

## 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.

(3) Working notes should form part of your answer

### 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 indicate the correct answer and give workings/ reasons  
briefly in support of your answer. [2×6]

- (i) Mr. Ray has purchased 100 shares of ₹ 10.00 each, of Kinetic Ltd. in 2012 at ₹ 78.00 per share. The company has declared a dividend @ 40% for the year 2013-14. The market price of share as at 1.4.2013 was ₹ 104 and on 31.03.2014 was ₹ 128.00. Calculate the annual return on the investment for the year 2013-14.
- (ii) The unit price of RSS Scheme of a mutual fund is ₹ 10. The Public Offer Price (POP) of the unit is ₹ 10.204 and the redemption price is ₹ 9.80. Calculate the front-end load.
- (iii) A 3 month future contract on Nifty is available at a time when Nifty is quoting 9,000 points. Continuously compounded risk free rate is 10%. Continuously compounded yield on the Nifty stock is 2% p.a. how much will you pay for Nifty futures. If Nifty forward trades at 9,125, would you prefer to purchase Nifty forward or Nifty futures for your portfolio?
- (iv) T.S. Kumar holds a two-stock portfolio. Stock ABC has a standard deviation of returns of 0.6 and stock XYZ has a standard deviation of 0.4. The correlation coefficient of the two stocks returns is 0.25. Kumar holds equal amounts of each stock. Compute the portfolio standard deviation for the two-stock portfolio.
- (v) An investor has ₹ 5,00,000 to invest. What will be his expected risk premium in investing in equity versus risk-free securities in the following conditions:

Investment	Probability	Expected return
Equity	0.6	₹ 2,00,000
	0.4	(-) ₹ 1,50,000
Risk-free security	1.0	₹ 25,000

- (vi) 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)?

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**(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) The fixed price at which the option holder can buy or sell the underlying asset is called the —
- A. Strike price;
  - B. Spot price;
  - C. Market price;
  - D. Future price.
- (ii) Father of modern portfolio theory —
- A. John Litner;
  - B. Harry Markowitz;
  - C. Jensen;
  - D. William F. Sharpe.
- (iii) Arbitrage pricing theory model helps to —
- A. Reduce risk;
  - B. Eliminate arbitrage;
  - C. Identify the equilibrium asset price;
  - D. None of the above.
- (iv) Residual analysis is a test of —
- A. Weak form of market efficiency;
  - B. Semi-strong form of market efficiency;
  - C. Strong form of market efficiency;
  - D. Super-strong form of market efficiency.
- (v) As the business cycle enters the initial phase of economic recovery the stock prices generally:
- A. Decline;
  - B. Maintain the same trend as before;
  - C. Rise;
  - D. Rise to an extent and then take a downturn.

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

- (i) \_\_\_\_\_ is a capital issuance process which results towards a price discovery and also to assess demand analysis of the security.
- (ii) The functions of \_\_\_\_\_ cover a wide range of activities such as management of customer services, portfolio management, credit syndication, acceptance credit, counselling, insurance etc.
- (iii) A \_\_\_\_\_ is a scheme of investing money with other people to participate in a wider range of investments than may be feasible for an individual investor, and to share the costs of doing so.

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### Question 2.

(a) An investor buys a put option having a strike price of ₹ 1,000 by paying premium of ₹ 90. He also sells a put option having a strike price of ₹ 900 and receives premium of ₹ 50. You are required to —

- Compute the cost of strategy.
- Compute the breakeven point.
- Compute the profit/ loss from the strategy, if the price on maturity is ₹ 800, ₹ 880, ₹ 950, ₹ 980, ₹ 1,000, and ₹ 1,070.

[1+1+3]

(b) Explain Bought Out Deal. State the advantages of it (any four).

[3+4]

(c) Expected returns on two stocks for particular market returns are given in the following table:

Market Return	Aggressive	Defensive
7%	4%	9%
25%	40%	18%

You are required to calculate:

- The Betas of the two stocks.
- Expected return of each stock, if the market return is equally likely to be 7% or 25%.
- The Security Market Line (SML), if the risk free rate is 6.5% and market return is equally likely to be 7% or 25%.
- The Alphas of the two stocks.

[2+2+2+2]

### Question 3.

(a) Following is the data regarding six securities:

	A	B	C	D	E	F
Return (%)	10	10	15	6	11	10
Risk (%) (Standard deviation)	5	6	13	6	6	7

- Which of three securities will be selected?
- Assuming perfect correlation, analyse whether it is preferable to invest 80% in security A and 20% in security C or to invest 100% in E.

[2+2]

(b) "The contract of insurance is required to fulfill the principles of insurance ....." — describe those principles.

[6]

(c) (i) State the characteristics of Forward Contract.

(ii) The following data relates to PQ Ltd.'s share prices:

Current price per share ₹ 180.

Price per share in the futures market-6 months ₹ 197.

It is possible to borrow money in the market for securities transactions at the rate of 12% per annum. Calculate the theoretical minimum price of a 6 month-forward contract.

