

FINAL EXAMINATION

June 2014

F-P11(CMC)

Syllabus 2008

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: (i) Answer all bits of a question at one place.

(ii) Open a new page for answer to a new question.

(iii) Attempt the required number of questions only.

Wherever appropriate, suitable assumption(s) should be made and indicated in answer by the candidate.

Working notes should form part of the answer.

SECTION A (60 Marks)

(Capital Market Analysis)

Answer Question No. 1 (carrying 20 marks) which is compulsory and answer any two (carrying 20 marks each) from the remaining three questions in this section.

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): 2×7=14

(i) Consider a bullish spread option strategy using a call option on the stock of SOFTEX LTD. with ₹ 50 exercise price, priced at ₹ 5 and a call option with ₹ 60 exercise price, priced at ₹ 3.00. The current market price of stock of Softex Ltd. is ₹ 65. What would be the net profit at expiration, if the price of the stock is ₹ 80 on maturity?

- A. ₹ 2.00
- B. ₹ 6.50
- C. ₹ 8.00
- D. None of (A), (B), (C)

(ii) EPITOME LTD. is planning to issue a discount Bond with a par value ₹ 1000, implicit interest rate of 11.50% and a redemption period of 5 years. The company also intends to offer an early bird incentive of 2%. The issue price of the Bond will be (rounded up to nearest rupee): [Given: PVIF (11.5%, 5 years) = 0.5803].

- A. ₹ 580
- B. ₹ 569
- C. ₹ 543
- D. Insufficient Information

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- (iii) ARIHANT LTD. issued right shares which increased the market value of shares of the company by ₹ 120 crore. The existing base year average is ₹ 762.26 crore. What would be the aggregate (old) market value of all the shares included in the index before right issue made, if the new base year average is ₹ 808 crore?
- A. ₹ 1999.81 crore
B. ₹ 856.5 crore
C. ₹ 805.0 crore
D. None of the above
- (iv) MS. CHAITALI earns 10% on the investments in equity shares. She is considering a recently floated scheme of a Mutual Fund where the initial expenses are 6%. If annual recurring expenses are expected to be 2%, how much should the Mutual Fund earn to provide a return of 10% to MS Chaitali?
- A. ₹ 13.50%
B. ₹ 12.64%
C. ₹ 11.25%
D. Insufficient Information
- (v) MS. SOMA an investor, has ₹ 400000 to invest in equity and risk-free security. The data given below relates to the two securities.

Investment	Probability	Expected Return
		₹
Equity	0.6	160000
	0.4	(-) 120000
Risk-free Security	1.00	20000

What will be her expected Risk premium in investing in equity versus risk-free securities on the basis of above conditions?

- A. ₹ 28000
B. ₹ 36000
C. ₹ 48000
D. ₹ 68000
- (vi) MR. SUVA an analyst has made risk and return projection for the securities of ALIN LTD. and BITON LTD., which are as follows:

Scenario	Probability	Rate of Return (%)	
		Alin Ltd.	Biton Ltd.
1	0.5	30	20
2	0.5	10	- 10

Based on the above data, the covariance between the rates of return on securities of Alin Ltd. and Biton Ltd. is

- A. 200 (%)²
B. 150 (%)²
C. 100 (%)²
D. 163 (%)²

- (vii) ZENITH LTD. as paid a dividend of ₹ 5 per share with annual growth rate of 8%. The expected return on the market portfolio and the risk free rate of return are estimated to be 15% and 10% respectively. What will be the equilibrium price for the shares of ZENITH LTD., if the market sensitivity index (β) is 1.5?
- A. ₹ 56.84
 - B. ₹ 52.63
 - C. ₹ 50.00
 - D. None of the above
- (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 think correct): 1×6=6
- (i) Which of the following Act puts forward the proposal for setting up the legal framework essential for the authentication and origin of electronic records through digital signature?
- A. SEBI Act
 - B. Information Technology Act, 2000
 - C. IRDA Act
 - D. None of the above
- (ii) Beating the market by analyzing the data obtained from magazines, reports and newspapers means that the markets are in _____. (Fill in the gap from the below):
- A. strong form inefficiency
 - B. semi-strong efficiency
 - C. semi-strong inefficiency
 - D. weak form efficiency
- (iii) "Riskiness" of a security in the context of security analysis essentially means
- A. Variability of the security's returns
 - B. Market Risk
 - C. Unsystematic Risk
 - D. Variability of returns above the benchmark mentioned by clients
- (iv) SEBI (Disclosure and Investor Protection) Guidelines 2000 are not applicable to
- A. Public Sector Banks
 - B. Infrastructure Companies
 - C. Both (A) and (B) above
 - D. All public issues by unlisted companies
- (v) The CAPM risk-return relationship described by the SML is
- A. an expected or *ex-ante* relationship
 - B. based on *ex post* beta
 - C. historical or *ex post* relationship
 - D. all of the above
- (vi) For demat trading the minimum market lot is
- A. 1 share
 - B. 10 shares
 - C. 50 shares
 - D. 100 shares

2. (a) Who are the major players of a Depository System? What advantages does the Depository System offer to the clearing member? 2+4=6

- (b) MS. NABANITA, an investor purchased 200 units of SUN MUTUAL FUND AT ₹ 14.00 per unit on April 01, 2013. As on March 31, 2014 she has received ₹ 2.00 as dividend and ₹ 1.50 as capital gain distribution per unit.

