

Paper- 11: 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: (1) Answer all bits of a question at one place.

(2) Answers to each question should start from a new page.

Example: Q. No. 2/3/any should start from a new page.

**SECTION - I (60 Marks)
(Capital Market Analysis)**

Answer Question No. 1 (compulsory) and answer any two from the rest in this Section.

Question 1.

(a) In each of the cases given below one out of four options is correct. Indicate the correct answer and give workings/ reasons briefly in support of your answer. [2×6]

(i) Maruti has a beta of 0.865. If the expected market return is 17.50 and the risk free rate of return is 8.50%, what is the appropriate required return of Maruti (using the CAPM)?

- A. 16.825%;
- B. 16.582%;
- C. 16.285%;
- D. 16.258%.

(ii) The following portfolio details of a mutual fund are available:

Stock	Shares	Price (₹)
A	2,00,000	35
B	3,00,000	40
C	4,00,000	20
D	6,00,000	25

The fund has accrued management fees with the portfolio manager totaling ₹40,000.

There are 40 lakhs units outstanding. What is the NAV of the fund?

- A. 10.25;
- B. 10.39;
- C. 10.49;
- D. None of the above.

(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) MS Ltd. has a debt-equity mix of 30/70. If MS Ltd.'s debt Beta is 0.30 and Beta for its activity (or project) is 1.21, what is the Beta for its Equity?
- A. 1.65;
B. 1.60;
C. 1.52;
D. None of the above.
- (v) Nifty Index is currently quoting at 1329.78. Each lot is 250. Mr. Bose purchases an April contract at 1364. He has been asked to pay 10% initial margin. What is the amount of initial margin?
- A. ₹ 33,244.00;
B. ₹ 136.40;
C. ₹ 132.97;
D. ₹ 34,100.00.
- (vi) An investor purchased an asset at a cost of ₹ 1,300. Simultaneously he purchases a put option to sell the said asset at a minimum price of ₹ 1,300 at a premium of ₹ 70. Premium is payable immediately and expiration is 2 months. What is the cost of strategy and Break-even Point?
- A. ₹ 70 and ₹ 1,370;
B. ₹ 70 and ₹ 1,230;
C. ₹ 1,370 and ₹ 1,230;
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 consider correct). [1x5]

- (i) The contract of insurance is required to fulfill certain principles of insurance. From below mentioned alternative find which of them is not the principle of insurance:
- A. Insurable Interest;
B. Proximate Cause;
C. Market Risk;
D. Subrogation.
- (ii) The Security Market Line shows the linear relationship between the expected returns and —
- A. alpha of the portfolio;
B. Betas of the securities;
C. variance of the portfolio;
D. none of the above.
- (iii) A special contract under which the owner of the contract enjoys the right to buy or sell without the obligation to do so is called:
- A. Forward;
B. Option;
C. Spot;
D. Future.

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- (iv) An issue where an allotment is made to less than 50 persons, is called —
- Rights Issue;
 - Bonus Issue;
 - Bought out deal;
 - Private Placement.
- (v) Which among the following increases the NAV of a Mutual Fund Scheme?
- Value of investments;
 - Receivables;
 - Accrued Income;
 - All of the above.

(c) Fill in the blanks in the following sentences by using appropriate word(s) / phrase(s) / number(s): [1x3]

- In relation to the activity of the commercial banks, when one party sells a security to another party with an agreement to buy it back at a specified time and price, it is called _____.
- SENSEX is calculated using the _____ methodology.
- The variability in a security's return resulting from changes in the level of interest rates is referred to as _____ risk.

Question 2.

(a) "Despite the assertions of technical analysis, technical analysis is not a sure-fire method." — Describe the criticisms of Technical Analysis in this ground. [4]

(b) Six Mutual Funds experienced the following results during a 7 year period:

Mutual Funds	Average Annual Return	Standard Deviation	Correlation with Market
A	18.4%	27.0%	0.81
B	14.8%	18.0%	0.65
C	15.1%	8.0%	0.98
D	22.0%	21.2%	0.75
E	-9.0%	4.0%	0.45
F	26.5%	19.3%	0.63
Market	13.0%	12.0%	
Risk Free Rate	9.0%		

- Rank these portfolios using Sharpe's method, and Treynor's method.
- Compare the ranking in part (i) and explain the reasons behind the differences. [10+2]

(c) What are advantages of share repurchase over dividends? [4]

Question 3.

(a) Your client is holding the following securities:

Particulars of Securities	Cost	Dividends	Market Price	Beta
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	(₹)	(₹)	(₹)	
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. **[4+2]**

(b) Write down the benefits of CAPM model in the field of portfolio management. **[3]**

(c) The unit price of RSS Scheme of a mutual fund is ₹ 10. The public offer price (POP) of the unit is ₹ 10.305 and the redemption price is ₹ 9.75. Calculate: (i) Front-end load, and (ii) Back-end load. **[2+2]**

(d) The possible returns and associated probabilities of Securities X and Y are given below:

Security X		Security Y	
Probability	Return %	Probability	Return %
0.05	6	0.10	5
0.15	10	0.20	8
0.40	15	0.30	12
0.25	18	0.25	15
0.05	22	0.10	18
0.10	20	0.05	20

Calculate the expected return and standard deviation of Security X and Y. **[7]**

Question 4.

