

**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 ₹)?

(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%.

(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 annualised return.

(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?

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

(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.

**(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]**

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(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.

**(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.

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

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

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

Particulars	MF1	MF2	MF3
Date of Investment	01.12.2013	01.01.2014	01.03.2014

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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]

(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]

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

(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 following 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)		

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- 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]**

- (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]**

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

(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]**

- (c) The following are the data on Five mutual

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

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

### 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. [1×6=6]

**(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.

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- (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) 7 years  
(D) 10 years
- 6.
- (a) Tulip Ltd. and its subsidiary Rose Ltd., are the only manufacturers 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 particular 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. Advise them suitably. **[6]**
- (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]**
- (c) State the matters to be mentioned in a Members Register. **[2]**
7. (a) Write a note on Doctrine of Constructive Notice. **[5]**  
(b) List the key roles of Project Governance. **[5]**  
(c) Internal control consists of five interrelated components, discuss. **[5]**
8. (a) State the meaning of 'Information' as per RTI Act, 2005. **[3]**  
(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]**
- (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

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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]**