Paper- 11: CAPITAL MARKET ANALYSIS & CORPORATE LAW

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.

1.

(a) In each of the cases given below indicate the correct answer and give workings/ reasons briefly in support of your answer. [2×6=12]

(i) The following two types of securities are available in the market for investment:

Security	Return (%)	Standard Deviation (%)
Gilt – edge Security	8	0
Equity	25	30

Using the above two securities, if you are planning to invest ₹2,00,000 to construct a Portfolio with a standard deviation of 24%, then what will be the return of such portfolio (in ₹)?

Answer:

Desired Standard deviation of Portfolio = 24%
Let, Weight of Risk free Gilt-edged securities be WA
Hence, Weight of Equity Securities is (1-WA)
24% = (0× WA) + 30% (1-WA)
24% = 30% - 30%WA

$$WA = \frac{6\%}{30\%} = 0.2$$

Hence, Weight of Risk Free Assets = 0.20
Weight of Equity Securities =(1-0.20) = 0.80
ER (P) = (0.2×8%) + (0.8 × 25%) =21.6%
Return in Rupee = 2,00,000 × 21.6% =₹43,200.

(ii) A project had an equity beta of 1.6 and is to be financed by a combination of 30% debt and 70% equity. Assuming debt-beta to be zero. Calculate the project beta taking risk free rate to be 10% and return on market portfolio at 18%.

Answer:

$$\beta_{eu} = \beta_{el} \times \frac{E}{E+D}$$

$$=1.6\times\frac{0.7}{0.7+0.3}$$
$$=1.12$$

K_{eu}=Rf+β [ER(m) - Rf]

=10% + 1.12 (18% -10%)

=18.96%.

(iii) The NAV of a fund on December 31,2013 was ₹16.45. After 5 months, the NAV had grown to ₹17.05. Using the percentage in NAV method, find out the annulised return.

Answer:

% Periodic Return =

$$\frac{\text{Current N.A.V. + Dividend + Capital Gain - N.A.V. at Date of Investment}}{\text{N.A.V at Date of Investment}}\times 100$$

$$=\frac{17.05-16.45}{16.45}\times 100=3.647\%$$

$$\text{Annualised \% Return} = 3.252\% \times \frac{12}{5}\times 100=8.753\%.$$

(iv) The NAV of an equity fund was ₹38.1250. The fund charged 2.50% as entry load and 0.25% as exit load. If an investor wants to invest ₹64,000 into this fund, what is the number of units he will get?

Answer:

The purchase cost per unit to investor = ₹38.125+2.50% of ₹38.125 = ₹39.0781.

The no. of units that can be purchased units ₹64,000 = $\frac{64,000}{39.0781}$=1637.75 units.

(v) RBI sold a 91 day T-bill of face value of ₹100 at a yield of 8%. What was the issue price?

Answer:

Let the issue price be X

$$100 = X+[X\times\frac{8}{100}\times\frac{91}{365}]$$

$$X=\frac{100}{1.01995}=₹98.04.$$

(vi) Mr. V purchased a commercial paper of X Inc. issued for 6 months in the market for ₹9,61,000. The company issued the CP with a face value of ₹10,00,000. Determine the rate of return which Mr. V earns.

Answer:

Rate of Return = $(\frac{F-P}{P})\times\frac{12}{M}\times 100$

$$(\frac{10-9.61}{9.61})\times\frac{12}{6}\times 100 = 8.11\%$$

F = ₹10 lakhs, P =₹9.61 lakhs, M = 6 months

Therefore the yield to issuer = Return of Mr. V = 8.11%.

