

Paper-11 Capital Market Analysis & Corporate Laws

Time Allowed: 3 hours

Full Marks: 100

Working notes should form part of the answers.

Section I

(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) [7 × 2]

(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.

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(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%;
- 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.

(b) Choose the most appropriate alternative from the stated options and write it down: [6 × 1]

(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;

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- 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;
- 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.

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.

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(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.

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: [6 × 1]

- (i) In case of an extraordinary general meeting which is called by the Board of Directors, the notice for the meeting should be given for at least:
- A. 17 days;
 - B. 19 days;
 - C. 21 days;
 - D. 14 days.
- (ii) As per Section 123(4) of the Companies Act, 2013 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) Which of the following is not a type of debenture:
- A. Secured debenture;
 - B. Redeemable debenture;
 - C. Sweat debenture;
 - D. Bearer debenture.
- (iv) Government company means a company in which not less than 51% of the paid-up share capital is held by:
- A. the Central Government;
 - B. Any State Government or Governments;
 - C. Partly by Central Government and partly by one or more State Governments;
 - D. Any 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 may extend to:
- A. ₹ 5 lakh;
 - B. ₹ 25 lakh;
 - C. ₹ 10 lakh;
 - D. ₹ 1 crore.

(b) Fill in the blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): [4 × 1]

- (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.

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- (iii) The _____ has the power to fill up the casual vacancy caused in the Board.
- (iv) According to section 31 of Companies Act, 2013 _____ means a prospectus in respect of which the securities or class of securities included therein are issued for subscription in one or more issues over a certain period without the issue of a further prospectus.

Question 6.

- (a) State any five differences between a public company and a private company.
- (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 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) State Sweat Equity Shares. List the applications of Securities Premium in the context of Shares Issued at Premium.
- (d) State the duties to be performed by the auditors in the course of audit?

[5+2+(2+2)+4]

Question 7.

- (a) Ghosh & Roy Associates, are appointed as a statutory auditor of Sun Ltd. Ghosh, a partner of the firm holds 300 equity shares of Moon Ltd., a subsidiary of Sun Ltd. Discuss whether the appointment of the auditor is valid.
- (b) The board meeting of Rishi Ltd. was held on 12th December, 2014 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, 2013.
- (c) State the legal provisions by which a person can become a member of a company.

[4+6+5]

Question 8.

- (a) The object clause of the Memorandum of Q Ltd. authorises it to publish and sell text books for students. The company however, entered into an agreement with P to supply 50 computers worth ₹ 8 lakhs for resale purposes. Subsequently, the company refused to make payment on the ground that the transaction was ultra vires the company. Discuss the validity of the company's refusal for payment to P under the provisions of the Companies Act.
- (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'?
- (e) State the contents of advertisement of Prospectus.

[3+4+4+2+2]