FINAL EXAMINATION

GROUP III

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS

JUNE 2015

Paper- 11 : 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 σ_B	10 20
Portfolio Weights	W_A W_B	2/3 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

(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 it's 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) Putable 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 statements in 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

(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

Answer:

1. (a)

(i) D: None of the above

Standard deviation of the Portfolio A & B:

$$\sigma_{AB} = \left(W_A{}^2\sigma_A{}^2 + W_B{}^2\sigma_B{}^2 + 2W_AW_B\gamma_{AB}\sigma_A\sigma_B\right)^{\frac{1}{2}}$$

= (4/9 × 100 + 1/9 ×400 + 2 × 2/3 × 1/3 × 0.75 × 10 × 20) ½

= $\sqrt{44.44+44.44+66.67}$ = 12.47

(ii) A : ₹3,000 Crore

New Base Year Average = Old base average × $\frac{(\text{New Market Value})}{(\text{Old Market Value})}$

(where, old market value/aggregate market value be χ

$\therefore$ 1,212 = 1,143.40 × $\frac{(180+x)}{x} = \frac{205812+1143.40x}{x}$

Or, 1,212x - 1,143.40x = 2,05,812

Or, x = $\frac{205812}{68.6}$ = ₹3,000 Crore

(iii) B: 18.18%

Conversion rate is 20 shares per Bond

Market price per Share is ₹55

Conversion value = ₹(20 × 55) = ₹1,100

Market Price of the Bond = ₹1,300

$\therefore$ Premium over Conversion Value = $\frac{1300 - 1100}{1100}$ = 18.18%

(iv) B: 11.512%

The Price of unit at the beginning of the year = ₹14 × 1.03 = ₹14.42

The Price of Unit at the end of the year = ₹14.40 × 0.95 = ₹13.68

The Price of the fund fell by (13.68 – 14.42) = - 0.74

Rate of Return = (2.40 – 0.74)/ 14.42 = 1.66/14.42 = 11.512%

(v) B : 11.60%

Market return = 8 + 7 = 15%

The required Return = 7 + 8 β = 15 + 1.2 = 16.20%

$\therefore$ Required β (Beta) = (16.20 – 7) ÷ 8 = 1.15

If the Covariance of stock with the market declines by 50%, its beta also declines by 50%

Hence, New beta = 50% of 1.15 = 0.575

$\therefore$ The Required rate of Return on Stock of ANIRO LTD.

= 7 + 0.575 × 8 = 11.60%

(vi) C : ₹15

Expected Value of Call option

Expected Share Price	Exercise Price	Call Value	Probability	Expected Call Option Value
₹350	₹400	(350 - 400) = 0	0.25	0
₹400	₹400	(400 - 400) = 0	0.45	0
₹450	₹400	(450 -400) = 50	0.30	₹15
Expected Call Option Value				₹15

(vii) A : ₹131.08

Return on Equity (K_e) = 7 + (13 – 7) × 1.5 = 16%

Value of Stock (P) $= D_0 (1 + g)^4 / (K_e – g)$

$= 9(1+0.7)^4 / (0.16 – 0.07)$

= (11.7972)/ 0.09) = ₹131.08

Answer:

1. (b)

(i) → C (ii) → C (iii) → C (iv) → B (v) → D (vi) → C

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

Answer:

2. (a) FINANCIAL MARKETS

A Financial Market can be defined as the market in which financial assets are created or transferred. As against a real transaction that involves exchange of money for real goods or services, a financial transaction involves creation or transfer of a financial asset. Financial assets or Financial instruments represent a claim to the payment of a sum of money sometime in the future and / or periodic payment in the form of interest or dividend.

Money Market: The money market as a wholesale debt market for low risk, highly-liquid, short-term instrument. Funds are available in this market for periods ranging from a single day up to a year. This market is dominated mostly by government, banks and financial institutions.

Capital market: The capital market is designed to finance the long-term investments. The transactions taking place in this market will be a period over a year.

Forex Market: The forex market deals with the multicurrency requirements, which are met by the exchange of currencies. Depending on the exchange rate that is applicable, the transfer of funds takes place in this market. This is one of the most developed and integrated market across the globe.