(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). **[1 x 5=5]**

(i) Interest are sensitivity for bonds with embedded options is most accurately measured by:
A. Convexity
B. Effective duration
C. Modified duration
D. Macaulay duration

(ii)The following Act legalizes the e-mail and gives it the status of being valid form of carrying out communication in India:
A. Indian Contract Act
B. The Post & Telegraphs Act
C. The Information Technology Act.
D. The Sale of Goods Act

(iii) If an investor believes that the probability of the price of a stock moving up is higher than the probability of the price plummeting, he/she should
A. Buy an in-the-money put and sell an in-the-money call.
B. Buy an in-the-money call and sell an in-the-money put.
C. Buy an in-the-money call and buy an out-of the money put.
D. Sell an out-of-the money call and buy an in- the – money put

(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. None of the above.

(v) Which among the following increases the NAV of a Mutual Fund Scheme?

A. Value of investments
B. Receivables
C. Accrued Income
D. All of the above.

Answer:

(i) (B)
(ii) (C)

(iii) (C)
(iv) (B)
(v) (D)

(c) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): [1x3=3]

(i) The Depositories Act was passed in the year ___________________.
(ii) An aggressive portfolio consists of Bonds and Stock in the ratio of _________________.
(iii) The fringe market is _____________________ money market, deemed to include everything that is outside the scope of the money market.

Answer:

(i) 1996
(ii) 10:90
(iii) a dis-organized.

2. (a) Explain Certificate of Deposits [4]

Answer:

Certificate of Deposits:

Certificates of Deposit (CDs) is a negotiable money market instrument issued in dematerialised form or as a Issuance Promissory Note, for funds deposited at a bank or other eligible financial institution for a specified time period. Guidelines for issue of CDs are presently governed by various directives issued by the Reserve Bank of India, as amended from time to time. CDs can be issued by (i) scheduled commercial banks excluding Regional Rural Banks (RRBs) and Local Area Banks (LABs); and (ii) select all-India Financial Institutions that have been permitted by RBI to raise short-term resources within the umbrella limit fixed by RBI. Banks have the free -dom to issue CDs depending on their requirements. CDs may be issued within the overall umbrella limit fixed by RBI, i.e., issue of CD together with other instruments viz., term money, term deposits, commercial papers and intercorporate deposits should not exceed 100 per cent of its net owned funds, as per the latest audited balance sheet.

(b) Explain the types of underwriting of shares. [4]

Answer:

An underwriting can be carried out in any of the following three ways:

(i) Standing behind the issue - Under this method, the underwriter guarantees the sale of a specified number of shares within a specified period. If the public do not subscribe to the specified amount of issue, the underwriter buys the balance in the issue.
(ii) Outright purchase - The Underwriter, in this method, makes outright purchase of shares and resell them to the investors.

(iii) Consortium method - Underwriting is jointly done by a group of underwriters in this method. The underwriters form a syndicate for this purpose. This method is adopted for large issue.

(c) Mr. Veer has invested in three mutual fund schemes as per details below:

Particulars	MF1	MF2	MF3
Date of Investment	01.12.2013	01.012014	01.03.2014
Amount of Investment	₹1,00,000	₹2,00,000	₹1,00,000
Net Asset Value (NAV) at Entry Date	₹10.50	₹10.00	₹10.00
Dividend Received upto 31.03.2014	₹1,900	₹3,000	Nil
NAV as at 31.03.2014	₹10.40	₹10.10	₹9.80

What is the effective yield on per annum basis in respect of each of the three schemes to Mr. Veer upto 31.03.2014. [6]

Answer:

Scheme	Investment	Unit Nos.	Unit NAV 31.03.2014	Total NAV 31.03.2014
	(₹)		(₹)	(₹)
MF1	1,00,000	9,523.810	10.40	99,047.624
MF2	2,00,000	20,000	10.10	2,02,000
MF3	1,00,000	10,000	9.80	98,000

Scheme	NAV(+)/(-)	Dividend Received	Total Yield	Number of months	Effective Yield
	(₹)	(₹)	(₹)		(% p.a.)
MF1	(-)952.376	1,900	947.624	4	2.843%
MF2	(+)2,000	3,000	5,000	3	10.00%
MF3	(-)2,000	Nil	(-)2,000	1	(-) 24%

(d) Following data are available to you as a portfolio manager:

Securities	Expected Return	Beta	Standard Deviation
S1	14%	0.70	18%
S2	30%	1.40	34%
S3	25%	1.10	40%
S4	22%	0.95	24%
S5	20%	1.05	28%
S6	32%	1.70	50%
Market Index	12%	1.00	20%
Treasury Bills	8%	0.00	0%

(i) Compute minimum required rate of return on each security using SML equation. Identify which securities are underpriced?

