FINAL EXAMINATION

GROUP III

(SYLLABUS 2008)

SUGGESTED ANSWERS TO QUESTIONS
DECEMBER 2013

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.

Working Notes should form part of the answer.

Please: (a) Answer all bits of a question at one place.
(b) Open a new page for answer to a new question.
(c) Attempt the required number of questions only.

SECTION I (60 Marks)

(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.

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): 2x7=14**

(i) MS. NABANITA, an investor, has purchased a 3 months Call option on the equity share of SPARK LTD. for ₹15 with exercise price of ₹ 360. It has a present market price per share of ₹ 336. At the end of 3 months Ms. Nabanita expected the share price to be in the following range of ₹300 to ₹400 with varying probability:

Expected price	**₹300**	**₹350**	**₹400**
Probability	**0.30**	**0.40**	**0.30**

What will be the expected value of Call option price at maturity date? (Ignore times value of money).

A. ₹34

B. ₹25

C. ₹12

D. Insufficient information

(ii) The Co-efficient of Correlation of the share price of ASILIN LTD. with the market and standard deviation for the share prices are 0.9 and 3% respectively. The standard deviation of the market price is 2.5%. What will be the required rate of return on the stock of ASILIN LTD. if the return on 182 days T-Bill is 6% and of the market portfolio is 12.50%?

A. 15.50%

B. 13.02%

C. 9.20%

D. None of the above

(iii) MR. AMRUT, an investor, can earn a return of 16 per cent by investing in equity shares on his own. Now he is considering a recently announced equity based Mutual Fund Scheme in which initial expenses are 5.50% and annual recurring expenses are 1.1%. How much should the Mutual Fund earn to provide Mr. Amrut, a return of 16 per cent?

A. 18.03%

B. 17.45%

C. 15.43%

D. Insufficient Data

(iv) ANKRIT LTD. has an excess cash of ₹ 9,00,000 which it wants in short-term marketable securities. The securities invested will have an annual yield of 10%. If the expenses relating to investment in securities are ₹15,000, what would be minimum period for the company to Breakeven its investment expenditure? (Ignore time value of money.)

A. 5 months

B. 2 months

C. 1.5 months

D. None of the above

(v) MAXWELL LTD. issued 8% 6 year bond in the market. The issue price is ₹80 and the redemption price is ₹110. For SURESH, an investor with marginal Income tax rate of ₹ 40% and Capital Gain tax rate of 15% (assuming not indexation), What is the post tax yield to maturity?

A. 9.68%

B. 9.56%

C. 9.76%

D. None of (A), (B) (C)

(vi) The Beta Co-efficient of Equity Stock of INDSUN LTD. is 1.5. The risk free rate of return is 12% and the required rate of is 16% on the market portfolio. If the dividend expected during the coming year is ₹ 2.50 and the growth rate of dividend and earnings is 8% at what price the stock of Indsun Ltd. can be sold (based on CAPM)?

A. ₹ 25.00

B. ₹ 22.50

C. ₹18.43

D. Insufficient Data

(vii) MS. CHAITALI, a prospective investor has collected the following information pertaining to two Securities -1 and 2:

Securities	Return (%)	Variance $(\%)^2$	Weight in the Portfolio
Security-1	16	484	0.5
Security-2	13	256	0.5

If the variance of the Portfolio is $132(\%)^2$, the Co-efficient of Correlation between the Securities will be

A. - 0.68

B. - 0.60

C. - 0.31

D. None of (A), (B) (C)

(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 think correct): 1x6=6

(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) The System established by the Regulations framed under the Reserve Bank of India Act, 1934, for carrying out inter-bank and intra-bank funds transfer within India, through the networked centres

A. Swift Transfer System

B. E-banking Online System

C. Electronic Fund Transfer System

D. None of the above

(iii) As per the section 4 of IRDA Act, 1999, Insurence Regulatory and Development Authority (IRDA), consists of following number of members:

A. 9

B. 10

C. 5

D. None of the above

(iv) Listed Companies whose shares are dematerialised form can have denomination of the following amount for equity shares:

A. Any denomination not below ₹1

B. ₹ 10 and ₹100

C. ₹ 10, ₹ 100 and ₹ 1000

D. None of the above

(v) As per SEBI'S guidelines, a mutual fund should be established as a

A. Public Limited Company

B. Trust

C. Private Limited Company

D. None of the above

(vi) In efficient market, the market price is an 'unbiased estimate' of the true value of the stocks (shares). This implies that

A. The market price always equals the true value

B. The market value has no relation to the true value

C. Market makes mistakes about true value, which can be exploited by investors

D. Market prices contain errors, but these being radom cannot be exploited by investors

Answer to Question No 1 (a):

(i) C : ₹12

Expected value of call Option

Expected Share Price	Exercise Price	Call Value	Probability	Expected Call Option Value
₹300	₹360	(300 – 360) = 0	0.30	0

₹350	₹360	(350 - 360) = 0	0.40	0
₹400	₹360	(400 – 360) = 40	0.30	₹12

Expected Call option value: ₹12

(ii) B : 13.02%

Beta of the Stock (β_{AL}) =

$$\frac{\text{(The Co – efficient of Correlation between Stock and Market) x (Std deviation of Stock)}}{\text{(Std deviation of Market price)}}$$

$$= \frac{(0.9) x (0.03)}{(0.025)} = 1.08$$

Using CAPM,

$R_{AL}=R_F + \beta_{AL}(R_m - R_F)$ =6 + 1.08 (12.5-6)=13.02%

(iii) A : 18.03%

Personal earning of Mr. AMRUT = R_1

Mutual Fund Earnings = R_2

R_2 = [1/(1 – initial Exp of MF) x R_1] + Recurring Expenses

$$= \frac{1}{1-0.055} \text{ x } 16\% + 1.1\% = 16.93 + 1.1 = 18.03\%$$

(iv) B : 2 Months

Investment = ₹900000

Let minimum period to Breakeven its investment expenditure = P

Hence, 900000 x 0.10 x $\frac{P}{12}$ - 15000 = 0

Or 7500P = 15000

Or P = 15000/7500 = 2 Months

(v) C : 9.76%

After tax Coupon rate = 8 x (1 - 0.40) = 4.8

After tax redemption price = (110 - 30 x 0.15) = 105.50

Yield to maturity (Post tax):

[4.8 + (105.5 – 80)/6] ÷ (105.5 + 80)/2

= (4.8 + 4.25) ÷ 92.75 = (9.05 ÷ 92.75) x 100 = 9.76%

(vi) A : ₹25

Expected rate of return (By applying CAPM)

$R_e = R_F + \beta \ (R_m - R_F)$ =12%+ 1.5 (16% -12%)

= 12%+ 6% = 18%

Price of Stock: (Using of Dividend growth model)

$R_e = D_1/P_o + g$

0.18 = 2.50/P_o + 0.08

Or (0.18 – 0.08) = $\frac{2.50}{P_0}$

Or $P_0 = \frac{2.50}{0.10}$ = ₹25

(vii) D: None of (A),(B) (C)

Variance of the Port Folio of two Stocks is calculated as:

$\sigma_p^2 = \sigma_1^2 W_1^2 + \sigma_2^2 W_2^2 + 2\, \sigma_1 \sigma_2 W_1 W_2\, \rho_{12}$

In the Given case,

484 x 0.5^2 + 256 x 0. 5^2 + 2√484√256 x 0.5 x 0.5 ρ_{12} = 132

Or 121 + 64 + 2 x 22 x 16 x 0.5 x 0.5 ρ_{12} = 132

Or 185 + 176 ρ_{12} = 132

Or (132 – 185) ÷ 176 = ρ_{12}

Or, ρ_{12} = (-53) / 176 = - 0.301

Answer to Question No.1 (b)

(i) → A (ii) → C (iii) → B (iv) → A (v) → B (vi) → D

2. (a) Discuss about the functions of new issue market for Securities in India. 6

(b) MR. MARIN KUMAR, an investor is evaluating the prospects of investing in two companies ZEE LTD. and PADMALAY LTD. He has collected the following information pertaining to two companies and market:

Company/Market	Beta	Standard Deviation (%)	Co-variance with Sensex (%)^2
ZEE LTD.	NA	45	205
PADMALAY LTD.	1.2	40	NA
SENSEX	1.0	15	225

Further it is gathered that risk-free interest is 7%.

