

Paper-11 Capital Market Analysis & Corporate Laws

Time Allowed: 3 hours

Full Marks: 100

Working notes should form part of the answers.

Section I (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 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)

(i) Consider two stocks P and Q:

Particulars	Expected Return(%)	Standard Deviation(%)
Stock P	16%	25%
Stock Q	18%	30%

The returns on the two stocks are perfectly negatively correlated.

What is the expected return of a portfolio constructed to drive the standard deviation of portfolio return to zero?

- A. 16.48%;
- B. 16.91%;
- C. 8.72%;
- D. 8.19%.

(ii) If the sale price of an open ended fund is ₹ 12.30 per unit and the fund is sold with a front end load of 5%, what is the NAV?

- A. ₹ 10.00;
- B. ₹ 9.75;
- C. ₹ 11.71;
- D. ₹ 11.07.

(iii) A company issue commercial paper for ₹ 3 crore with a maturity period of 90 days. The interest rate is 11% p.a. The net amount received by the company will be (approx.):

- A. ₹ 2.94 crore;
- B. ₹ 2.85 crore;
- C. ₹ 2.87 crore;
- D. ₹ 2.92 crore.

(iv) The Beta co-efficient of equity stock of Reeva Ltd. is 1.6. The risk free rate of return is 12% and the required rate of return is 18% on the market portfolio. What is the expected rate of return (based on CAPM)?

- A. 21.6%;
- B. 23.8%;
- C. 2.4%;

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D. 60%.

(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) Consider the following information related to a bond :

Par value	₹ 1,000
Time to maturity	20 years
Coupon rate (interest payable annually)	10%
Current market price	₹ 851
Yield to maturity (YTM)	12%

Other things remaining the same, if the bond starts paying interest semi-annually, then the change in the market price of the bond will be approximately:

- A. -0.2%;
- B. -0.1%;
- C. +0.1%;
- D. +0.2%.

(vii) Determine the beta for the following portfolio :

Stock	% of portfolio	Beta
1	45	1.20
2	20	0.75
3	35	1.00

- A. 1.05;
- B. 1.04;
- C. 1.40;
- D. 1.50.

[7 × 2]

(b) Choose the most appropriate alternative from the stated options and write it down:

(i) 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.

(ii) An issue where an allotment is made to less than 50 persons, is called —

- A. Rights Issue;
- B. Bonus Issue;
- C. Bought out deal;
- D. Private Placement.

(iii) As the business cycle enters the initial phase of economic recovery the stock prices generally:

- A. Decline;
- B. Maintain the same trend as before;

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- C. Rise;
- D. Rise to an extent and then take a downturn.

(iv) Fair value of an option represents:

- A. Intrinsic value of the option;
- B. Time value of the option;
- C. Both;
- D. None of the above.

(v) A shareholder has received bonus shares in the proportion of 1:1. What is her stockholding in the company (indicate the most appropriate alternative)?

- A. Stakeholding remains the same;
- B. Stakeholding has gone up with more shares available for trading;
- C. Stakeholding has gone up;
- D. Stakeholding remains the same with more shares available for trading.

(vi) 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.

[6 × 1]

Question 2.

(a) "There are differences in approach, attitude and areas of operations between commercial banks and merchant banks." — State those differences between commercial banks and merchant banks.

(b) There are certain assumptions of Capital Asset Pricing Model. Write any six of them.

(c) 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%		

(i) Rank these portfolios using Sharpe's method, and Treynor's method.

(ii) Compare the ranking in part (i) and explain the reasons behind the differences.

[3+6+(9+2)]

Question 3.

(a) What are the various risks associated with derivatives? State those in few sentences.

(b) What is Bought Out Deal (BOD)? Write down its advantages from different perspectives.

(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.

(d) What is Financial Futures?

[5+8+6+1]

Question 4.

