

FINAL EXAMINATION

June 2015

F-P11(CMC)

Syllabus 2008

Capital Market Analysis and 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) MS SONTAI, a prospective investor provides the following information regarding a Portfolio Containing two stocks A and B:

Correlation Coefficient	γ_{AB}	0.75
Standard Deviation	σ_A	10
	σ_B	20
Portfolio Weights	W_A	2/3
	W_B	1/3

What is the standard Deviation of the Portfolio?

- (A) 77.78
(B) 155.55
(C) 160.35
(D) None of the above
- (ii) APSHARA LTD. issued right shares which increased the market value of the shares of the company by ₹ 180 Crore. The existing Base year average is ₹ 1,143.40 Crore. If the New Base year average is ₹ 1,212 Crore, the aggregate (old) market value of all the shares included in the Index before right issue made will be
- (A) ₹ 3,000 Crore
(B) ₹ 1,284.72 Crore
(C) ₹ 1,206.60 Crore
(D) None of the above

Please Turn Over

(iii) A Convertible bond of ARISTO LTD. with a face value of ₹ 1,000 had been issued at ₹ 1,200 with Coupon rate of 10%. The Conversion rate is 20 shares per Bond. If the current market price of the Bond is ₹ 1,300 and that of stock is ₹ 55, what could be the premium over Conversion Value?

- (A) 9.09%
- (B) 18.18%
- (C) 20.00%
- (D) Insufficient Information

(iv) The NAV of each unit of TEMPLAN INDIA FUND, a closed-end fund at the beginning of the year was ₹ 14. By the year end its NAV equals ₹ 14.40. At the beginning of the year, each unit was selling at a 3% premium to NAV. By the end of the year each unit was selling at a 5% discount to NAV. The Fund paid year-end distributions of Income and Capital gains of ₹ 2.40 on each unit.

What would be the rate of return to the investor in the fund during the year?

- (A) 10.826%
- (B) 11.512%
- (C) 11.962%
- (D) 12.124%

(v) The Market Price of Stock of ANIRO LTD. is ₹ 105 and its ALPHA is -1.2%. The realised return on the stock is 15% P.A. and the Risk-free rate of return is 7% P.A. Market Risk Premium is 8% P.A.

What would be the required rate of return on the Stock of ANIRO LTD., if its Co-variance with the Market Portfolio declines by 50%?

- (A) 14.136%
- (B) 12.125%
- (C) 11.60%
- (D) None of the above

(vi) MS ANUSUA, an investor, has purchased a 3 months Call option on the equity share of ASHLEEN LTD. for ₹ 20 with exercise price of ₹ 400. It has a present market price per share of ₹ 350. At the end of 3 months MS ANUSUA, expected the share price to be in the following range of ₹ 350 to ₹ 450 with varying probability:

Expected Share Price	₹ 350	₹ 400	₹ 450
Probability	0.25	0.45	0.30

What will be the expected value of Call option price at maturity date? (Ignore time value of money).

- (A) ₹ 40
- (B) ₹ 30
- (C) ₹ 15
- (D) Insufficient Information

- (vii) MR RUMI has purchased a stock of RUKMARI LTD. (R.L.). Currently the company pays dividend of ₹ 9 per share. Thereafter the dividend is expected to grow at a Constant rate of 7% p.a. The stock of R.L. has beta of 1.5. What would be the stock's expected price three years from now if the expected market return is 13% p.a. and the return on GOI Securities is 7% P.a.?
- (A) ₹ 131.08
(B) ₹ 149.50
(C) ₹ 160.15
(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) The maximum possible loss for a Covered call writer is
- (A) Strike Price
(B) Optimum Premium
(C) Initial Investment
(D) Current Price of the underlying asset
- (ii) Among the Instruments listed below which is/are option(s) like Instrument(s)?
- (A) Rights
(B) Warrants
(C) Puttable and Callable Bonds
(D) All of the above
- (iii) A document which contains all information as per prospectus, contents but does not have information on price of securities offered and number of Securities offered is known as
- (A) Abridged Prospectus
(B) Shelf Prospectus
(C) Red-Herring prospectus
(D) Information memorandum
- (iv) 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) Inefficiency
- (v) Which of the following statement is true?
- (A) If Market Price = Face value, then Coupon rate > YTM > Current yield
(B) If Market Price = Face value, then Coupon rate < Current yield < YTM
(C) If Market Price < Face value, then Coupon rate = Current yield = YTM
(D) If Market Price > Face value, then Coupon rate > Current yield > YTM

Please Turn Over

(vi) A generic term for financial institution that have the characteristics of both debt and equity, it may be secured or unsecured and it may or may not involve degree of participation in the upside of sale of business is known as:

- (A) Hybrid Instruments
- (B) Zero interest bonds
- (C) Mezzanine finance
- (D) Equity warrants

2. (a) Define the term FINANCIAL MARKET.