Considering the assumptions of regression (characteristic) line hold good, you are required to find:

A. (i) Beta of Zee Ltd.

(ii) Covariance of return on Padmalay Ltd. with that of return on Sensex.

B. The Co-efficients of Correlation between

(i) Return on ZEE LTD. and return on Sensex.

(ii) Return on PADMALAY LTD. and return on Sensex.

C. The Variance of the Portfolio formed using Zee Ltd. and Padmalay Ltd. in the proportion of $^2/_3$ and 1/3 respectively.

D. Whether the un-systematic risk of the portfolio is less than individual companies?

2+2+(2+2)+(5+1)= 14

Answer to Question No. 2 (a)

Functions of new issue market

The main functions of new issue market is to facilitate transfer of resources from savers to the users. The savers are individuals, commercial banks, insurance companies etc, the users are public limited companies and the government. The new issue market plays an important role of mobilizing the funds from the savers and transfers them to borrowers for production purposes, an important requisite of economic growth. It is not only a platform for raising finance to establish new enterprises but also for expansion / diversification /modernizations of existing units. In this basis the new market can be classified as :

1. Market where firms go to the public for the first time through initial public offering (IPO).
2. Market where firms which are already trading to raise additional capital through seasoned equity offering (SEO).

The main function of new issue market can be divided into a triple service functions;

1. Origination
2. Underwriting
3. Distribution

Origination:

Origination refers to the work of investigation, analysis and processing of new project proposals. Origination starts before an issue is actually floated in the market. There are two aspects in this functions:

1. A careful study of the technical, economic and financial viability to ensure soundness of the project. This is a preliminary investigation undertaken by the sponsors of the issue.

2. Advisory services which improve the quality of capital issues and ensure its success.

Underwriting:
Underwriting is an agreement whereby the underwriter promises to subscribe to a specified number of shares or debentures or a specified amount of stock in the event of public not subscribing to the issue. If the issue is fully subscribed then there is no liability for the underwriter. If a part of share issues remain unsold, the underwriter will buy the shares. Thus underwriting is a guarantee for the marketability of shares.

Distribution :
Distribution is the function of sale of securities to ultimate investors. This service is performed by brokers and agents who maintain regular and direct contact with the ultimate investors.

Answer to Question No. 2 (b)

(A) (i) $\beta_{Zee} = \dfrac{Cov(Zee,M)}{Var(M)} = \dfrac{0.0205}{(0.15)^2} = \dfrac{0.0205}{0.0225} = 0.91$

(A) (ii) Cov (Pad, M) = β_{pad} x Var (M) = 1.2 x 0.0225
= 0.027 ie 270 $(\%)^2$

(B) (i) $\rho_{Zee,M} = \dfrac{Cov(Zee,M)}{\sigma_{Zee} \times \sigma_M} = \dfrac{0.0205}{0.45 \times 0.15} = 0.304$

(B) (ii) $\rho_{Pad,M} = \dfrac{Cov(Pad,M)}{\sigma_{Pad} \times \sigma_M} = \dfrac{0.027}{0.40 \times 0.15} = 0.45$

(C) Var (Portfolio) = $W^2_{Zee}\,\sigma^2_{Zee} + W^2_{Pad}\,\sigma^2_{Pad} + 2W_{Zee},W_{Pad}\,Cov_{(Zee,Pad)}$

$W_{Zee} = \dfrac{2}{3}; \sigma_{Zee} = 0.45$

$W_{Pad} = \dfrac{1}{3}; \sigma_{Pad} = 0.40$

From the assumptions of characteristic (Regression) line we get

Cov $_{(Zee, Pad)}$ = β_{Zee} x β_{Pad} x Var $_{(M)}$
= 0.91 x 1.2 x 0.0225 = 0.02457 i.e. 245.7 $(\%)^2$

Variance (portfolio)

$= \left(\dfrac{2}{3}\right)^2 x (0.45)^2 + \left(\dfrac{1}{3}\right)^2 x (0.40)^2 + 2 x \dfrac{2}{3} x \dfrac{1}{3} x 0.02457$

= 0.09 + 0.0178 + 0.01092 = 0.1187 if. 1187 $(\%)^2$

(D) Unsystematic Risk of Zee Ltd.