Assume that a portfolio constructed using equal proportions of the above six stocks.
(ii) What is the expected return of such portfolio?
(iii) What would be the expected return if this portfolio was increased by 40% through borrowed funds with the cost of borrowing at 8% rate? [6]

Answer:

(i) SML Equation: $K_e = Rf + \beta(ER_m - Rf)$

$K_e = 8\% + \beta(12\% - 8\%)$

$K_e = 8\% + \beta \times 4\%$

Security	Required rate of return	Expected Return	Pricing
S1	8+0.70×4%=10.8%	14%	Under Priced
S2	8+1.40×4%=13.6%	30%	Under Priced
S3	8+1.10×4%=12.4%	25%	Under Priced
S4	8+0.95×4%=11.8%	22%	Under Priced
S5	8+1.05×4%=12.2%	20%	Under Priced
S6	8+1.70×4%=14.8%	32%	Under Priced

(ii) ER (P) = $\frac{32\% + 30\% + 25\% + 22\% + 20\% + 14\%}{6} = 23.83\%$.

(iii) ER (P) = (1.4 × 23.83%) – (0.4 × 8%) = 30.16%.

3. (a) Discuss "Junk Bond". [6]

Answer:

Junk Bond:

Junk bonds are corporate bonds with low ratings from a major credit rating agency. High-rated bonds are called investment grade bonds , low rated bonds are called speculative-grade bonds or less formally called as 'Junk bonds'. A bond may receive a low rating for a number of reasons. If the financial condition or business outlook of the company is poor, bonds are rated speculative-grade. Bonds are also rated speculative-grade if the issuing company' already has large amounts of debt outstanding. Some bonds are rated speculative-grade; because they are subordinated to other debt i.e. their legal claim on the firm's assets in the event of default stands behind the other claim, so called senior debt. Junk bonds are traded in a dealer market rather than being traded in stock exchanges. Institutional investors hold the largest share of junk bonds. Firms with low credit ratings are willing to pay 3 to 5 percent more than the investment grade corporate debt to compensate for greater risk. Junk bonds are a high yield security, because of this reason junk bonds are widely used as a source of finance in takeovers and leveraged buy-outs. Junk bonds lie between conventional investment as equities and investment-grade bonds. Junk bonds are riskier than investment-grade bonds but less risky than equity. Junk bonds may have cost or

tax advantage that allow for some marginal increase in debt. But these advantages are not likely to induce bondholders to invest in junk bonds more recklessly than other safer debt instruments.

(b) Unique Ltd. placed an order to buy machinery from an American company. As per the agreement Unique Ltd. will be paying $2,00,000 after 180 days. The company considers to use (i) a Forward Hedge: (ii) a Money Market Hedge; (iii) an option hedge or (iv) no hedge.
The Consultant of Unique Ltd. collects and develops the folloeing data/information as desired by the company, which can be used to assess the alternative approaches for hedging:

- **Spot Rate of dollar as of to-day is ₹57/$.**
- **180 day Forward rate of dollar as of to-day in ₹57.50/$.**
- **Interest Rates are as follows:**

	India	US
180 days Deposit (per annum)	**7.5%**	**3%**
180 days Borrowing Rate (per annum)	**8.0%**	**4%**
(Assuming 360 days in a year)		