Credit Market: Credit market is a place where bank, FIs and NBFCs purvey short, medium and long-term loans to corporate and individuals.

2. (b)

(i) MARKET

R_M	P_i	$R_M P_i$	R_M - E(R_M)	[RM - E (RM)]^2	Square of deviations x P_I
- 0.07	0.25	- 0.0175	- 0.2045	0.0418	0.01045
0.12	0.10	0.0120	- 0.0145	0.0002	0.00002
0.20	0.45	0.0900	0.0655	0.0043	0.00194
0.25	0.20	0.0500	0.1155	0.0133	0.00266
		∑ 0.1345			∑ 0.01507

Expected Return on Market = 13.45%
Var_M = 0.01507 = 150.70 (%)^2

σ_M = 12.28%

Stock of ANKUR LTD.

R_A (1)	P_i (2)	$R_A P_i$ (3)	R_A - E (R_A) (4)	R_M - E(R_M) (5)	[R_A - E(R_A)]^2 (6)	P_i x (6) (7)	Product (8) = (4) × (5)	Product x P_i (9) = (8) x (2)
- 0.15	0.25	- 0.0375	-0.319	- 0.2045	0.10176	0.02544	0.0652	0.0163
0.19	0.10	0.0190	0.021	-0.0145	0.00044	0.00004	- 0.0003	- 0.00003
0.35	0.45	0.1575	0.181	0.0655	0.03276	0.01474	0.0119	0.0054
0.15	0.20	0.0300	-0.019	0.1155	0.00036	0.00007	- 0.0022	- 0.00044
		∑ 0.1690				∑0.04030		∑ 0.02123

Expected Return on Stock $_A$ = $\sum R_A P_i$ =16.9%

σ_A^2 = 0.0403 i.e. 403 (%)^2 CoV_{AM} = 0.02123 i.e. 212.3 (%)^2
σ_A = 20.075 %

Stock of BEU LTD.

R_B (1)	P_i (2)	$R_B P_i$ (3)	R_B - E (R_B) (4)	R_M - E(R_M) (5)	[R_B - E(R_B)]² (6)	P_i × 6 (7)	Product (8) = (4) × (5)	Product x P_1 (9) = (8) × (2)
- 0.08	0.25	- 0.0200	- 0.2035	- 0.2045	- 0.04141	0.01035	0.0416	0.01040
0.05	0.10	0.0050	- 0.1735	- 0.0145	0.03010	0.00301	0.0025	0.00025
0.25	0.45	0.1125	0.1265	0.0655	0.01600	0.00720	0.0083	0.00373
0.18	0.20	0.0360	0.0565	0.1155	0.00319	0.00064	0.0065	0.00130
		∑ 0.1235				∑ 0.02120		∑ 0.01568

Expected Return on $Stock_B$ =$\sum R_B P_i$ =12.35%
σ_B^2 = 0.02120 i.e. 212 (%)² CoV_{AM} = 0.01568 i.e. 156.8 (%)²
σ_B = 14.56%

$$\beta_A = \frac{COV_{AM}}{Var_M}$$
$$= \frac{\left[\left(R_A - E\left(R_A\right)\right)\right]\left[\left(R_M - E\left(R_M\right)\right)\right]P_i}{Var_M}$$
$$= \frac{0.02123}{0.01507} = 1.41$$
$$\beta_B = \frac{COV_{BM}}{Var_M} = \frac{0.01568}{0.01507} = 1.04$$

Comments:

In the given case,

(1) Both the Stocks (Ankur Ltd. and Beu Ltd.) are aggressive as Betas of Both stocks are more than 1.

(2) Stocks of Ankur Ltd. is more aggressive than the stock of Beu Ltd.