Briefly sketch the four broad Sub-divisions of Financial Market.

1+(1×4)=5

(b) MS. CHAITALI an Analyst of REVAMP SECURITIES LTD. is evaluating the prospectus of investing two stocks viz. ANKUR LTD. and BEU LTD. She has estimated the returns associated with the **Market Index** based on the Subjective probability approach in different economic scenarios. Her estimates are as follows:

Economic Scenario	Probability	Returns associated with (%)		
		ANKUR LTD.	BEU LTD.	MARKET INDEX
Boom	0.25	-15	-8	-7
Slow Growth	0.10	19	-5	12
Stagnation	0.45	35	25	20
Slump	0.20	15	18	25

It is felt that the interest rate of 7 per cent on the 91-day T-bill is a good approximation of Risk-free rate.

Assume that CAPM holds good in the market.

You are required to:

- (i) Calculate the ex-ante betas for two stocks and comment on the same.
- (ii) Find out whether the stocks of Ankur Ltd. and Beu Ltd. are underpriced or overpriced.
- (iii) Calculate the proportion of systematic risk and unsystematic risk for both the companies' stocks.
- (iv) Determine which the Analyst would suggest to invest if she is required to select only one stock. Justify. 6+2+4+3=15

3. (a) GREENENVIRON LTD. had received an e-mail from AMPREX LTD. emanating from the Company's official website, accepting the former's offer. Later on Amprex Ltd. failed to fulfill their promise.

Can Greenenvironment Ltd. launch proceedings against Amprex Ltd. on the strength of the e-mail?

What precaution should Greenenviron Ltd. have taken in this regard?

5+1=6

(b) The following data relate Share Price of ANKRIT LTD.:

Current price per share	₹ 2,400
3 months future's price	₹ 2,700

Assume it is possible to borrow money in the market for transactions in securities at 15% per annum.

Required:

- Calculate the theoretical minimum price of a 3 months forward purchase and
- Explain arbitrage opportunity.

2+3=5

(c) MS. SOLANI established the following spread on the AGFA CORPORATION'S STOCK:

- Purchased one 3 month call option with a premium of ₹ 40 and an exercise price of ₹ 500.
- Purchase one 3 month put option with a premium of ₹ 10 and an exercise price of ₹ 400.

Agfa Corporation's stock is currently selling at ₹ 450.

Required:

Determine MS. SOLANI's Profit or loss if

- The Price of Agfa Corporation stays at ₹ 450 after 3 months.
- The Price of Agfa Corporation falls to ₹ 300 after 3 months.
- The Price of Agfa Corporation rises to ₹ 575.

3+3+3=9

4. (a) "Despite the assertions of Technical Analysis, technical analysis is not a sure-fire method".

Explain certain limitations of Technical analysis pointed out by its critics.

5

(b) AKSH OPTIMA HOLDINGS (AOH) is a S.E.B.I. Registered Mutual Fund which raised ₹ 200 Lakh on April 1, 2014 by issue of 20 Lakh units of its OPTIMA PLUS (NFO) @ ₹ 10 Face value per unit. The Fund (AOH) invested in several capital market instruments to build a portfolio of ₹ 180 Lakh. The initial expenses amounted to ₹ 9 Lakh.

During the year ended March 31, 2015. the Fund (AOH) sold certain Securities of Cost ₹ 76 Lakh for ₹ 80 Lakh and purchased certain other securities for ₹ 60 Lakh. The Fund Management expenses for the year amounted to ₹ 10.20 Lakh of which ₹ 0.50 Lakh was in arrears.

The dividend earned was ₹ 3.00 Lakh.

75% of the realised earnings were distributed.

The Market Value of the portfolio on 31.03.2015 was ₹ 204 Lakh.

[Note: Ignore Entry and Exit Load]

You are required to **determine** the closing NAV per unit of OPTIMA PLUS Fund.

5+2=7

Please Turn Over

- (c) The Settlement price of MARCH NIFTY FUTURES contract on a particular day was 8585. The minimum trading on NIFTY FUTURES is 100. The initial Margin is 10% and the maintenance Margin is 8%.

