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.

Answer to Question 1(a):

(i) (B) ₹ 35.13

According to Call-put Parity

$C_0 = P_0 + S_0 – PV(E)$

$10 = 4 + S_0 – 30 \times 0.9709$ [Here $C_0 = 10$, $P_0 = 4$, PV(E) = Present value of 30, S_0 = stock price]

$S_0 = 10 – 4 + 29.127 = 35.127$ i.e. ₹ 35.13

(ii) (A) ₹ 962.19

Maturity of the bond at par = ₹ 1,000

Interest p.a. = ₹ 90 (₹ 1,000 × 9%), K_d = 10%

The purchase price of the bond = (₹ 90 × 3.791) + (₹ 1,000 × 0.621) = ₹ 962.19

(iii) (C) In the money

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

Here, 4430 > 4410

(iv) (A) 27.5%

$$\text{Return} = \frac{(₹\,48 - ₹\,40) + ₹\,1 + ₹\,2}{₹\,40} = 27.5\%$$

(v) (D) 2, 0.50

The Betas of two stocks:
Aggressive stock — (40% - 4%)/(25% - 7%) = 2
Defensive stock — (18% - 9%/25% - 7%) = 0.50

(vi) **(D) ₹ 8**
Time value of option = ₹ (266 + 12) – 270 = ₹ 8.

(vii) **(C) 20.80%**
Expected Return = (12 × 0.05) + (15 × 0.10) + (18 × 0.24) + (20 × 0.26) + (24 × 0.18) + (28 × 0.12) + (30 × 0.05)
= 0.60 + 1.5 + 4.32 + 5.20 + 4.32 + 3.36 + 1.5
= 20.80%

Answer to Question 1(b):

(i) C. Forex market
(ii) C. Equity Shares
(iii) B. Semi- strong form of efficiency
(iv) D. All of the above
(v) A. Bought out deal
(vi) A. 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)]

Answer:

(a) Since d_1 and d_2 are required inputs for Black – scholes option Pricing Model.
We know that —

$$d_1 = \frac{\ln(S/X) + (r + \sigma^2/2)(T - t)}{\sigma\sqrt{T - t}}$$

$$d_1 = \frac{\ln(30/30) + [0.12 + (0.16/2)](0.25)}{0.40(0.50)} = \frac{0 + 0.05}{0.20} = 0.25$$

Again, $d_2 = d_1 - \sigma\sqrt{T - t}$

$d_2 = d_1 - 0.20 = 0.05$

$N(d_1) = N\ (0.25)$

$N\ (d_2) = N\ (0.05)$

There above two represent area under a standard normal distribution function.

From given data, we see that value of N(0.25) = 0.5987 and N(0.05)= 0.5199. We can use those values to solve the equation in Black- scholes option Pricing Model. The value of option (C) will be:

$$C = SN(d_1) - Xe^{-r(T-t)}N(d_2)$$

C = ₹ 20 [N (d_1)] - ₹ 20 e $^{(-0.12)(0.25)}$ [N(d_2)]
= ₹ 20 [N (0.25)] – ₹ 20(0.9704) [N(0.05)]
= ₹ 20 (0.5987) – ₹ 19.41 (0.5199)
= ₹ 11.97 – ₹ 10.09
= ₹ 1.88

(b) 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)

(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:

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

$$= 15.41\%$$

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)]

Answer:

(a) Calculation of Intrinsic value for the buyer of an option contract:

Nature of Option	Exercise Price (₹)	Current Market Price (₹)	Cash Flows (₹)	Intrinsic Value (₹)
Put	1,480	1,400	In-the-money	80
Call	1,700	1,650	Out-of-the-money	0
Call	950	950	At-the-money	0
Put	950	950	At-the-money	0
Put	1,090	1,000	In-the-money	90
Call	98	120	In-the-money	22
Call	80	84	In-the-money	4
Put	87	82	In-the-money	5

(b) Advantages of underwriting:

Underwriting assumes great significance as it offers the following advantages to the issuing company:

1. The issuing company is relieved from the risk of finding buyers for the issue offered to the public. The company is assured of raising adequate capital.
2. The company is assured of getting minimum subscription within the stipulated time, a statutory obligation to be fulfilled by the issuing company.
3. Underwriters undertake the burden of highly specialized function of distributing securities.
4. Provide expert advice with regard to timing of security issue, the pricing of issue, the size and type of securities to be issued etc.
5. Public confidence on the issue enhances when underwritten by reputed underwriters.

