

**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)** The buy and sell value of two securities in stock exchange are as under:

Security	Buy Value (₹)	Sell Value (₹)
L	5,00,000	2,00,000
M	3,00,000	7,00,000

The Gross Exposure Margin is:

A. ₹ 17,00,000;

B. ₹ 7,00,000;

C. ₹ 12,00,000;

D. Insufficient information.

**(ii)** The Stock of Ventex Ltd. (FV ₹ 10) quotes ₹ 920 on NSE and the 3 months futures price quotes at ₹ 950 and borrowing rate is given as 8% p.a. If the expected annual dividend yield is 15% p.a. payable before expiry, then the theoretical price of 3 month Ventex Ltd. Futures would be:

A. ₹ 948.80;

B. ₹ 939.90;

C. ₹ 936.90;

D. ₹ 928.40.

**(iii)** Ms. Vasuda is considering an investment in a Mutual Fund with a 2% load. As another alternative, she can also invest in a Bank deposit paying 10% interest. Her investment planning period is 3 years. What should be the annual rate of return on Mutual fund so that she prefers the investment in the fund to the investment in Bank Deposit?

A. 10.743%;

B. 11.282%;

C. 11.884%;

D. None of the above.

**(iv)** Consider a bullish spread option strategy using a call option on the stock of Royal Ltd. with ₹ 60 exercise price, priced at ₹ 6 and a call option with ₹ 75 exercise price, priced

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at ₹ 3.50. The current market price of stock of Royal Ltd. is ₹ 67. If the price of the stock is ₹ 95 on maturity, the net profit at expiration will be:

- A. ₹ 1.50;
- B. ₹ 10.50;
- C. ₹ 12.50;
- D. ₹ 72.50.

(v) Zenion Ltd. has an excess cash of ₹ 9,00,000 which it wants to invest in short-term marketable securities. Expenses relating to investment will be ₹ 21,000. If the securities invested will have an annual yield of 10%, what would be the period of investment so as to earn a pre-tax income of 6%? (Ignore time value of money)

- A. 6.50 months;
- B. 9.50 months;
- C. 10.00 months;
- D. Insufficient data.

(vi) Z Ltd. issued right shares that increased the market value of the shares of the company by ₹ 180 crore. The existing base year average is ₹ 750 crore. If the aggregate market value of all the shares included in the index before the right issue made is ₹ 1200 crore, what will be the new base year average?

- A. ₹ 782.30 crore;
- B. ₹ 862.50 crore;
- C. ₹ 978.20 crore;
- D. Insufficient information.

**(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) Markowitz Mean-Variance Model is used in:

- A. Modern Portfolio Analysis;
- B. Traditional Portfolio Analysis;
- C. Modern Capital Market Analysis;
- D. None of the above.

(ii) Following is not a Money Market Instrument:

- A. Treasury Bill;
- B. Certificate of Deposit;
- C. Equity Shares;
- D. Commercial Paper.

(iii) The conversion of existing assets into marketable securities is known as:

- A. Future flows securitisation;
- B. Asset-backed securitisation;
- C. Venture funds;
- D. None of the above.

(iv) Green shoe option denotes an option:

- A. of allocating shares in excess of the shares included in the public issue;
- B. of allocating of shares lower than the shares included in the public issue;
- C. to buy shares at a specified price in the stock exchange;
- D. none of the above.

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- (v) An investor has received bonus shares from ABC Ltd., a listed company, in the ratio of 1: 2. After the receipt of bonus shares:
- A. There is no change in stockholding and it remains the same;
  - B. There is no change in stockholding, but more shares available for trading;
  - C. Stockholding has gone up with more shares available for trading;
  - D. Stockholding has gone up.

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

- (i) "Term money" is a form of \_\_\_\_\_ market instrument.
- (ii) Insurance Regulatory and Development Authority (IRDA) Act was passed in the year \_\_\_\_\_.
- (iii) An option is said to be \_\_\_\_\_, when the option's strike price is equal to the underlying asset price.