(a) Bonds (face value ₹ 1,000 each) of an Engineering Company, which carries AA rating, with five years to maturity and 16% coupon rate, payable half-yearly, is being traded at ₹ 1,040. You as a Fund Manager of Trust Fund, a 80% Debt Fund, want to ascertain the intrinsic value and take a decision accordingly. Given $PVIFA_{7\%, 10 \text{ years}} = 7.024$

Your Asset Management Company has laid down the guideline that for AA rated instruments, discount rate to be applied is 364- Day T Bill rate + 4% (T-Bill rate is 10%)

Required –

- i. Intrinsic value of the bond
- ii. Action on bond
- iii. Yield to maturity of the bond. **[4+2+4]**

(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. **[4]**

(c) Mr. Zed established the following spread on the Puri Corporation's stock: (i) Purchased one 2-month call option with a premium of ₹ 30 and an exercise price of ₹ 550. (ii) Purchased one 2-month put option with a premium of ₹ 5 and an exercise price of ₹ 450.

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Puri Corporation's stock is currently selling at ₹ 500. Determine profit or loss, if the price of Puri Corporation's:

- (i) remains at ₹ 500 after 2 months.
- (ii) falls at ₹ 350 after 2 months.
- (iii) rises to ₹ 600.

Assume the option size is 100 shares of Puri Corporation.

[6]

SECTION II (40 Marks)

(Corporate Laws)

Answer Question No.5 (compulsory) and also answer any two from the rest in this Section.

Question 5.

(a) Fill in the Blanks in the following sentences by using appropriate word(s)/ phrase(s)/ number(s): **[1×6]**

- (i) _____ means a person liable to contribute towards the assets of the company in the event of its being wound up.
- (ii) The _____ debentures give an option to the holders to convert them into preference or equity shares at stated rates of exchange after a certain period.
- (iii) The Doctrine of _____ provides that an outsider must read the Memorandum and Articles of a company.
- (iv) As per RTI Act, every _____ Officer shall deal with requests for information and shall render reasonable assistance to any person seeking such information.
- (v) The minutes of the Board Meeting should be entered in the minutes book within _____ days from the conclusion of the meeting.
- (vi) Alteration of share capital requires the passing of _____ resolution.

(b) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C or D as you consider correct): **[1×4]**

- (i) In the context of classification of risk, cash/reserve management risk will fall under:
 - (A) Liquidity Risks;
 - (B) Legal Risks;
 - (C) System Risks;
 - (D) Credit Risks.
- (ii) Under Competition Act, 2002, penalty for offences in relation to furnishing of information may extend to rupees:
 - (A) ₹ 1 crore;
 - (B) ₹ 25 lakhs;
 - (C) ₹ 10 lakhs;
 - (D) ₹ 50 lakhs.
- (iii) The Board may appoint additional directors only if it is authorized by:
 - (A) Articles of Association;
 - (B) Memorandum of Association;
 - (C) Company Law Board;
 - (D) Shareholders in the AGM.

- (iv) 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.

Question 6.

- (a) State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties. **[4]**
- (b) In which cases the directors can be removed from office by the Central Government? **[4]**
- (c) The Public Information Officer of Kolkata Municipal Corporation has turned down the request for information lodged by Ms Mitrika Roy on the grounds that the request was sent through an e-mail and on the ground that the same was in Bengali and not in English.
- Are his contentions correct in law as per the Right to Information (RTI) Act, 2005? **[5]**
- (d) Define the term, "acquisition" as per the Competition Act, 2002. **[2]**

Question 7.

- (a) What are the transactions to which Section 372A of the Companies Act, 1956 does not apply? **[5]**
- (b) List out the conditions to be satisfied in case of an amalgamation in the nature of merger? **[5]**
- (c) What is Voluntary Winding Up? What are the methods involved in a Voluntary Winding Up? **[1+4]**

Question 8.

- (a) Examine with reference to the relevant provisions to the Competition Act, 2002 whether a person purchasing goods not for personal use, but for resale can be considered as a 'consumer'. **[5]**
- (b) "Synergy is the magic force that allows for enhanced cost efficiencies of the new business. Synergy takes the form of revenue enhancement and cost savings." — What are the benefits can a company get from synergy in the field of merger? **[4]**
- (c) Define 'Promoter' as per section 2(69) of the Companies Act, 2013. **[4]**
- (d) Mention any two cases where a special notice is required for a resolution. **[2]**