The Index closed the following levels on the next five days:

Day	Settlement Price (₹)
1	8690
2	8760
3	8550
4	8480
5	8570

Required:

- (i) Calculate the MARK TO MARKET (MTM) Cash flows and daily closing balance in the Account of MR. JOHN an investor who has gone
(A) Long at 8585
(B) Short at 8585
- (ii) Calculate the Net Profit/Loss on each of Contracts. 4+4=8

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) 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) In case of a public company, how many members personally present required as quorum, if the number of member as on the date of the meeting exceeds five thousand as per Companies Act, 2013?
(A) Five
(B) Twenty five
(C) Fifteen
(D) Thirty
- (ii) Every Bench of Competition Commission shall consists of at least one judicial member means a person who is
(A) A Judge of a High Court
(B) A Judge of a District Court
(C) A Judge of Supreme Court of India
(D) A Judge of a Lower Court

- (iii) Every buyback of share shall be completed within a period of 12 months from the date of
- Issue of prospectus
 - Passing of special resolution
 - Allotment of shares
 - None of the above
- (iv) A public information officer shall as expeditiously as possible provide information from the date of receipt of request but in any case within
- 15 days
 - 30 days
 - 45 days
 - 60 days
- (v) In the context of classification of Risks, SYSTEMS RISKS fall under:
- Obsolescence risks
 - War Risks
 - Tax Risks
 - Contact Risks

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

1×5=5

- Share means a share in the Share Capital of a company and includes _____.
- _____ is not a linear process; it is the balancing of a number of interwoven elements.
- As per RTI Act, a person other than the person making a request for information and includes a public authority is known as _____.
- The liquidator shall within _____ of the expiry of each year from the commencement of winding up, file a statement duly audited by a qualified auditor of the company.
- The possibility that an event, action or inaction will not positively affect the organisation's ability to increase shareholder value is called _____ risks.

6. (a) MR. M. K. JANAKIRAMAN is director of MEGLOW LTD. He intends to construct a residential building for his own use. The Cost of Construction is estimated at ₹ 1.80 Crore which Mr. Janakiraman proposes to finance partly from his own sources to the tune of ₹ 80 Lakh and the balance ₹ 1.00 Crore from housing loan to be obtained from BDF HOUSING FINANCE COMPANY LTD, a housing finance company. For the purpose of obtaining the loan, he has approached the BDF Housing Finance Company which has in principle agreed to grant the loan, but has put a condition. The condition put by the BDF HOUSING FINANCE COMPANY is that the Company Meglow Ltd. of which Mr. M. K. Janakiraman is a director should provide the guarantee for repayment of the loan and interest as per terms of the proposed agreement for granting the loan to Mr. M. K. Janakiraman.

You are required to advise MR. M. K. JANAKIRAMAN on the matter keeping in view the relevant provisions of the Companies Act, 2013.

7

Please Turn Over

(b) Following is data pertaining to MAXWEL LTD.:

	(₹ in Crore)
Authorised Capital (Equity Shares)	200
Paid up Share Capital	80
General Reserve	40
Debenture Redemption Reserve	20
Provision for Taxation	10
Loan (Long Term)	20
Short-Term Creditors	6

The Board of Directors of the Company by a resolution passed at its meeting held on 15.01.2015 decide to borrow an additional sum of ₹. 180 Crore from Central Bank of India a banker of the Company.

You being a FINANCIAL ADVISER of the Company, **advise** the Board of Directors the procedure to be followed as required under the Companies Act, 2013. 5

(c) MEGLOW LTD. constituted an Audit Committee as required under Sec-177 of the Companies Act, 2013. The Committee in its report dated 30th April, 2015 has pointed out various irregularities in the Financial transactions entered into by the Company. The management of Meglow Ltd. does not agree with the contents of the Audit Committee Report.

Explain the action that can be taken in this regard. 3

7. (a) MR. AMRUT is an unsecured creditor and has to recover a sum of ₹ 7 Lakhs from ALLEN & ALLWAN COMPANY LTD. The said company has become financially insolvent and hence unable to pay its debts. With the object of recovery of the said amount MR. AMRUT is willing to proceed for compulsory winding up of the company.

Advise the steps and procedure in this relation under the provisions of the Company Act, 1956. 5

(b) SEBI has introduced 'CORPORATE GOVERNANCE' in a comprehensive manner to protect the Shareholders' interest as well as provide teeth in monitoring companies' performance through Independent Directors.—**Discuss**. 6

(c) Can any fine or Penalty be imposed on the Public Information Officer of a Government Department, where he has deliberately delay the furnishing of information sought for properly under The RTI Act, 2005?

(i) Is such levy automatic?

(ii) How can the Fine or Penalty imposed be recovered from him? 1+2+1=4

8. (a) Can it be said that Management Audit incorporates in itself, an efficiency Audit?
What are the main objects of Efficiency AUDIT? 1+5=6

(b) The Central Government without referring the matter to the Supreme Court of India for enquiry, removed MR. GOMEX, a member of the Competition Commission of India (CCI) on the ground that he has become physically or mentally incapable of acting as a member.

Decide, under the provisions of the Competition Act, 2002, whether removal of Mr. Gomex a member of CCI by the Central Government is lawful? 4

(c) The General norm is that after the risk identification takes place, the actions involved in pinpointing suitable responses to the RISK are broadly of Five types.

Sketch these five types of action. 5