[2+2]

(d) Mr. Rawal is interested in writing a six-months call option on L&T's share. L&T's share is currently selling for ₹ 120. The volatility (standard deviation) of the share returns is estimated as 67 per

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cent. Mr. Rawal would like the exercise price to be ₹ 120. The risk-free rate is assumed to be 10 per cent. Calculate the value of the call option? Also calculate the hedge ratio of the call option. **[5+1]**

### Question 4.

- (a) A Mutual Fund having 200 units has shown its NAV of ₹ 8.75 and ₹ 9.45 at the beginning and at the end of the year respectively. The Mutual Fund has given two options:
- Pay ₹ 0.75 per unit as dividend and ₹ 0.60 per unit as a capital gain, or
  - These distributions are to be reinvested at an average NAV of ₹ 8.65 per unit.
  - What difference it would make in terms of return available and which option is preferable? **[2+4+1]**

- (b) Given below is information of market rates of returns and data from two companies X and Y:

	%		
	Year 2011-12	Year 2012-13	Year 2013-14
Market	12.0	11.0	9.0
Company X	13.0	11.5	9.8
Company Y	11.0	10.5	8.5

Required: Determine the beta coefficients of the shares of Company X and Company Y. **[6]**

- (c) There are some criticisms of Technical Analysis in the field of Stock Market Analysis. State those criticisms. **[4]**

- (d) Write a short note on Types of Mutual Fund Schemes (answer should be restricted to Open Ended Funds, Close Ended Funds and Income Oriented Funds only). **[3]**

### 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): **[1x6=6]**

- The \_\_\_\_\_ has the power to fill up the casual vacancy caused in the Board.
- \_\_\_\_\_ includes any notice, circular, advertisement or other document inviting offers from the public for the subscription or purchase of any securities of a body corporate.
- A company may purchase its own shares or other specified securities [called as buy back] out of its free reserves, or the \_\_\_\_\_ or the proceeds of any shares or other specified securities.
- In the context of classification of risks, contract risks will fall under \_\_\_\_\_ risk.
- In case of demerger, the company or trust that ceases to own the entity is known as the \_\_\_\_\_.

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(vi) Under RTI Act, \_\_\_\_\_ means a person other than the citizen making a request for information and includes a public authority.

**(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) Which of the following committee set up by SEBI had submitted its report in February, 2003 on Corporate Governance?

- (A) Narasimham Committee
- (B) Kumar Mangalam Birla Committee
- (C) Narayana Murthy Committee
- (D) Naresh Chandra Committee.

(ii) The Competition Commission shall consist of a chairperson and not less than two but not more than \_\_\_\_\_ other members to be appointed by the Central Government. (Fill in the gap from the below.)

- (A) 7
- (B) 10
- (C) 5
- (D) 6.

(iii) Which of the following is not the content of Memorandum of Association?

- (A) Name clause;
- (B) Consideration clause;
- (C) Object clause;
- (D) Capital clause.

(iv) Which of the following is a type of Shareholders' Meeting?

- (A) Annual General Meeting;
- (B) Statutory Meeting;
- (C) Extra-ordinary General Meeting;
- (D) All of the above.

### Question 6.

(a) A Ltd. was incorporated with 10 members (A to J). On 1st April 2013, the number of members reduced to 6. The debts of the company on that date were ₹ 3,00,000. On 1st Jan 2014, the number of members increased to 9. The debts of the company increased to ₹ 4,50,000 and ₹ 4,80,000 on 30th September 2013 and on 31st December 2013 respectively. Out of six members, two members, Mr. A and Mr. D were not aware of the fact that the number of members reduced to 6. Discuss the legal position. **[3]**

(b) Ms. Suchanda has entered into a transaction with Glamour Ltd. for a contract value of ₹ 40 lacs. The Articles of Association enjoin that contracts above ₹ 10 lacs should be approved in Board Meeting. Mr. Dhuruv, an officer of the company, produces forged documents to her, which show a resolution having been passed in a Board Meeting approving the contract. Later, the forgery comes to light. Ms. Suchanda pleads that she is protected by the Doctrine of Indoor Management. — Discuss. **[6]**

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(c) State the provisions of section 157 of the Companies Act, 1956 regarding the foreign register. **[6]**

### Question 7.

(a) List the powers of the liquidator in a winding up by the Tribunal (with the sanction of the Tribunal). **[6]**

(b) "Synergy takes the form of revenue enhancement and cost savings." — describe the advantages of synergy to the companies. **[4]**

(c) A shareholder living in Kolkata sent a transfer deed for registration of transfer of shares in a company having its registered office in Mumbai. The share certificates duly endorsed in his name were not received by him even after the expiry of four months from the date of lodgment. He lodged a criminal complaint before the appropriate court dealing with economic offences at Kolkata. Can the Court in Kolkata entertain the complaint? **[5]**

### Question 8.

(a) Shakshi Telecom Ltd., a private mobile operator had furnished confidential information relating to customer complaints lodged with the company during the quarter ended 31.03.2014 to a public authority. On an application under the Right to Information Act, 2005, the public authority wants to furnish the said information. The authority seeks the objections of Shakshi Telecom Ltd. Can Shakshi Telecom Ltd. ask the public authority not to furnish the same on the grounds that the said information is confidential and that it may endanger its image in the market? What decision should the public authority take? **[5]**

(b) Write down the characteristics of a company (any five). **[5]**

(c) What is Project Management? State the benefits of Project governance. **[1+4]**