- **Future Spot Rate in 180 days as estimated by the Consultant is ₹57.75/$.**
- **A Call Option on the dollar, which expires in 180 days has an exercise price of ₹57/$ and premium ₹0.52/$.**
- **A Put Option on the dollar, which expires in 180 days has an exercise price of ₹57/$ and premium ₹0.40/$.**

Required: Carry out a comparative analysis of various outcomes (rupee cost of import)/alternatives and decide which of the alternatives is the most attractive to Unique Ltd. [10]

Answer:

(i) Forward Hedge:
Purchase dollars 180 days forward
Rupees needed in 180 days.
= Payable in $ × Forward Rate of dollar
=$ 2,00,000 ×₹57.50 = ₹1,15,00,000.

(ii) Money Market Hedge:
Borrow Rupee, Convert to US dollar. Invest US dollar, repay rupee loan in 180 days.

Amount in US dollar to be invested:
=$2,00,000/ [1+(0.03×180)/360] = $ 2,00,000/(1.015) = $ 1,97,044.

Amount in Rupees needed to convert into $ for deposit
=$ 1,97,044 × ₹57/$ = ₹1,12,31,508.

Interest and principal owed on Rupees loan to be returned after 180 days.
=₹1,12,31,508× [1+(0.08×180)/360] =₹1,12,31,508 × (1.04) = ₹1,16,80,768.

(iii) Option Hedge:
Purchase Call Option (assuming that the option to be exercised on the day the US dollar are needed) exercise price is ₹57/$: and premium is ₹0.52/$.
At the expected future spot rate of ₹57.75/$ which is higher than the exercise price of ₹57/$, the company will exercise its call option and buy $ 2,00,000 for ₹1,15,04,000 which is the sum of Exercise Value and Premium [2,00,000 × (₹57+₹0.52)]
So, Total Price to be paid for $2,00,000 is ₹1,15,04,000.

(iv) Remain Unchanged:
Unique Ltd. will need to purchase US $ 2,00,000 to fulfill its import obligation. It will do so by making a purchase in the spot market after 180 days. Unique Ltd. rupee outgo in this case will be:
Expected spot rate in 180 days × Purchase of US dollars
= ₹57.75/$ × $ 2,00,000
= ₹1,15,50,000.

(c) Strike price of a Call Option is ₹60/$ as you expect the following spot rates on the date of maturity with their probabilities:

₹/$	**58.00**	**57.50**	**62.00**	**63.50**	**65.00**
Probability	**0.15**	**0.25**	**0.30**	**0.20**	**0.10**

What should be the option premium to enable you to break even? [4]

Answer:

Statement showing determination of Expected Value of Option on Maturity Date

₹/$	Value of Option	Probability	Expected Value of Option
58.00	0	0.15	0
57.50	0	0.25	0
62.00	2.00	0.30	0.60
63.50	3.50	0.20	0.70
65.00	5.00	0.10	0.50

4. (a) Discuss the Risk Management Strategies in brief. [6]

Answer:

Risk Management Strategies

Many corporate executives are faced with the challenge of managing the risks associated with low cost basis and restricted-stock holdings. There are many strategies available, each with unique characteristics and requirements. In general, these strategies provide holders of

concentrated equity positions the ability to protect against a decrease in the value of the stock, generate liquidity, diversify the exposure, and potentially defer capital gains taxes.

Risk Management Strategies include the following:

(i) Risk Avoidance
(ii) Risk Abatement
(iii) Risk Retention
(iv) Risk Transfer
(v) Risk Allocation

They are explained in brief as under:

(i) Risk Avoidance is just that, avoiding the risk associated with a specific task, activity or project. Often, following the review of a contract, it is determined that a project is just too risky. The client may decide not to bid the work at all, or remove that element of the work from their bid or to use alternative ways. Risk avoidance is strictly a business decision.

(ii) Risk Abatement is the process of combining loss prevention or loss control to minimize a risk. This risk management strategy serves to reduce the loss potential and decrease the frequency or severity of the loss. Risk abatement is preferably used in conjunction with other risk management strategies.