(β_A = 1.41 > β_B = 1.04)

(ii) $R_A = R_f + \beta_A (R_M - R_f)$= 7 + 1.41(13.45 - 7)= 16.09%

Alpha = E(R_A) - R_A = 16.90 - 16.09 = 0.81

As Alpha is positive, stock of Ankur Ltd. is undervalued

R_B = 7 + 1.04 (13.45 - 7) - 13.71%

Alpha = 12.35 - 13.71 = - 1.36

As Alpha is negative, stock of Beu Ltd. is overvalued

(iii) Systematic Risk = β^2 x σ_M^2

Unsystematic Risk = Total Risk - Systemic Risk

Stock of Ankur Ltd:

Systematic Risk = (1.41)² × 150.70 = 299.60 (%)²

Unsystematic Risk = 403 - 299.60 = 103.40 (%)²

Proportion of Systematic Risk = $\frac{299.60}{403}$ =74.34%

Proportion of Unsystematic Risk = 103.40/403 = 25.66%

Stock of Beu Ltd:

Systematic Risk = $(1.04)^2 \times 150.70 = 163.00\ (\%)^2$

Unsystematic Risk = $212 - 163.00 = 49.00\ (\%)^2$

Proportion of Systematic Risk = $\frac{163.00}{212}$ =76.89%

Proportion of Unsystematic Risk = 49.00/212 = 23.11%

(iv) Stock of Ankur Ltd:

(Alpha) / (Std deviation)

$= \frac{0.81}{20.075} = 0.0433$

Stock of Beu Ltd

(Alpha) / (Std deviation)

$= \frac{-1.36}{14.56} = -0.0934$

As the excess return or Alpha to Standard deviation is higher for the Stock of Ankur Ltd., the Analyst should suggest to invest on the Stock of Ankur Ltd.

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 Green environ Ltd. launch proceedings against Amprex Ltd. on the strength of the e-mail?

What precaution should Green environ 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:

(i) Calculate the theoretical minimum price of a 3 months forward purchase and

(ii) Explain arbitrage opportunity. 2+3 =5

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

(i) Purchased one 3 month call option with a premium of ₹ 40 and an exercise price of ₹ 500.

(ii) 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

(i) The Price of Agfa Corporation stays at ₹ 450 after 3 months.

(ii) The Price of Agfa Corporation falls to ₹ 300 after 3 months.

(iii) The Price of Agfa Corporation rises to ₹ 575. 3+3+3=9

Answer:

3. (a)

The Information Technology Act, 2000 would come to the rescue of GREEN ENVIRON LTD. Section4 and 5 of the said Act may be referred to in this context.

Section 4 accords legal recognition of electronic records. As per this section, where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, not withstanding anything contained in such law, such requirement shall be deemed to have been satisfied if such information or matter is -

a) rendered or made available in an electronic form; and
b) accessible so as to be for a subsequent reference.

Section 5 speaks of legal recognition of digital signatures. Accordingly, where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be singed or bear the signature of any person then, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of digital signature affixed in such manner as may be prescribed by the Central Government. The Explanation to this section states that for the purposes of this section, "signed", with its grammatical variations and cognate expressions, shall, with reference to a person, mean affixing of his hand written signature or any mark on any document and the expression "signature" shall be construed accordingly.

GREEN ENVIRON LTD. can proceed against AMPREX LTD. on the strength of these provision. GREEN ENVIRON LTD. should ensure that in respect of important emails/e-documents/e-records, the sender affixes his digital signature. A digitally signed document is a perfect piece of legal evidence as to its timing, contents, integrity and authenticity.

3. (b)

(i) Theoretical Minimum Price of a 3-months forward contract:

Future's Price = Spot + Cost of carry – Dividend

=₹ [2400 + (2400 × 0.15 × 3/12) – 0]

= ₹ 2,490

(ii) Arbitrage Opportunity:

The arbitrageur can borrow money @ 15% for 3 months and buy the shares at ₹2,400.

At the same time he can sell the shares in the futures market at ₹ 2,700.

On the expiry date 3 months later, he could deliver the share and collect ₹ 2,700:

Sales proceeds of 3 months futures	₹ 2,700
The out flows (buying shares)	₹2,490
Profit earned by Arbitrageur	₹ 210

3. (c)

Determination of **MS SOLANI'S PROFIT / (LOSS):**

(i) Total premium paid on purchasing a call and put option :

₹40 × 1 + ₹10 × 1 = ₹50

In the case, MS SOLANI exercise neither the call option nor the put option as both will result in a loss for her.