$= (1 - \rho^2_{Zee'M})\sigma^2_{Zee}$

= [1 – $(0.304)^2$] x $(0.45)^2$ = 0.1838 i.e. 1838 $(\%)^2$

Unsystematic Risk of Padmalay Ltd.

$= (1 - \rho^2 Pad,M)\sigma^2 Pad$

= [1 - $(0.45)^2$] x $(0.40)^2$ = 0.1276 i.e. 1276 $(\%)^2$

$\beta_{Portfolio} = \dfrac{2}{3}\beta_{Zee} + \dfrac{1}{3}\beta_{Pad}$

$= \dfrac{2}{3} x 0.91 + \dfrac{1}{3} x 1.2 = 1.007$

$= \rho_{Port,M} = \dfrac{Cov_{(Port,M)}}{\sigma_{Port} \times \sigma_M}$

$= \beta_{Port} \times \dfrac{\sigma_M}{\sigma_{Port}}$

$= 1.007 \times \sqrt{\dfrac{0.0225}{0.1187}} = 0.438$

Unsystematic Risk of Portfolio:

$= (1 - \rho^2_{Port,M})\sigma^2_{Port}$

$= [1 - (0.438)^2] \times 0.1187 = 0.09593$ ie $959.3\ (\%)^2$

Therefore, we find that unsystematic Risk of the Portfolio is less than that of individual Stocks. From the result it can be implied that because of constitution of Portfolio unsystematic return reduces.

3. (a) Tabulate the main differences between Futures and Options. **5**

(b) For an important business offer made by your client ZENION LTD., the offeree is ready to send a digitally signed e-mail, accepting the offer. Your client wants to know if the same is legally binding. Advise the client suitably. **5**

(c) The stock of ASHREEN LTD. is currently trading at ₹ 400 and Call option exercisable in three months time and has an exercise rate of ₹ 390.40. The standard deviation of continuously compounded stock price change for ASHREEN LTD. is estimated to be 20% per year.

The annualized Treasury bill rate corresponding to this option life is 6%. The company is going to declare a dividend of ₹12 and it is expected to be paid in two months time.

Requirements:

(i) Calculate the value of a three month Call option on the stock of ASHREEN LTD. (using Black and Scholes Model).

(ii) What would be worth of PUT option if current price of stock is considered to be ₹ 388.12.

Note: Extracted from the Table:

(1) Natural Logarithm: ln (0.99416) = -0.005857

ln (1.02459) = 0.02429

(2) Value of e^{-x}: $e^{-0.02} = 0.9802$, $e^{-0.015} = 0.9851$

(3) For N(X): Where X ≥ 0: N (0.1414) =0.5562

N (0.0414) =0.5165

Where X ≤ 0: N (- 0.1414) = 0.4438

N (- 0.0414) = 0.4835

(4) PVIF (6%, $\frac{1}{4}$ year) = 0.9852, PVIF (6%, $\frac{1}{6}$ year) = 0.9901 **8+2=10**

Answer to Question No. 3(a):

Difference between futures and options

Futures and options are useful derivatives but have some fundamental differences between the two types of derivatives. They are:

Futures		Options

1.	Both the parties are obliged to perform the contract.	1.	Only the seller (writer) is obligated to perform the contract.
2.	No premium is paid by either party.	2.	The buyer pays the seller (writer) a premium.
3.	The holder of the contract is exposed to the entire spectrum of downside risk and has potential for all the upside return.	3.	The buyer's loss is restricted to downside risk to the premium paid, but retains upward indefinite potentials.
4.	The parties of the contract must perform at the settlement date. They are not obligated to perform before the date.	4.	The buyer can exercise option any time prior to the expiry date.
5.	Profit / Loss is settled on a daily basis based on movement in Current Futures Price.	5	Option writer collects premium at the inception of the contract.
6.	Determined by the market forces i.e. based on Demand and Supply.	6	Exercise Price / Strike Price fixed by the Stock Exchange. Premium is market determined.