(iii) Risk Retention is a good strategy only when it is impossible to transfer the risk. Or, based on an evaluation of the economic loss exposure, it is determined that the diminutive value placed on the risk can be safely absorbed. Another consideration in retaining a risk is when the probability of loss is so high that to transfer the risk, it would cost almost as much as the cost of the worst loss that could ever occur.

(iv) Risk Transfer is the shifting of the risk burden from one party to another. This can be done several ways, but is usually done through conventional insurance as a risk transfer mechanism, and through the use of contract indemnification provisions.

(v) Risk Allocation is the sharing of the risk burden with other parties. This is usually based on a business decision when a client realizes that the cost of doing a project is too large and needs to spread the economic risk with another firm. A typical example of using a risk allocation strategy is in the formation of a joint venture.

(b) Consider the following information on two stocks, P and Q:

Year	Return on P (%)	Return on Q (%)
2013	10	12
2014	16	18

You are required to determine:

(i) The Expected Return on a portfolio containing P & Q in the proportion of 40% and 60% respectively.

(ii) The Standard Deviation of return from each of the two stocks.

(iii) The Covariance of Returns from the two stocks.
(iv) Correlation Coefficient between the returns of the two stocks.
(v) The Risks of a portfolio containing P and Q in the proportion of 40% and 60%.
[2+2+1+1+2=7]

Answer:

(i) Expected Return of the Port Folio P & Q:
E(A) = (10+16)/2 =13%
E(B) =(12+18) /2 =15%
R_p = 0.4 (13 + 0.6(15) = 14.2%.

(ii) Stock A:
Variance = 0.5 $(10-13)^2$ + 0.5 $(16-13)^2$ = 9
Standard Deviation = $\sqrt{9}$ = 3%.

Stock B:
Variance = 0.5 $(12-15)^2$ + 0.5 $(18-15)^2$ = 9
Standard Deviation = 3%.

(iii) Covariance of Stocks P and Q:
Cov_{PQ} = 0.5(10-13)(12-15)+0.5(16-13)(18-15)=9.

(iv) Correlation of Coefficient:

$$r_{PQ} = \frac{Cov_{PQ}}{\sigma_P \sigma_Q} = \frac{9}{3 \times 3} = 1$$

(v) $$\sigma_P = \sqrt{X_P^2 \sigma_P^2 + X_Q^2 \sigma_P^2 + 2X_P X_Q (\sigma_P \sigma_Q \sigma_{PQ})}$$

$$= \sqrt{(0.4)^2 (3)^2 + (0.6)^2 (3)^2 + 2(0.4)(0.6)(3)(3)(1)}$$

$$= \sqrt{1.44 + 3.24 + 4.32} = 3\%.$$

(c) The following are the data on five mutual funds:

Fund	Return	Standard deviation	Beta
Dhan Lakshmi	16%	8%	1.50
Dhan Varsha	12%	6%	0.90
Dhan Vredhi	14%	5%	1.40
Dhan Mitra	18%	10%	0.75
Dhan Laheri	15%	7%	1.10

What is the reward-to-variability/volatility ratio and the ranking if the risk-free rate is 7 percent? [7]

Answer:

Sharpe Index	$\frac{R_p - Rf}{\sigma}$	Ranking
Dhan Lakshmi	$\frac{16\% - 7\%}{8\%} = 1.125$	**III**
Dhan Varsha	$\frac{12\% - 7\%}{6\%} = 0.833$	**V**
Dhan Vredhi	$\frac{14\% - 7\%}{5\%} = 1.4$	**I**
Dhan Mitra	$\frac{18\% - 7\%}{10\%} = 1.1$	**IV**
Dhan Laheri	$\frac{15\% - 7\%}{7\%} = 1.143$	**II**

Treynor's method	$\frac{R_p - Rf}{\beta}$	Ranking
Dhan Lakshmi	$\frac{16\% - 7\%}{1.50} = 6$	**III**
Dhan Varsha	$\frac{12\% - 7\%}{0.90} = 5.56$	**IV**
Dhan Vredhi	$\frac{14\% - 7\%}{1.40} = 5$	**V**
Dhan Mitra	$\frac{18\% - 7\%}{0.75} = 14.67$	**I**
Dhan Laheri	$\frac{15\% - 7\%}{1.10} = 7.27$	**II**

SECTION II (40 Marks)

(Corporate Laws)

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

5.