### Question 2.

(a) Mr. Vasant Shah an analyst of Revamp Securities Ltd. has made risk and return projections for the securities of Sparx Ltd. and Deprotiv Ltd. which are as follows:

Scenario	Probability (Prob)	Returns % associated with		
		Sparx Ltd.	Deprotiv Ltd.	Market Index
Recession & High Interest Rate	0.20	-13	-4	-9
Recession & Low Interest Rate	0.15	16	-2	8
Boom & High Interest Rate	0.40	32	21	16
Boom & High Interest Rate	0.25	12	20	20

It is felt that the interest rate of 7% on the 91-day T-Bill is a good approximation of the risk free rate. Assume that CAPM holds well in the market. You are required to:

- (i) Calculate the ex-ante Betas for Sparx Ltd. and Deprotiv Ltd.
  - (ii) Comment on the proportions of systematic and unsystematic Risk in the two stocks.
  - (iii) Recommend for fresh investment in any of these two stocks.
- Show all the necessary calculations. [8+4+(2+2)]

(b) Explain the terms, "Call / Notice Money" and "Treasury Bills" in the context of money market instrument. [2+2]

### Question 3.

(a) State the differences between futures and options. [5]

(b) Bonds of Tuxedo Tech Ltd., an Engineering Company which carries AA rating with 5 years to maturity and 14.50% coupon rate, payable annually, is being traded at ₹ 1015.50. You as a Fund Manager of the Trust Fund, a 80% Debt fund, want to ascertain the intrinsic Value and take a decision accordingly. Face Value of the bond is ₹ 1000. Your Asset Management Company has laid down the guideline that for AA rated Instruments, the discount rate to be applied is 364 day T - Bill rate+4%. (Assume the 364 day T-Bill rate to be 10%).

You are required to:

- (i) Calculate the Intrinsic value of the Bond.

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(ii) Calculate the current yield (CY) and the yield to Maturity of the bond (YTM).

Note: (I) Ignore Flotation Costs and transaction costs,  
(II) Extracted from the table of PV:

Interest rate	10%	11%	12%	13%	14%	15%
PVIFA (5 years)	3.791	3.696	3.605	3.517	3.433	3.352
PVIF (5 years)	0.621	0.593	0.567	0.543	0.519	0.497

**[3+2+2]**

(c) The market received rumour about Prudential Pharma Ltd's tie up with a multinational company. This has included the market price to move up. If the rumour is false, Prudential Pharma Ltd.'s stock price will probably fall dramatically. To protect from this Ms. Kritika, an investor has bought the call and put options.

She purchased a 3 - month call option for 100 Stocks in Prudential Pharma Ltd. at a premium of ₹ 12 per stock with an exercise price of ₹ 250. She also purchased a 3 - month put option for 100 stocks of the said company at a premium of ₹ 6 per stock with an exercise price of ₹ 240.

Required:

- (i) Determine the Investor's (Kritika) position if the tie up offer bids the price of Prudential Pharma Ltd's stock up to ₹ 260 in 3 months.
- (ii) Determine the Investor's (Kritika) position if the tie up programme fails and the price of stock falls to ₹ 215 in 3 months.

**[3+3]**

(d) What is Credit Wrapping?

**[2]**

### Question 4.

(a) Sun Mutual Fund Ltd. promoted an open-ended equity oriented scheme in 2007 with two plans-Dividend Re-investment Plan (Plan-D) and a Bonus Plan (Plan-B). The face value of the units was ₹ 10 each. Ms. Adita invested ₹ 2,00,000 each on 1.4.2009 in Plan-D and Plan-B respectively, when the NAV was ₹ 38.20 for Plan-D and ₹ 35.60 for Plan-B. Ms. Adita redeemed her units in Plan-D and Plan-B respectively on 31.03.2014. Particulars of dividend and bonus declared over the period were as follows:

Date	Dividend (%)	Bonus ratio	Net Asset Value (₹)	
			Plan-D	Plan-B
30.09.2009	10	—	39.10	35.60
30.06.2010	—	1:5	41.15	36.25
31.03.2011	15	—	44.20	33.10
15.09.2012	13	—	45.05	37.25
30.10.2012	—	1:8	42.70	38.30
27.03.2013	16	—	44.80	39.10
11.04.2013	—	1:10	40.25	38.90
31.03.2014	—	—	40.40	39.70

You are required to:

Calculate the Annual rate of return in respect of Plan-D and Plan-B for Ms. Adita.