- (a) What are the sources from where a company can purchase its own shares?
- (b) Why junk bonds are often called as speculative-grade bond? Also state the usefulness of this bond.
- (c) What are the factors that affect the value of a call option?
- (d) Mr. Mukherjee is considering investment in the shares of PB Ltd. He has the following expectations of return on the stock and the market:

Probability	Return (%)	
	PB	Market
0.35	30	25
0.30	25	20
0.15	40	30
0.20	20	10

The yield on 182 days T-bills is 8% p.a. You are required to:

- (i) Calculate the Expected Return and Risk for PB.
- (ii) Calculate the Expected Return and Risk for the Market.
- (iii) Find out the Beta Coefficient of the PB shares.

(e) Who is the settlement agent of BSE?

[3+5+5+6+1]

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:

- (i) For a company, other than non profit making, minimum how many days notice should be given for calling a general meeting:
 - A. 17 days;
 - B. 19 days;
 - C. 21 days;
 - D. 14 days.

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- (ii) As per Section 205(1A) of the Companies Act, 1956 the amount of interim dividend shall have to be deposited from the date of declaration of such dividend in a separate bank account within:
- A. Three Days;
 - B. Five Days;
 - C. Seven Days;
 - D. Ten days.
- (iii) The minutes of the Board Meeting should be entered in the minutes book within:
- A. 30 days from the conclusion of the meeting;
 - B. 30 days from the circulation thereof;
 - C. 30 days from the signing of the same;
 - D. 30 days from the date of the notice.
- (iv) What is vetting:
- A. It is the signing of documents by the directors of the company;
 - B. It is the signing of documents by sub subscriber of the company;
 - C. Examining the document from legal point;
 - D. All of the above.
- (v) In the context of Corporate Governance, Narayana Murthy Committee was formed in the year:
- A. 2002;
 - B. 2003;
 - C. 2004;
 - D. 1999.
- (vi) Under Competition Act, 2002, penalty for offences in relation to furnishing of information is:
- A. ₹ 5 lakh;
 - B. ₹ 50 lakh;
 - C. ₹ 25 lakh;
 - D. ₹ 10 lakh.

[6 × 1]

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

- (i) Every _____ Officer shall deal with requests for information and shall render reasonable assistance to any person seeking such information.
- (ii) _____ is the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled.
- (iii) The _____ has the power to fill up the casual vacancy caused in the Board.
- (iv) According to section 60A of Companies Act, 1956 _____ means a prospectus issued by any financial institution or bank for one or more issues of the securities or class of securities specified in that prospectus.

[4 × 1]

Question 6.

- (a) Write down any five differences between a limited company and partnership.
- (b) Pigma Ltd. sent notices to its members on 22nd July, 2013 for its AGM to be held on 19th August, 2013. Subsequent to the said notice, Mr. Paul acquired 100 shares of the company

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on 31st July, 2013 through the depositories. Whether Mr. Paul is entitled to attend the AGM of the company to be held on 19th August, 2013 even though no notice of the meeting has been sent to him? Give reason.

(c) In which cases the directors can be removed from office by the Central Government?

(d) What are the duties to be performed by the auditors in the course of audit?

[5+2+4+4]

Question 7.

(a) "In order to evaluate various going concern uncertainties an Auditor needs to follow certain procedures" — List those procedures.

(b) The board meeting of Rishi Ltd. was held on 12th May, 2013 at Kolkata at 11 a.m. At the time of starting the board meeting the numbers of directors present were 7. The total numbers of directors were 10. The board transacted ten items in the board meeting. At 12 noon after the completion of four items in the agenda, 4 directors left the meeting. Write about the validity of these transactions explaining the relevant provisions of the Companies Act, 1956.

(c) State the legal provisions by which a person can become a member of a company.

[5+5+5]

Question 8.

(a) By an order of the Court M/s Ananda Limited was wound up with effect from 15.12.2013. Mr. Gupta, who ceased to be a member of the company from 1.3.2013, received a notice from the liquidator to deposit a sum of ₹ 20,000 as his contribution towards the liability on the shares previously held by him. Mr. Gupta seeks your opinion about his liability.

(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?

(c) There are some restrictions on political contributions made by the companies to the political parties or for political purpose to any person directly or indirectly out of their profits. Mention those restrictions.

(d) What do you understand by the term, 'Promoter'?

[5+4+4+2]