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

(i) The membership of the Nomination Committee in a listed company consists of at least ______________ directors.

(ii) The Competition Act was passed in the year ____________________.

(iii) All clauses in the memorandum of Association of a company can be altered following the procedures laid down, except ____________________ clause.

(iv) Under the Companies Act, 1956, the first directors shall hold the office till the _____________________.

(v)Management may not prepare financial statements applying going concern basis in case there exists significant doubt about the going concern status of the enterprise. The point has not been taken care of in section ___________________ of the Companies Act, 1956.
(vi) The prospectus issued by a financial institution for one or more issues of securities specified therein, is called _______ prospectus. [1x6=6]

Answer:

(i) Two
(ii) 2002
(iii) Association
(iv) first Annual General Meeting
(v) 217(2 AA)
(vi) Shelf.

(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=4]

(i) 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 maintained
(D) None of the above

(ii) In the year 2002 a high level committee was appointed to examine and recommend drastic amendments to the law involving the auditor client relationship and role of independent directors by the department of company affairs under the chairmanship of
(A) Naresh Chandra
(B) Narayana Murthi
(C) Dr. Y. V. Reddy
(D) Narasimham.

(iii) In the context of classification of Risks, war risks will fall under
(A) Political Risks
(B) Credit Risks
(C) Disaster Risks
(D) Systems Risks.

(iv) Mr. Bose is a director of Ankrit Ltd. which failed to file its annual return from the year 2009-10. The maximum period for which Mr. Bose will be disqualified from becoming a director in any public limited company is —
(A) 3 years
(B) 5 years
(C) 7years
(D) 10 years

Answer:

(i) — (B) Place of registered office of the company.
(ii) — (A) Naresh Chandra.

(iii) — (A) Political Risks.
(iv) — (B) 5 years.

6.

(a) Tulip Ltd. and its subsidiary Rose Ltd.. are the only manufactures of magnesite in India. Both of them plan to appoint Lotus Ltd. as the sole distributor for its products in India. Lotus Ltd. is to be given the power to determine the quantum to be supplied to users in a particulars State in India. The two companies seek your help in the context of the provisions of the Competition Act. 2002 relating to such distribution agreement. Advice them suitably. [6]

Answer:

Under the Competition Act, 2002 "exclusive distribution agreement" includes any agreement restricting in any manner the purchaser in the course of his trade from acquiring or otherwise dealing in any goods other than those of the seller or any other person.

As per sub-section (4) of section 3 , any agreement amongst enterprises or persons at different stages or levels of the production chain in different markets, in respect of production, supply, distribution, storage, sale or price of, or trade in goods or provision of services, including —

a. tie-in arrangement;
b. exclusive supply agreement;
c. exclusive distribution agreement;
d. refusal to deal;
e. resale price maintenance, shall be an agreement in contravention of sub-section (1) if such agreement causes or is likely to cause an appreciable adverse effect on competition in India.

In terms of sub-section (1), no enterprise or association of enterprises or person or association of persons shall enter into any agreement in respect of production supply, distribution, storage, acquisition or control of goods or provision of services, which causes or is likely to cause an appreciable adverse effect on competition within India.

Sub-section (2) enjoins that any agreement entered into in contravention of the provisions contained in subsection (1) shall be void.

The two companies will have to keep the above provision in mind while taking decision.