Answer to Question No. 3(b):

The Information technology Act, will be of help to the client.

Section 4 and 5 of the said Act may be referred to in this context. Section 4 accords legal recognition of electronic records. As per this section, where any law provides that information or any other matter shall be in writing or in the typewritten or printed form, then, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied if such information or matter is;

(i) Rendered or made available in an electronic form, and
(ii) Accessible so as to be for a subsequent reference.

Section 5 speaks of legal recognition of digital signatures. Accordingly, where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person then, notwithstanding anything contained therein in such law, such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of digital signature affixed in such manner as may be prescribed by the Central Government. The Explanation to this section states that for the purposes of this section, "signed", with its grammatical variations an cognate expressions, shall, with reference to a person, mean affixing of his hand written.

The client should ensure that in respect of this important e-mails / e-documents / e-records, the sender affixes his digital signature. A digitally signed document is a perfect piece of legal evidence as to its timing, contents/integrity and authenticity.

Answer to Question No. 3(c):

ASHREE N LTD.

(i) Since dividend is expected to be paid in two months time, we have to adjust the Stock price and then use Black and Scholes Model to value the option.

P.V. of the expected dividend : 12 x 0.9901 = ₹11.88

Dividend Adjusted Stock Price : ₹ 400 -11.88 = ₹388.12

Value of CALL OPTION (Using Black and Scholes Model)

$V_c = V_s.\ N(d_1) - Ee^{-rt}\ N(d_2)$

Where, Vs = Current price of Stock (Adjusted) ₹ 388.12

Exercise Price = ₹ 390.40

r = Risk free rate = 0.06, t = 0.25 year

$$d_1 = \frac{l_n\left[\frac{Vs}{E}\right]+\left[r+\frac{1}{2}\sigma^2\right]x\,t}{\sigma\sqrt{t}}$$, and $d_2 = d_1 - \sigma\sqrt{t}$

$$= I_n \frac{\left[\frac{388.12}{390.40}\right]+\left[0.06+\frac{1}{2}(0.20)^2\right]\times 0.25}{0.20\sqrt{0.25}} = \frac{I_n(0.99416)+0.02}{0.10}$$

$\Rightarrow$ (- 0.005857 + 0.02) ÷ 0.10 = 0.1414,

d_2 = 0.1414 – 0.10 = 0.0414

N (d_1) = N (0.1414) = 0.5562,
N(d_2) = N(0.0414)= 0.5165

$e^{-rt} = e^{-0.06 \times 0.25} = e^{-0.015} = 0.9851$

Value of CALL OPTION (V_C) =Vs N (d_1) – Ee $^{-rt}$ N (d_2)

$\therefore$ 388.12 x 0.5562 – 390.40 x 0.9851 x 0.5165

= 215.87 – 198.64 = ₹17.23

(ii) Based on Put Call Parity Theorem Value of PUT OPTION (V_P) = - V_s + V_c + P_v of E

= -388.12 +17.23 + 390.40 x 0.9852

= -388.12 + 401.85 = ₹13.73

4. (a) What do you mean by Venture Capital? Explain its salient features. 2+4=6

(b)MS. KRITIKA, an investor, has invested in three Mutual Fund Schemes as per listed below:

Particulars	MF – SG	MF – BN	MF - ZN
Date of Investment	01.12.2012	01.01.2013	01.03.2013
Amount of Investment	₹1500000	₹500000	₹300000
Net Asset Value (NAV) at entry date	₹10.50	₹10.25	₹10.10
Dividend received upto 31.03.2013	₹25000	₹8000	NIL
NAV as at 31.03.2013	₹10.40	₹10.30	₹9.90

Required:

What is the effective yield on per annum basis in respect of each of the three schemes to MS. KRITIKA upto 31.3.2013.