Note: Ignore: (i) Income Tax of Capital gains  
(ii) Security Transaction Tax (STT).

**[5+5]**

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- (b) Discuss about the two categories of underwriters in India. [4]
- (c) State the features of Venture Capital. [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) In case of an appointment of directors, normally the names of the first directors are mentioned in the \_\_\_\_\_ of a company.
- (ii) Proper Authority, Notice, Chairman, Minutes and \_\_\_\_\_ are the essentials of a valid meeting.
- (iii) \_\_\_\_\_ resolution is required in case of alteration of memorandum for changing the place of registered office from one State to other with the permission of the Tribunal.
- (iv) The Right to Information Act, 2005 extends to the whole of India except the State of \_\_\_\_\_.
- (v) As per the Competition Act, 2002 \_\_\_\_\_ includes an association of producers, sellers, distributors, traders or service providers who, by agreement amongst themselves, limit, control or attempt to control the production, distribution, sale or price of, or, trade in goods or provision of services.
- (vi) Accounting Standard -14 classifies amalgamation into two types, viz amalgamation in nature of purchase and amalgamation in nature of \_\_\_\_\_.

**(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) If in a general meeting of a Company, a matter could not be resolved because of tie, then —  
(A) Meeting will be adjourned;  
(B) Meeting will be postponed;  
(C) Chairman of the meeting can give his second/casting vote;  
(D) Managing Director can give his casting/second vote.
- (ii) In the context of classification of Risks, Natural risks like fires, floods, earthquakes, etc. fall under:  
(A) Liquidity risks;  
(B) Disaster Risks;  
(C) Systems Risks;  
(D) Industry and Services Risks.
- (iii) The concept of Corporate Governance was initiated on the recommendation of the report by:

- (A) Mr. Narayana Murthy;
- (B) Mr. Kumar Mangalam Birla;
- (C) Dr. Y.V. Reddy;
- (D) None of the above.

**(iv)** When a person seeks information under the RTI Act with an eligible company, the same shall be dealt with by the following officer of the company:

- (A) Public Information Officer;
- (B) CEO;
- (C) HR Manager;
- (D) None of the above.

**Question 6.**

- (a)** "Corporate governance is merely the set of processes, customs, policies, laws and institutions affecting the way a corporation is directed, administered or controlled". Critically examine this statement. **[5]**
- (b)** The Competition Commission has served notice on VIPUL PAINTS LTD. to look into alleged contravention of certain provisions. The company wants to object to the same on the ground that the same was consequent to a complaint made by the State Government, which is not in order. Advise the company suitably. **[4]**
- (c)** In the context of Assessing Control Risk, describe the words, "Control risk at the maximum" and "Control risk at less than the maximum". **[3+3]**

**Question 7.**

- (a)** Mr. Adam a 15% shareholder of a company and other shareholders have lost confidence in the Managing Director (MD) of the company. He is a director not liable to retire by rotation and was re-appointed as Managing Director for 5 years w.e.f. 01.04.2014 in the last Annual General Meeting of the company.

Mr. Adam seeks your advice to remove the MD after following the procedure laid down under the Companies Act, 1956:

- (i) Specify the steps to be taken by Mr. Adam and the company in his behalf;
- (ii) Draft a suitable resolution to be passed for removal of MD; **[5+2]**

- (b)** State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties. **[6]**
- (c)** State the meaning of 'Compromises' as per the Companies Act, 1956. **[2]**

**Question 8.**

- (a)** List out the general duties of directors. **[5]**
- (b)** The Memorandum of Association of a company was presented to the Registrar of Companies for registration and the Registrar issued the certificate of incorporation. After complying with all the legal formalities the company started a business according to the object clause, which was clearly an illegal business. The company contends that the nature

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of the business cannot be gone into as the certificate of incorporation is conclusive. The company's contention is correct or not? **[3]**

**(c)** State some of the situations where the office of the director shall become vacant as per section 283 of the Companies Act, 1956. **[7]**