Ending value = - ₹50 + Zero gain

i.e. Net loss = ₹50

(ii) Since the price of the stock is below the exercise price of the call, the call will not be exercised, only put is valuable and is exercised.
Total premium paid = ₹50
Ending value = - ₹50 + ₹(400 + 300) × 1
- ₹50 + ₹100
∴ Net gain = ₹50

(iii) In the situation, the put is worthless, since the price of the stock exceeds the put's exercise price. Only call option is valuable and is exercised.
Total premium paid = ₹50
Ending value = - ₹50 + ₹(575 – 500) × 1
∴ Net gain = - ₹50 + ₹75 = ₹25

3. (c) **ALTERNATIVE SOLUTION**

CALCULATION OF MS SOLANI'S PROFIT / (LOSS)
(Assume Market lot of each contract is 100 shares)

(i) Total Premium paid on purchasing a call and put option.
(₹ 40 per stock × 100) + (₹ 10 per stock × 100) = 4,000 + 1,000 = ₹ 5,000
In this case, MS SOLANI exercises neither the call option nor the put option as both will result in a loss for her.
Ending value = - ₹ 5,000 + Zero gain = - ₹ 5,000
i.e. Net loss = ₹ 5000

(ii) Since the price of the stock is below the exercise Price of the call, the call will not be exercised. Only put is valuable and is exercised.
Total Premium Paid = ₹5,000
Ending Value = - ₹ 5,000 + ₹(400 - 300) × 100 = ₹ 5,000

(iii) In this situation, the put is worthless, the Price of the stock exceeds the Put's exercise Price. Only call option is valuable and is exercised.
Total Premium Paid = ₹ 5000
Ending Value = - ₹ 5,000 + ₹ (575 - 500) × 100
∴ Net gain = - ₹ 5,000 + ₹ 7500 = ₹ 2,500

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**

(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	8,690
2	8,760
3	8,550
4	8,480
5	8,570

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

Answer:

4. (a)

CRITICISMS OF TECHNICAL ANALYSIS:

Despite the assertions of technical analysis, technical analysis is not a sure-fire method. The various limitations of technical pointed out by its critics are as given under:-

(i) Difficult in interpretation: Technical analysis is not as simple as it appears to be. While the charts are fascinating to look at, interpreting them correctly is very difficult. It is always easy to interpret the charts long after the actual point of time. As such, fundamentals argue that charting techniques are no different from palmistry.

(ii) Frequent changes: With changes in market, chart patterns keep on changing. Accordingly, technical analysts change their opinions about a particular investment very frequently. One day they put up a buy signal. A couple of weeks later, they see a change pattern and put up a sell signal.

(iii) Unreliable changes: Changes in market behaviour observed and studied by technical analyst may not always be reliable owing to ignorance or intelligence or manipulative tendencies of some participants.

(iv) Judgemental Bias: A false piece of information or wrong judgment may result in trade at a lower than market price. If the technicians fail to wait for confirmation, they incur losses.

4. (b)

AKSH OPTIMA HOLDINGS:

1. Calculation of Net Assets value of optima Plus Fund:

Particulars	Amount in lakh	Amount in lakh
Opening bank (200-180-9)	11.00	
Add: Proceeds from sale of securities	80.00	
Add: Dividend Received	3.00	
(A)	**94.00**	

Less: cost of securities purchased	60.00	
Less: Fund management expenses paid (10.20 – 0.50)	9.70	
Less: Capital gain distributed = 75% (80 – 76)	3.00	
Less: Dividend distributed = 75% of ₹3.00	2.25	
(B)	**75.95**	
Closing bank **(A- B)**		19.05
Add: Closing market value of portfolio		204.00
		223.05
Less: Arrears of expenses		0.50
Closing net assets value		**222.55**

Net Asset Value $= \frac{\text{Net Assets}}{\text{No. of units}} = \frac{₹222.55\text{ lakh}}{20.00\text{ lakh}} = ₹11.1275$

Hence, NAV per unit of optima plus funds is ₹11.1275

4. (b) **ALTERNATIVE SOLUTION**

AKSH OPTIMA HOLDINGS:

1. Calculation of Net Assets value of optima Plus Fund:

Particulars	Amount in lakh	Amount in lakh
Opening bank (200-180-9)	11.00	
Add: Proceeds from sale of securities	80.00	
Add: Dividend Received	3.00	
(A)	**94.00**	
Less: cost of securities purchased	60.00	
Less: Fund management expenses for the year (Including arrear)	10.20	
Less: Capital gain distributed = 75% (80 – 76)	3.00	
Less: Dividend distributed = 75% of ₹3.00	2.25	
(B)	**75.45**	
Closing bank **(A- B)**		18.55
Add: Closing market value of portfolio		204.00
Closing net assets value		**222.55**

Net Asset Value $= \frac{\text{Net Assets}}{\text{No. of units}} = \frac{₹222.55\text{ lakh}}{20.00\text{ lakh}} = ₹11.1275$

Hence, NAV per unit of optima plus funds is ₹11.1275

4. (c)

MR. JOHN

Initial margin = 8585 × 100 × 10/100 = ₹85,850

Maintenance margin = 8585 × 100 × 8/100 = ₹68,680

The initial margin and maintenance margin are same for both long and short positions.

Margin Account of investor who has gone long. (Amount in ₹)

Day	Settlement price	Opening balance	Mark to market C/F	Margin Call	Closing balance
1	8,690	85,850	*(+) 10,500	-	96,350
2	8,760	96,350	(+) 7,000	-	1,03,350
3	8,550	1,03,350	(-) 21,000	-	82,350
4	8,480	82,350	(-) 7,000	-	75,350
5	8,570	75,350	(+) 9,000	-	84,350

* (8,690 – 8,585) × 100 = ₹10,500

Profitability of Investor who has gone long:

Net Profit (Loss) on the Contract:

= 10,500+7,000 – 21,000 – 7,000 + 9,000 = (-) ₹1,500

Margin Account of investor who has gone short. (Amount in ₹)

Day	Settlement price	Opening balance	Mark to market C/F	Margin Call	Closing balance
1	8,690	85,850	(-) 10,500*	-	75,350
2	8,760	75,350	(-) 7,000	17,500	85,850
3	8,550	85,850	(+) 21,000	-	1,06,850
4	8,480	1,06,850	(+) 7,000	-	1,13,850
5	8,570	1,13,850	(-) 9,000	-	1,04,850

Profitability of Investor who has gone short

At the end of the 2nd day Margin account will show (75,350 -7,000)= 68,350 (less than maintenance margin). Hence margin call is required.

Net Profit/(Loss) on the contract:

-10,500-7,000+21,000+7,000-9,000 = ₹ 1,500

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

(A) Issue of prospectus

(B) Passing of special resolution

(C) Allotment of shares

(D) 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

(A) 15 days

(B) 30 days

(C) 45 days

(D) 60 days

(v) In the context of classification of Risks, SYSTEMS RISKS fall under:

(A) Obsolescence risks

(B) War Risks

(C) Tax Risks

(D) Contact Risks

5. (b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/ numbers(s): **1×5 = 5**

(i) Share means a share in the Share Capital of a company and includes _____________.

(ii) _____________ is not a linear process; it is the balancing of a number of interwoven elements.

(iii) As per RTI Act, a person other than the person making a request for information and includes a public authority is known as _____________.

(iv) 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.

(v) The possibility that an event, action or inaction will not positively affect the organisation's ability to increase shareholder value is called _____________ risks.

Answer:

5. (a)

(i) – D **(ii)** – A **(iii)** – B **(iv)** – B **(v)** – A

5. (b)

(i) Stock **(ii)** Risk Management **(iii)** Third party **(iv)** Two months

(v) Business

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 advice MR. M. K. JANAKIRAMAN on the matter keeping in view the relevant provisions of the Companies Act, 2013. 7

(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

Answer:

6. (a)
According to Sec. 185 (1), of the Companies Act 2013 no company shall, directly or indirectly, advance any loan, including any loan represented by a book debt, to any of its directors or to any other person in whom the director is interested or give any guarantee or provide any security in connection with any loan taken by him or such other person.
Contravention
If any loan is advanced or a guarantee or security is given or provided in contravention of the provisions of sub-Sec. (1), the company shall be punishable with a fine which shall not be less than ₹ 5 lakhs but which may extend to ₹ 25 lakhs and the directors or the other person to whom any loan is advanced or guarantee *or* security is given or provided in connection with any loan taken by him or the other person, shall be punishable with' imprisonment which may extend to six months or with fine which shall not be less than five lakh rupees but which may extend to twenty-five lakh rupees, or with both.
Present Case:
In view of the provision of Sec. 185 of the Companies Act 2013 Company Meglow Ltd. shall not provide guarantee for repayment of loan and interest thereon.

6. (b)
The share capital & free reserves of Maxwell Ltd. is ₹120 crores (80+40) and the present borrowings of the company are ₹20 crores long term loans. Sec 180(1) (c) of Companies Act, 2013 restricts the board to borrow money, where the money to be borrowed together with the money already borrowed by the company will exceed aggregate of its paid up share capital and free reserves, apart from temporary loans obtained from the company's banker in the ordinary course of business.
As a financial advisor, I can propose the Board of Directors to borrow Additional sum of ₹ 180 crores, by passing a special resolution which will be excess of paid-up share capital & free reserves, as the amount is to be borrowed from company's bankers and is thus assumed to be of temporary nature and in the ordinary course of business. If the borrowed money, if not in terms of temporary nature i.e. exceeds a period of 6 months, or is not in the ordinary course of business, I will advice the company not to borrow such money without prior raising of paid-up share capital or free reserves.

6. (c)
Course of action in case of differing with the content of the audit committee report of Megalow Ltd.

1. Where the Board does not accept any recommendations of the Audit Committee, the same shall be disclosed in the Board's report along with the reasons there for [Sec 177(8) of Companies Act, 2013]
2. The Companies Act, 2013 does not compulsorily require attendance of chairman of the audit committee to attend general meetings. The auditors of a company and the key managerial personnel shall have a right to be heard in the meetings of the Audit Committee when it considers the auditor's report but shall not have the right to vote. [Sec 177(7) of Companies Act, 2013]

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

Answer:

7. (a)

Procedure in case of compulsory Winding Up –

MR. AMRJIT has to take the following steps to put the company into compulsory winding up:

(i) A petition for winding-up of the company is to be filed in the high court where the registered office of the company is located U/S 439 (1)(b) read with section 433 (e) and (f) of the Companies Act, 1956. A copy of the petition should be served on the company.

(ii) The petition should be filled along with an affidavit showing sufficient ground for the appointment of a provisional liquidator till an order is passed by the High Court appointing an official liquidator [Rule 106 of the companies (court) rules 1959].

(iii) After obtaining the winding up order from the high court he same should be advertised within 14 days in a newspaper in English language and in the regional language of the state where the company is registered [Rule 113 of the company (Court) Rules, 1959)].

(iv) A certified copy of the winding up order passed by the Court should be filed with the concerned registrar of companies along with the prescribed fees within 30 days from the date of the winding up to order [Section 445 (i)].

(v) The winding up proceedings will be carried out by the official liquidator till dissolution of the company.

7. (b)

An outline provided by the Confederation of Indian Industry (CII) was given concrete shape in the Birla Committee Report of SEBI, SEBI implemented the recommendations of Birla Committee and the Narayana Murthy Committee worked for further refining the rules of SEBI. These recommendations were implemented through the enactment clause 49 of the listing agreements.

The Committees which were created for the purpose were:

1. Audit Committee
2. Share holders grievance Committee
3. Remuneration Committee
4. Share Transfer Committee

Audit Committee

Audit Committee has been empowered to discuss the performance of the company both from the point of view of interest of shareholders and efficiency. This Committee also discussed in detail quarterly performances taking care for proper disclosures and transparency. The annual report is included a report on a corporate Governance, Corporate Social responsibility, and Management discussions on future plans.

Shareholders Grievance Committee:

The interests of the shareholders regarding dividend payments, changes of addresses, any grievance against the company were discussed and disposed of every quarter and the status is indicated in the quarterly report.