Take one year = 365 days, (Ignore time value of money.)

Show calculations upto two decimal points. 2x3=6

(c) The settlement price of SEPTEMBER NIFTY FUTURES contract on a particular day was 4585. The minimum trading on Nifty Futures is 100. The initial margin is 8% and the maintenance margin is 6%.

The index closed the following levels on the next five days:

Day	Settlement Price (₹)
1	4690

2	4760
3	4550
4	4480
5	4570

Required:

Calculate the Mark To Market (MTM) Cash flows, the daily closing balances and Net Profit/(Loss) in the account of MR. M. KOTARI an investor who has gone

(i) Long at 4585

(ii) Short at 4585 **4+4=8**

Answer to Question No. 4 (a) :

Concept of venture capital - The term "venture capital" is understood in many ways, in a narrow sense, if refers to investment in new and tried enterprises that are lacking a stable record of growth.

In a broader sense, venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specializing in new ideas or new technologies it is not merely an injection of funds in to a new firm, it is a simultaneous input of skill needed to set up the firm, design its marketing strategy and organize and manage it. It is an association with successive stages of firm's development with distinctive types of financing appropriate to each stage of development.

Meaning of venture capital - venture capital is long term risk capital to finance high technology project which involves risk but at the same time has strong potential for growth. Venture capitalist pools their resources including managerial abilities to assist new entrepreneurs in the early years of the project. Once the project reaches the stage of profitability, they sell their equity holdings at high premium.

Definition of a venture capital company: a venture capital company is defined as a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise".

Features of venture capital

Some of the Salient features of venture capital financing are as under:

1. Venture capital is usually in the form of equity participation. It may also take the form of convertible debt or long term loan.
2. Investment is made only in high risk but high growth potential projects.
3. Venture capital is available only for commercialization of new ideas or new technologies & not for enterprises which are engaged in trading, booking, financial services, agency, liaison work or research & development.
4. Venture capitalist joins the entrepreneurs as a co- promoter in project and shares the risks and rewards of the enterprise,
5. There is continuous involvement in business after making an investment by the investor.
6. Once the venture has reached the full potential the venture capitalist disinvests his holdings either to the promoters or in the market. The basic objective of investment is not profit but capital appreciation at the time of disinvestment.
7. Venture capital is not just injection of money but also an input needed to setup the firm, design its marketing strategy and organize and manage it,
8. Investment is usually made in small and medium scale enterprises.

Answer to question No 4 (b):

CALCULATION OF EFFECTIVE YEILD ON PER ANNUM BASIS IN RESPECT OF THREE MUTUAL FUND SCHEMES TO **MS. KR1TIKA UP TO 31.03.2013**

	Particulars / Schemes	**MF-SG**	**MF-BN**	**MF-ZN**
1	Investment (₹)	1500000	500000	300000
2	Unit NAV at entry date	10.50	10.25	10.10
3	Nos. of Units (Investment / NAV at entry date)	142857.14	48780.49	29702.97

4	Unit NAV at 31.03.2013 (₹)	10.40	10.30	9.90
5	Total NAV 31.03.2013 (₹)	1485714.26	502439.05	294059.40
6	Increase / Decrease of NAV (1- 4) (₹)	(14285.74)	2439.05	(5940.60)
7	Dividend Received (₹)	25000.00	8000.00	NIL
8	Total yield Change in NAV + Dividend	10714.26	10439.05	(5940.60)
9	Number of DAYS	121	90	31
10	Effective Yield (% P.A) [(Total Yield / Investment) x (365 / No of days) x 100]	2.15%	8.47%	(23.32%)

Answer to question No 4 (c):
MR. M. KOTARI

Initial margin = 4,585 x 100 x 8/100 = ₹36,680
Maintenance margin = 4,585 x 100 x 6/100 = ₹27,510

The initial margin and maintenance margin are same for both long and short positions. Margin Account of Investor who has gone long.