(c) Venture capital is long term risk capital to finance high technology project which involves risk but at the same time has strong potential for growth. Venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies. It is not merely an injection of funds into a new firm; it is a simultaneous input of skill needed to set up the firm, design its marketing strategy and organize and manage it.

Characteristics of venture capital:

1. Venture capital is usually in the form of an equity participation. It may also take the form of convertible debt or long term loan.
2. Investment is made only in high risk but high growth potential projects.
3. Venture capital is available only for commercialization of new ideas or new technologies and not for enterprises which are engaged in trading, booking, financial services, agency, liaison work or research and development.
4. Venture capitalist joins the entrepreneurs as a co-promoter in project and shares the risks and rewards of the enterprise.
5. Investment is usually made in small and medium scale enterprises.
6. Once the venture has reached the full potential the venture capitalist disinvests his holdings either to the promoters or in the market. The basic objective of investment is not profit but capital appreciation at the time of disinvestment.

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	**01-12-2014**	**01-01-2015**	**10-03-2015**
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 31-03-2015	**₹ 950**	**₹ 1,700**	**Nil**
NAV as at 31-03-2011	**₹ 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 31-03-2015?

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

[(2+4)+9+5]

Answer:

(a) The Arbitrage Pricing Model (APM) looks very similar to the Capital Asset Pricing Model (CAPM). The APM is a multi-factor model. The APM was developed by Ross in 1976. Arbitrage Pricing Theory, out of which the APM arises, states that the expected return on an investment is dependent upon how that investment reacts to a set of individual macro-economic factors (the degree of reaction being measured by the betas) and the risk premium associated with each of those macro-economic factors.

The macro-economic factors which are associated with APM:
Several factors appear to have been identified as being important. In particular, researchers have identified:

- Changes in the level of industrial production in the economy
- Changes in the shape of the yield curve
- Changes in the default risk premium (L e., changes in the return required on bonds \ different perceived risks of default)
- Changes in the inflation rate
- Changes in the real interest rate
- Level of personal consumption
- Level of money supply in the economy.

Some of the aforesaid factors, such as inflation, money supply, industrial production and personal consumption, do have aspects of being inter-related.

(b) Calculation of Effective Yield on per annum basis in respect of three Mutual Fund Schemes to Mr. A upto 31-03-2015 —

Particulars	MF X	MF Y	MF Z
(a) Investment	(₹) 50,000	(₹) 1,00,000	(₹) 50,000
(b) No. of units	4,761.905	10,000	5,000
(c) Unit NAV on 31-03-2015	(₹) 10.40	(₹) 10.10	(₹) 9.80
(d) Total NAV on 31-03-2015 (b) x (c)	(₹) 49,523.81	(₹) 1,01,000	(₹) 49,000
(e) Increase / (Decrease of NAV (a) – (d)	(₹) (476.19)	(₹) 1,000	(₹) (1,000)
(f) Dividend received	(₹) 950	(₹) 1,700	Nil
(g) Total yield (e) + (f)	(₹) 473.81	(₹) 2,700	(₹) (1,000)
(h) Number of days	122	91	31
(i) Effective yield p.a. $\frac{(g)}{(a)} \times \frac{365}{(h)} \times 100$	(%) 2.835%	10.830%	(-) 23.548%

(c) The by-laws of the stock exchanges do not permit an outsider, who is not a member to transact business directly. Buying and selling of securities could be engaged only through a broker, who is a member of a stock exchange.