(b) What is meant by oppression? State whether the aggrieved party would succeed in obtaining relief from Company Law Board on the ground of oppression in the situations given below:
(i) The complaint is by the minority Directors that the majority of the Board of Directors override the minority Directors;
(ii) A petition by majority shareholders complaining oppression by minority shareholders. [7]

Answer:

Oppression:

The term oppression' is not defined in the Companies Act, 1956. Oppression, according to the Dictionary meaning of the word, is any act exercised in a manner burdensome, harsh and wrongful.
The meaning of the term 'oppression' was explained by Lord Cooper, as given below :
"The conduct complained of should be at lowest involve or visible departure from the standards of fair dealing and a violation of the conditions of fair play or which every shareholder who entrusts his money to a company is entitled to rely."

(i) Majority group of the Board overriding the minority group: The oppression dealt with by section 397 (Companies Act,1956) is only oppression of members in their character as such, and it is only in that
character they can involve section 397. The harsh treatment, for instance, of a member who is a Director or other officer or employee, by the Board of Directors or management does not come within (section 397). It has been held in Re. Bellador Silk Ltd. that if the majority of the Board of Directors override the minority Directors the latter cannot resort to section 397 and hence the minority Directors will not succeed in getting relief from CLB on the ground of oppression.

(ii) Right not confined to minority: According to section 399(Companies Act,1956) , the right to apply for relief under section 397/398(Companies Act,1956) is given to 100 members or 1/10th of the total numbers or any member or members holding not less than 1/10th of the issued share capital of the company. There is nothing in this section which suggests even indirectly that unless the application is made by minority shareholders it is not maintainable. The right to apply is, therefore, not confined to oppressed minority of the shareholders alone. It was held by Calcutta High Court in Re. Sindhri Iron Foundry (P) Ltd. that the oppressed majority also might apply for relief under Section 397. Therefore, the petitioners are likely to succeed in getting relief provided the other condition laid down in section 397 (i.e. that to wind up the company would unfairly prejudice such members, but that otherwise the facts would justify the making of a winding-up order on just and equitable ground) is satisfied, even though the Delhi High Court held a contrary view in Suresh Kumar Singhi v. Supreme Motors Ltd.

(c) State the matters to be mentioned in a Members Register. [2]

Answer:

As per section 150 of the Companies Act, every company shall keep a register of its members and the following particulars shall be recorded in the same.

- Name and address as well as occupation of the member.
- Shares held by each member and the amount paid or agreed to be paid on those shares.
- The date on which, each person was entered in the register as a member.
- Date on which the member has ceased to be a member.

7.

(a) Write a note on Doctrine of Constructive Notice. [5]

Answer:

Doctrine of Constructive Notice:

Memorandum of Association and Articles of Association are two extremely important documents for a company. These documents are to be filed with the Registrar of Companies along with other documents for incorporating a company. The office of Registrar is a public office and therefore the documents like Memorandum and Articles are also public documents. Anybody can have the access to these documents. An outsider who is dealing with the company is expected to read these documents before entering into any contract with the company. If later on it is found out that a particular contract is outside the scope of the authority given by the Memorandum or Articles, there will be no remedy open against the company as it will be presumed that an outsider has read these documents. Thus the Doctrine of Constructive Notice prevents an outsider from alleging that he did not have any knowledge of the Memorandum and Articles of the company.

(b) List the key roles of Project Governance. [5]

Answer:

Following are the key roles of Project Governance:

- **Establishment** of the bases for project governance, approval and measurement — including defining roles and accountabilities, policies and standards and associated processes.
- **Evaluating** project proposals to select those that are the best investment of funds and scarce resources and are within the firms capability and capacity to deliver.
- **Enabling** through resourcing of projects with staff and consultants, harnessing and managing of business support and the provision of the governance resources.
- **Defining** the desired business outcomes (end states), benefits and value — the business measures of success and overall value proposition.
- **Controlling** the scope, contingency funds, overall project value and so on.
- **Monitoring** the projects progress, stakeholders commitment, results achieved and the leading indicators of failure.
- **Measuring** the outputs, outcomes, benefits and value — against both the plan and measurable expectations.
- **Acting** to steer the project into the organization, removing obstacles, managing the critical success factors and remediating project or benefit-realization shortfalls.
- **Developing** the organizations project delivery capability — continually building and enhancing its ability to deliver more complex and challenging projects in less time and for less cost while generating the maximum value.