Remuneration Committee:

Remuneration of whole time Managing Directors was recommended after application of mind as well as the relevant sections of the companies Act, approval in the General Meetings of the Share holders.

Share transfer Committee

With dematerialization, transfer of shares have become more transparent. However, the Committee looks into the aspects of insider trading and any possibilities and malpractices.

7. (c)

As per section 12(4) of the RTI Act, 2005 subject to sub-section (3), where any Public Information Officer has, without any reasonable cause, failed to supply the information sought, within the period specified under section 7(1), penalty can be levied.

Such levy of penalty is not automatic. The relevant Information Commissioner shall, on appeal, impose a penalty of rupees two hundred fifty, which amount must be increased by regulation at least once every five years, for each day's delay in furnishing the information, after giving such Public Information Officer a reasonable opportunity of being heard.

Any fines imposed under sub-sections (1), (2) and (3) shall be recoverable from the salary of the concerned officer, including the Public Information Officer, or if no salary is drawn, as an arrears of land revenue, recoverable within a maximum of six months of the order imposing the fine.

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

Answer:

8. (a)

Management Audit incorporates in itself an efficiency audit. Efficiency audit ensures "application of the basic economic principle so that resources flow into the most remunerative channels".

The main object of efficiency audit is to ensure that:

1. Every rupee invested in capital or in other fields give the optimum returns and
2. The planning of Investment between the different functions and aspects is designed to give optimum results.

The parameters for measuring efficiency with its concomitant details are

1. Overall rate of return on capital employed
2. Better capacity utilization
3. Better utilization of raw material, power, labor, equipments, and finance
4. Effective incentive system
5. Better export performance and import substitution
6. Cost control

It is necessary to make study activity wise so as to identify areas of deficiency in particular activity.

To conclude we can infer saying that Investor in order to protect his investment in any company expects proper exhibition of corporate governance which is taken care by Management Audit. As Management Audit would encompass compliance audit, efficiency audit, propriety audit and systems audit as well as management audit is concerned with the overall objectives of an organization.

8. (b)

Removal of member of competition commission of India:	As per section 11(2) of the Competition Act, 2002, the Central Government is empowered to remove by an order, **the chairperson or any other** member of the competition commission of India from his office if such **chairperson or** member has become physically or mentally incapable of acting as a member.
Restrictions	As per Sec. 11(3), of the same Act, the Central Government has to make a reference to the Supreme Court of India under the two conditions: **i)** Where the member has acquired such financial or other interest as is likely to affect prejudicially his functions as a member. **ii)** Where a member has abused his position as to render his continuance in office prejudicial to the public interest.
Present case:	Thus, under present circumstance under Sec. 11(2) and Sec.11(3), the action of Central Govt. is in order and removal of member is valid

8. (c)

Identifies suitable responses to risk:

The actions break into broadly five types, as-shown below,

1. **Prevention: Terminate the risk-** by doing things differently and thus removing the risk where it is feasible to do so. Countermeasures are put in place that either stop the threat or problem from occurring or prevent it having any impact on the project or business.

2. **Reduction: Threat the risk-** take action to control it in some way where the actions either reduce the likelihood of the risk developing or limit the impact on the project to acceptable levels.
3. **Transference-** This is a specialist form of risk reduction where the management of the risk is passed to a third party via, for instance, an insurance policy or penalty clause, such that the impact of the risk is no longer an issue for the health of the project. Not all risk can be transferred in this way.
4. **Acceptance-** Tolerate the risk - perhaps because nothing can be done at a reasonable cost to mitigate it or likelihood and impact of the risk occurring are at an acceptable level.
5. **Contingency-** These are actions planned and organized to come into force as and when the risk occurs.

Any given risk could have appropriate actions in any or all these categories.

There may be no cost-effective actions available to deal with a risk, in which case the risk must be accepted or the justification for the project revisited (to review whether the project is too risky), possibly resulting in the termination of the project. The results of the risk evaluation activities are documented in the Risk Log. If the project is part of a programme, project risk should be examined for any impact on the programme (and vice versa). Where any cross-impact is found, the risk should be added to the other Risk Log.