The trading mechanism of stock exchanges follows the following procedure:

(i) Choosing a broker - selecting a broker can be based on either a known member or proximity / popularity.
(ii) Engaging the broker – Complying with the legal terms and signing an agreement with the broker of your choice.
(iii) Opening an account with broker – A DP (Depository Participant) account to be opened becomes necessary for opening an account with the broker.
(iv) Placing the order – An order is placed with the broker for buying or selling a specific number of securities.
(v) Exercising of the choice of orders – The orders placed are executed for which a certain percentage of brokerage charges are levied.
(vi) Giving Margin money to broker – A margin money is deposited with the broker to take exposure on any loss incurred on transacting a contract
(vii) Preparing Contract Note - After execution of the contract a contract note is issued to the client.
(viii) Settlement of the contract – The payment of funds by the buyer is made for the shares bought and the delivery of securities sold is done by the seller thus settling the contract entered with the broker.

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, 2013, the first directors who are the subscribers to the Memorandum of Association, shall hold the office until:

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. The directors are duly appointed u/s 152.

(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) Increase, consolidation, conversion or sub-division 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.

Answer to Question 5(a):

(i) A. A simple majority of votes including the casting vote of the chairman.
(ii) D. The directors are duly appointed u/s 152.
(iii) B. Reduction of Share Capital.
(iv) C. Debtors' Voluntary Winding Up.
(v) B. Securities and Exchange Board of India (SEBI).
(vi) B. Place of registered office of the company.

Answer to Question 5(b):

(i) ordinary.
(ii) two, six.
(iii) Incorporation.

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) State the differences between Shares and Debentures.

[4+(2+2)+7]

Answer:

(a) No director shall assign his office to any other person. If he does, the assignment shall be void (Section 166 of the Companies Act, 2013).

The Articles of a company empowered its Managing Director to appoint a successor. The Managing Director appointed, by his will, Mr. Sen to succeed him as a managing director after his death. The Court observed that a director is prohibited from assigning his office. The word 'his' used in section 166 indicates that the prohibition applies only when an office held by a director is assigned to any other person. Where a director dies, the office held by him becomes vacant and therefore such office cannot be assigned to any other person. Therefore, appointment of a new person in such office does not amount to an assignment within the meaning of section 166. [Oriental Metal Pressing Pvt. Ltd. v B.K. Thakoor (1961) 31 Comp Cas 143].

The facts of the given case are identical to the facts discussed in the above case. Accordingly, it can be said that appointment of Mr. Sen is valid and it does not amount to an assignment of office by Mr. Roy.

(b) **Authorised Share Capital:** This is the maximum amount of share capital that a company can raise during its life time unless it is subsequently increased. This amount is mentioned in the Memorandum of Association of the company. The amount of authorized capital is divided into different types of shares and can be increased in future in case there is a need.

Reserve Capital: This is an uncalled capital (which is not called up) but this amount can be called up only in the event of and for the purpose of winding up of the company. Therefore this amount cannot be called during the lifetime of the company. Such capital is called as 'Reserve Capital' and it cannot be turned into uncalled capital without the sanction of the Court.

(c) **Differences between Shares and Debentures:**

Shares	Debentures
1. A share is the share in the share capital of the company.	1. A debenture is the acknowledgement of debt.

2. Share capital is the part of the capital of the company.	2. Debentures are the part of the loan of the company.
3. Shareholders are the owners of the company.	3. Debentureholders are the creditors.
4. Shareholders generally have voting rights.	4. Debentureholders do not have any voting rights.
5. Shares do not carry any charge on assets.	5. Debentures generally have a charge on the assets of the company.
6. Shareholders get dividends which are paid only out of the profits of the company.	6. Interest on debentures is paid even if there are no profits.
7. Higher degree of control over the company.	7. Minimum/ no control over the company.

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) State the powers of the Registrar to remove the name of the company from the register of the Companies.

[(3+4)+3+5]

Answer:

(a) Project Control System: Project control is that element of a project that keeps it on-track, on-time, and within budget. Project control begins early in the project with planning and ends late in the project with post implementation review, having a thorough involvement of each step in the process. Each project should be assessed for the appropriate level of control needed: too much control is too time consuming, too little control is very risky. If project control is not implemented correctly, the cost to the business should be clarified in terms of errors, fixes, and additional audit fees.

Control systems are needed for cost, risk, quality, communication, time, change, procurement, and human resources. In addition, auditors should consider how important the projects are to the financial statements, how reliant the stakeholders are on controls, and how many controls exist. Auditors should review the development process and procedures for how they are implemented. The process of development and the quality of the final product may also be assessed if needed or requested. A business may want the auditing firm to be involved throughout the process to catch problems earlier on so that they can be fixed more easily. An auditor can serve as a controls consultant as part of the development team or as an independent auditor as part of an audit.