You are required to **calculate**:

- (i) The return on the investment if the NAV as on March 31, 2014 is ₹ 15.00.
(ii) The return on the investment as on March 31, 2014 if all dividends and capital gain distributions are re-invested into additional units of the fund at ₹ 14.50 per unit. 2+4=6
- (c) The equity share of ADANI LTD. is quoted at ₹ 315. A 3-month CALL OPTION is available at a premium of ₹ 9 per share and a 3-month PUT OPTION is available at a premium of ₹ 8 per share.
- (i) Determine the Net Pay offs to the option holder of a Call Option and a Put Option if
(1) the strike price in both cases in ₹ 330; and
(2) the share price on the exercise day is ₹ 300, ₹ 315, ₹ 330 and ₹ 360 respectively.
(ii) Also indicate the price range at which the Call Option and the Put Option may be gainfully exercised. 3+3+2=8

3. (a) The Information Technology Act, 2000, the Cyber Law of India gives the legal framework so that information is not denied legal effect, validity or enforceability.—Comment. 4
- (b) MR ROHAN, Chief Analyst of AMTREX SECURITIES LTD. forecasts four economic scenarios which he believes are likely to occur with the given probabilities. Base on these scenarios he makes the following forecasts of the returns for the stocks of RINTEX LTD. and HARISON LTD.

Economic Scenario (GDP Growth Rate)	Probability	Returns associated with (in %)		
		Rintex Ltd.	Harison Ltd.	Market
1.00–4.00%	0.30	3	2	1
4.00–6.00%	0.35	17	14	15
6.00–8.00%	0.25	20	19	17
8.00–9.00%	0.10	22	17	25

It is felt that the interest rate of 7 per cent on the 91-day T-Bill is a good approximation of the Risk-free Rate. Assume that CAPM holds good in the market.

Required:

- (i) Calculate the *ex-ante*-Betas for the stocks of Rintex Ltd. and Harison Ltd. and Comment on your findings.
(ii) Find out whether the stocks of Rintex Ltd. and Harison Ltd. are under priced or over priced.
(iii) Comment on the proportions of systematic and unsystematic risk in the two stocks.
(iv) Determine which stock the analyst would suggest to invest. (6+3)+2+3+3=16

4. (a) What are the various Risk associated with Derivatives?

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(b) The following data for ITC LTD., BKC LTD. and DKB LTD. were compiled for your information:

Stock	Expected Return (%)	Standard Deviation (%)	Systematic Risk (%)	Diversifiable Risk (%)
ITC Ltd.	38	22	12	06
BKC Ltd.	22	27	16	11
DKB Ltd.	40	06	06	00

Required:

- (i) If a client wants to invest in only one stock, which one would you recommend? Can you unequivocally recommend one?
 - (ii) Suppose your client already holds a well-diversified portfolio such as the S & P 500 index. Which one stock would you recommend? Why?
 - (iii) Your client says that BKC Ltd. is far too risky with a standard deviation of 27%, especially compared to the other two firms' standard deviation of 22% and 6%. How would you address his concern? Explain assuming that your client holds a well-diversified portfolio. $2+3+2=7$
- (c) TRANSINDIA SYSTEMS LTD. issued 13% NCDs with a face value of ₹ 100. The market price of these NCDs as on the date of issue was ₹ 85. Interest is payable semi-annually and the NCDs will be redeemed after three years from the date of issue.

You are required to compute.

- (i) The YTM of the NCD as on the date of issue.
- (ii) The Realized yield, if an investor re-invests the coupon payments at 11% per annum compounded half yearly.
- (iii) What would be the realised yield, if the interest payment are not re-invested.

Note:

- (a) Ignore Floation Costs and transaction costs;
- (b) Extracted from the tables of P.V. and F.V.

Interest Rate	5%	5.5%	7%	9%	10%	11%
PVIFA (6 years)	5.0760	4.9955	4.7665	4.4859	4.3553	4.2305
PVIF (6 years)	0.7462	0.7252	0.6663	0.5963	0.5645	0.5346
FVIFA (6 years)	6.8019	6.8880	7.1533	7.5233	7.7156	7.9129

$4+3+2=9$

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SECTION B (40 Marks)
(Corporate Laws)

Answer **Question No. 5** (carrying 10 marks) which is compulsory and answer any two (carrying 15 marks each) from the remaining three questions in this section.