(c) Internal control consists of five interrelated components, discuss. [5]

Answer:

Internal control consists the following five interrelated components:

- **Control Environment:** It sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.

- **Risk Assessment:** It is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.

- **Control Activities:** These are the policies and procedures that help ensure that management directives are carried out.

- **Information and Communication:** It helps in the identification, capture and exchange of information in a form and time frame that enable people to carry out their responsibilities.

- **Monitoring:** It is a process that assesses the quality of internal control performance over time.

8.

(a) State the meaning of 'Information' as per RTI Act, 2005. [3]

Answer:

As per RTI Act, 2005 'Information" means any material in any form, including records, documents, memos, e-mails, opinions, advices, press releases, circulars, orders, logbooks, contracts, reports, papers, samples, models, data material held in any electronic form and information relating to any private body which can be accessed by a public authority under any other law for the time being in force.

(b) Jasper Textile Ltd. was incorporated on 1st June, 2009. On 1st March, 2012 a political party approaches the company for a contribution of ₹12 lakhs for political purpose.

Your advice is sought in respect of the under mentioned issues:

(i) Is the company legally authorized under the Companies Act, 1956 to give this political contribution?
(ii) Will it make any difference, if the company was in existence on 1st April, 2009?
(iii) Can the company be penalised for violation of the applicable provisions relating to political contribution?
(iv)What are the disclosure requirements in this regards? [2+2+2+2=8]

Answer:

(i) Only a company which had been inexistence for 3 years can make contribution to political parties. Since in the given case, the company has not completed three years of existence on 1st March, 2012, it is not eligible to give political contribution.

(ii) Yes, because in the case, Jasper Textiles Ltd. shall complete three financial years of its existence, therefore, will be eligible to give political contribution subject to the condition that such a political contribution should not exceed 7.5 per cent of the Average Net profits during the three immediately preceding financial years and a resolution authorizing such contribution is passed at a meeting of the Board of Directors.

(iii) A company will be eligible to give political contribution subject to the condition that such a contravention of the provisions of this section will make a company liable to fine which may extend to five times the amount so contributed.
Further every officer of the company in default would be liable to imprisonment for a term which may extend to six months with fine which may extend to five times the amount so contributed.

(iv) Section 182 (Companies Act, 2013) seeks to impose an obligation to disclose in its profit and loss account contributions made by it to any political party or for any political purpose.

(c) Cure Health Services Ltd. owns a Multi-speciality in Chennai. Dr. M a practicing Heart Surgeon, has been appointed by the company as its non-executive ordinary director and it wants to pay him fee. On case to case basis, for surgery performed on the patients at the hospital. A question has arisen whether payment of such fee to him would amount to payment of managerial remuneration to a director subject to any restriction under the Companies Act, 1956.

Advice the company, which seeks to ensure that the same does not contravene any provision of the Companies Act, 1956. [4]

Answer:

Under the proviso to sub-section (1) section 309 of the Companies Act, 1956, in case -

(i) The services rendered are of a professional nature; and
(ii) In the opinion of the Central Government, the director possesses the requisite qualifications for the practice of the profession.

The remuneration paid for these services shall be outside the scope of Section 309 of the Act and shall not be a part of managerial remuneration. It is then not open to the Government to put any restriction on the amount of remuneration payable to him for his approach work. The company is, accordingly, advised to approach the Ministry of Company Affairs to seek an affirmative expression of opinion that Dr. M who is a qualified surgeon, possess the requisite qualification to practice the profession of surgery.