Benefits of Project governance: Project governance will:

1) Outline the relationships between all internal and external groups involved in the project.
2) Describe the proper flow of information regarding the project to all stakeholders.
3) Ensure the appropriate review of issues encountered within each project.
4) Ensure that required approvals and direction for the project is obtained at each appropriate stage of the project.

(b) The objectives of the Right to Information Act are to —
- (i) 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
- (ii) establish voluntary and mandatory mechanisms or procedures to give effect to right to information in a manner which enables persons to obtain access to records of public authorities in a swift, effective, inexpensive and reasonable manner.
- (iii) promote transparency, accountability and effective governance of all public authorities by, including but not limited to, empowering and educating all persons to:
  - understand their rights in terms of this Act in order to exercise their rights in relation to public authorities;
  - understand the functions and operation of public authorities; and effectively participating in decision making by public authorities that affects their rights.

(c) As per section 248(1) of the Companies Act, 2013, where the Registrar has reasonable cause to believe that —
- (a) a company has failed to commence its business within one year of its incorporation;
- (b) the subscribers to the memorandum have not paid the subscription which they had undertaken to pay within a period of one hundred and eighty days from the date of incorporation of a company and a declaration under sub-section (*1*) of section 11 to this effect has not been filed within one hundred and eighty days of its incorporation; or
- (c) a company is not carrying on any business or operation for a period of two immediately preceding financial years and has not made any application within such period for obtaining the status of a dormant company.

he shall send a notice to the company and all the directors of the company, of his intention to remove the name of the company from the register of companies and requesting them to send their representations along with copies of the relevant documents, if any, within a period of thirty days from the date of the notice.

A company may, after extinguishing all its liabilities, by a special resolution or consent of seventy-five per cent members in terms of paid-up share capital, file an application in the prescribed manner to the Registrar for removing the name of the company from the register of companies on all or any of the grounds specified in sub-section (*1*) of section 248 and the Registrar shall, on receipt of such application, cause a public notice to be issued in the prescribed manner.

Question 8.

(a) In a General Meeting of ABC Ltd., the chairman directed to exclude certain matters detrimental to the interest from the minutes. S, a shareholder contended that the minutes of the meeting must contain fair and correct summary of the proceedings thereat. Decide whether the contention of S is maintainable under the provisions of the Companies Act, 2013.

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

(c) Describe the procedure to be adopted for the alteration of the Articles of Association.

[4+5+6]

Answer:

(a) The chairman has the absolute discretion —
- — to determine whether a matter is detrimental to the interest of the company or not;

— to direct not to include in the minutes any matter which is detrimental to the interest of the company.

Since the matter discussed in General Meeting is, in the opinion of the chairman, detrimental to the interest of the company, the refusal made the Chairman is valid.

So the contention of S, is not tenable in view of the above stated legal position.

(b) Some of the cases where special resolution is required to be passed —

- Alteration of Memorandum or Articles of the company;
- Further issue of share to persons other than existing shareholders.
- Reduction of share capital;
- Variation of shareholders' rights;
- Removal of Auditor.

(c) Subject to the provisions of this Act and the conditions contained in its memorandum, if any, a company may, by a special resolution, alter its articles including alterations having the effect of conversion of—

(*a*) a private company into a public company; or
(*b*) a public company into a private company:

Where a private company alters its articles in such a manner that they no longer include the restrictions and limitations which are required to be included in the articles of a private company under this Act, the company shall, as from the date of such alteration, cease to be a private company.

Any alteration having the effect of conversion of a public company into a private company shall not take effect except with the approval of the Tribunal which shall make such order as it may deem fit.

For effecting the conversion of a private company into a public company or vice-versa, the application shall be filed to the Central Government, in Form No. INC. 27 along with fee.

A copy of the order of the Central Government approving the alteration shall be filed with the Registrar in Form No. INC. 27 along with fee with the printed copy of the altered Article, within a period of fifteen days of the receipt of the order.