5. (a) Fill in the blanks in the following sentences by using appropriate Word(s)/Phrase(s) Numbers(s):

1×5=5

- (i) _____ means a person other than the person making a request for information and includes a public authority (Right to Information Act).
- (ii) Any anti-competitive agreement entered into in contravention of provisions of section 3(1) of The Competition Act, 2002 shall be _____.
- (iii) _____ Programme introduced by the Government of India to develop Computerized Environment for Company Law.
- (iv) Investor in order to protect his investment in any company expects proper exhibition of Corporate Governance which is taken care by _____.
- (v) The minimum number of member in a Nomination Committee is _____.

(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 think correct).

1×5=5

- (i) Under RTI Act-2004, persons desirous of obtaining information, shall make a request in writing or through electronic means in English or
 - A. in Hindi;
 - B. in the official language of the area;
 - C. in the local language of the area;
 - D. none of the above.
- (ii) The Competition Commission of India shall consist of a chairperson and
 - A. not less than 2 other members;
 - B. not more than 10 other members;
 - C. not less than 2 and not more than 10 other members;
 - D. not less than 2 and not more than 8 other members.
- (iii) An application to investigate the affairs of a public company where shareholders scattered all over the country, can be made to the National Company Law Tribunal (NCLT) by
 - A. any one hundred members;
 - B. any two hundred members;
 - C. not less than one-fifth of the persons on that company's register of members;
 - D. not less than one-fourth of persons on that company's register of members.
- (iv) In the context of classification of Risks, Business Dynamic Risks will fall under
 - A. Market Risks;
 - B. System Risks;
 - C. Industry and Services Risks;

D. Legal Risks.

- (v) The office of the Directors becomes vacant if he fails to obtain the share qualifications, if any required by the articles
- A. within 2 months of appointment;
 - B. within 1 month of appointment;
 - C. within 1 year of appointment;
 - D. before appointment.

6. (a) MR. ANKIT KUMAR was a member of the Competition Commission of India. He ceased to be such member on March 31, 2014. Thereafter, he was offered the Post of Executive Director with appropriate remuneration and perquisites in the following organizations to join his duties on and from June 1, 2014.

(i) AMTECK LTD. a private sector public limited company, whose case was disposed off by the Competition Commission under the provisions of the Competition Act, 2002 in the month of February, 2014.

(ii) Life Insurance Corporation of India.

You are required to state with relevant provisions of the Competition Act, 2002, the option available to MR. ANKIT KUMAR in respect of accepting the offers. 1+2+2=5

- (b) GEMINI LTD., is a government undertaking. The undertaking has been in existence for the past ten years and the company maintains a website wherein particulars last update on December 15, 2013 are available to the public.

Few important policy decisions were taken by the company in January, 2014 but these were not posted in the company's website as on May 20, 2014.

MR. PEARSON, a general public, feels that the company has violated the provisions of the Right to Information Act by not disclosing the important policy decisions affecting the general public.—
Is the aforesaid contention justified under the provisions of the RTI Act? 4

- (c) What is meant by "Assessing Control Risk" in the context of Internal Control Policy and mis-statements in the Financial Statements? How should the Auditor react, where the control risk is at the maximum and where it is less than the maximum? 6

7. (a) MR. ADHIRAJ holds the office of Managing Director of a Private Company for life. The Company's Article of Association empower him to appoint a person to be the Managing Director in succession to him. Mr. Adhiraj, therefore, in the exercise of his power appoints, by will MR. SACHIN as the Managing Director to hold office after the former's death. Some members of the company challenge the provisions of the Articles of Association and question the validity of the appointment of MR. SACHIN on the ground that MR. ADHIRAJ'S action amounts to 'Assignment of Office'.

Examine the validity of the contention of the members. 3

- (b) ASHIKA LTD. has been running in losses and has defaulted payment to its creditors. On 1st August 2013 the company mortgaged its plant and Machinery to MR. ANUP, a close friend of the MD of the

company, against payment of amount due to him ₹ 21 lakhs. The other creditors were left in lurch. In the meantime, MR. SOHAN (who has not paid by the company for supply of Raw Material of the value of ₹ 105 lakh.) presented a petition for winding-up the company before the High Court on 31.10.2013. The company was ordered to be wound up by the court on 31.3.2014. The official liquidator wants to declare the transaction of mortgage with Mr. Anup as invalid.

Will he succeed?

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- (c) State the CII (Confederation of Indian Industries) Codes for desirable Corporate Governance with its key aspects.

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8. (a) A group of shareholders of MULTISOFT LTD. has filed a petition before the Company Law Board alleging various Acts of Oppression and Mismanagement by the majority shareholders. The petitioner group holds 15% of the issued share capital of the company. During the course of hearing before CLB, some of the petitioner group of shareholders holding about 6% of the issued share capital of the company have withdrawn their consent by stating that they were misled by the group to sign the petition and after coming to know of the true facts they have disassociated themselves with the petition and they along with the other majority shareholders have submitted that the petition should be dismissed on the ground of non-maintainability.

Examine their contention having regard to the provisions of the Company Act.

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- (b) Discuss the Powers and Role of the Audit Committee as per clause 49 of the listing Agreement.

2+6=8
