associated returns of BML Ltd., are given below:

Return%	12	15	18	20	24	28	30
Probability	0.05	0.10	0.24	0.26	0.18	0.12	0.05

The expected return will be:
(A) 20.56%;
(B) 20.36%;
(C) 20.80%;
(D) 4.31%.

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

(i) The market which deals with the multicurrency requirements and those requirements are met by the exchange of currencies is called:
A. Money market;
B. Capital market;
C. Forex market;
D. Credit market.

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

(iii) If conclusions and opinions of equity analysts and other experts based on publicly available information are reflected in stock prices, then stock market exhibits:
A. Weak form of efficiency;
B. Semi- strong form of efficiency;
C. Strong form of efficiency;
D. None of the above.

(iv) 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.

(v) 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.

(vi) An investor owing a stock wants to retain the upside potential of the stock. At the same time he wants to limit his loss if the stock price falls. What should he do?
A. Buy a put option;
B. Buy a call option;
C. Buy a call option and buy a put option;
D. Sell a call option and buy a put option.

Question 2.

(a) Calculation the value of option from the following information:

Current Asset Price	(S)	= ₹ 30
Exercise price	(X)	= ₹ 30
Time to expiry in decimals of a year	(T-t)	= 3 months or 0.25 years
Risk-free rate of interest in decimals	(r)	= 12% = 0.12

Annualised standard deviation of the natural log of the asset price relative to decimals(σ)=0.40

Given N (0.25) = 0.5987, N(0.05) = 0.5199 and $e^{-0.03}$ = 0.9704.

(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.

(c) 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.

[6+6+(6+2)]

Question 3.

(a) Determine the intrinsic value for the buyer of an option contract, in the following situations:

(i) A put Option, when the current value of the underlying asset is ₹ 1,400 and the strike price is ₹ 1,480.

(ii) A Call Option when the strike price is ₹ 1,700 and the current value of underlying asset is ₹ 1,650.

(iii) A Call Option when the current value of the underlying asset is ₹ 950 and the strike price is ₹ 950.

(iv) A Put Option when the current value of the underlying asset is ₹ 950 and the strike price is ₹ 950.

(v) A Put Option when the exercise price is ₹ 1,090 and the current value of the underlying asset is 1,000.

(vi) A Call Option when the current value of asset is ₹ 120 and the strike price is ₹ 98.

(vii) A Call Option when the exercise price is ₹ 80 and the market price is ₹ 84.

(viii) A Put Option when the exercise price is ₹ 87 and the market price is ₹ 82.

(b) "Underwriting is a guarantee for the marketability of shares." — State the advantages of underwriting agreement.

(c) What is Venture Capital? Describe some of its characteristics in relation to the financing.

[8+5+(2+5)]

Question 4.

(a) What is Arbitrage Pricing Model? List the macro-economic factors which are associated with this model.

(b) Mr. A has invested in three Mutual Fund Schemes as per detailed below:

Particulars	MF X	MF Y	MF Z
Date of investment	01-12-2013	01-01-2014	10-03-2014
Amount of investment	₹ 50,000	₹ 1,00,000	₹ 50,000
Net Asset Value (NAV) at entry date	₹ 10.50	₹ 10.00	₹ 10.00
Dividend received upto 31-03-2014	₹ 950	₹ 1,700	Nil
NAV as at 31-03-2010	₹ 10.40	₹ 10.10	₹ 9.80

Required: What is the effective yield on per annum basis in respect of each of the three schemes to Mr. A upto 31-03-2014?

(c) Write down the procedures for trading mechanism in Stock Exchanges.

[(2+4)+9+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 alternative from the stated options and write it down: [6 × 1]

(i) An ordinary resolution is one which is passed in a general meeting by:

A. A simple majority of votes including the casting vote of the chairman;

B. 3/4th majority of votes;
C. 2/3rd majority of votes;
D. None of the above.

(ii) Under the Companies Act, 1956, the first directors shall hold the office upto:
A. The end of the statutory meeting;
B. The end of the period as prescribed by the Articles of the company;
C. The end of three years from the date of appointment;
D. Till the first Annual General Meeting.

(iii) Which of the following items requires special resolutions in a general meeting under the Companies Act, 1956?
A. Issue of shares at discount;
B. Reduction of Share Capital;
C. Adoption of Statutory Report;
D. Appointment of Managing / whole-time Director.

(iv) Which one of the following is not a mode of winding-up of a comapny?
A. Winding up by the Tribunal;
B. Members' Voluntary Winding Up;
C. Debtors' Voluntary Winding Up;
D. Creditors' Voluntary Winding Up.

(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. Reserve Bank of India (RBI);
B. Securities and Exchange Board of India (SEBI);
C. Central Government;
D. Registrar of the companies.

(vi) 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.

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

(i) Alteration of share capital requires the passing of _______________ resolution.
(ii) The Competition Commission of India shall consist of a Chairperson and not less than ______ and not more than _________ other Members to be appointed by the Central Government.
(iii) The importance of the certificate of ________________ is that it is a conclusive evidence about the birth of the company.

Question 6.

(a) Mr. Roy was appointed as Managing Director for life by the Articles of Association of a private company incorporated on 1st June, 1990. The articles also empowered Mr. Roy to appoint a successor. Mr. Roy appointed, by will, Mr. Sen to succeed him after his death. Can Mr. Sen succeed Mr. Roy as Managing Director after the death of Mr. Roy?

(b) State about the Authorised Share Capital and Reserve Capital.

(c) What is Statutory Report in the context of Shareholders' Meetings? Describe the particulars which must be contained in the Statutory Report.

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

Question 7.

(a) Describe Project Control System. Also state the benefits of Project governance.

(b) State the objectives of the Right to Information Act, 2004.

(c) Write a short note on Defunct Company.

[(3+4)+3+5]

Question 8.

(a) The Board of directors of XYZ Ltd. met thrice in the year 2013 and the 4th meeting, though called could not be held for want of quorum. Examine with reference to the relevant provisions of the Companies Act, 1956, the following:

(i) Whether any provisions of the Companies Act, 1956 have been contravened?

(ii) Is a director bound to attend the Board meetings and when his frequent absence from the Board meetings may be excused?

(b) List out some cases where special resolution is required to be obtained.

(c) Describe the procedure to be adopted for the alteration of object clause in the Memorandum of Association.

[6+3+6]