Day	Settlement price	Opening balance	Mark to market C/F	Margin call	Closing balance
1	4,690	36,680	(+)10,500*	-	47,180
2	4,760	47,180	(+) 7,000	-	54,180
3	4,550	54,180	(-) 21,000	-	33,180
4	4,480	33,180	(-) 7,000	10,500	36,680
5	4,570	36,680	(+) 9,000	-	45,680

* (4,690 - 4,585) x 100 = (+) 10,500
Profitability of Investor who has gone long
At the end of the 4th day Margin account will show (33,180 - 7,000) = 26,180 (less than maintenance margin). Hence Margin call,
Net Profit (Loss) on the Contract :

= 10,500 + 7,000-21,000-7,000 + 9,000 =(-) 1,500

Margin Account of Investor who has gone short (₹)

Day	Settlement price	Opening balance	Mark to market C/F	Margin call	Closing balance
1	4,690	36,680	(-)10,500*	10,500	36,680
2	4,760	36,680	(-) 7,000	-	29,680
3	4,550	29,680	(+) 21,000	-	50,680
4	4,480	50,680	(+) 7,000	-	57,680
5	4,570	57,680	(-) 9,000	-	48,680

* (4,585 - 4,690) x 100 = (-) 10,500
Profitability of Investor who has gone short

At the end of the 1st day Margin account will show (36,680 - 10,500) = 26,180 (less than maintenance margin). Hence Margin call,

Net Profit / (Loss) on the Contract:
= -10,500-7,000 + 21,000 + 7,000 - 9,000 = ₹1,500

SECTION II (40 Marks)

(Corporate Laws)

Answer Question No. 5 (carrying 10 marks) which is compulsory and answer any two (carrying 15 marks each) from the rest in this Section.

5. (a) Choose the most appropriate one from the stated options and write it down (only indicate A or B or C or D as you think correct): 1x6=6

(i) MR. AVISEK, a director of ARIHANT LTD. died in train accident. The Board of Directors would like to appoint MR. ANAND in place of MR. AVISEK. Which of the following statement(s) is/are true?

A. The company has to call for extra-ordinary general meeting.

B. The company has to continue with existing number of Directors till the next Annual General Meeting.

C. The Board can fill up the vacancy at the Board Meeting.

D. Both (A) and (C)

(ii) Corporate Governance was introspected in 2001 by the Advisory Group Constituted by the Standing Committee on international finance standards and Codes of Reserve Bank of India 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, R&D risks will fall under:

A. System Risks

B. Management & Operation risks

C. Market Risks

D. Service Risks

(iv) "Shelf Prospectus" u/s 60A of the Companies Act, 1956, means a prospectus issued by

A. Trading companies;

B. Manufacturing companies;

C. Financial institutions and banks;

D. None of the above

(v) 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. CEO

B. Public Information Officer

C. HR Manager

D. None of the above

(vi) The key features of Corporate Governance are given in Section……….of the companies Act, 1956, (Fill in the gap from the below):

A. 292A

B. 246

C. 249A

D. None of (A), (B) (C)

(b) Fill in the Blanks in the following sentences by using appropriate word(s)/phrase(s)/number(s): 1x4=4

(i) Under Competition Act, 2002, penalty for offences in relation to furnishing of

information is………….

(ii) The information sought for by an applicant under the RTI Act shall be furnished within…….

(iii) As per clause 49 of the Listing Agreement, all existing listed entities with a paid-up capital of…………..and above are required to setup an audit committee in a phased manner.

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

SECTION - II

Answer to Question No. 5(a)

(i) …..C (ii) ……C (iii)…..B (iv) …..C (v) …..B (vi) ….A

Answer to Question No. 5(b)

(i) ₹10 lakhs (ii) 30 days (iii) ₹3 crores (iv) Two

6.

6. (a) The Audit Committee of RENUKA TEXTILES LTD. constituted under section 292A of the companies Act, 1956, submitted to the Board of Directors a report containing its recommendations. These recommendations were however not accepted by the Board. In this scenario state your views on the following:

(i) Can the Board adopt the stand of not accepting the audit committee's recommendations?

(ii) If yes, that the Board does not accept the recommendations what should the Board do?

(iii) How should the chairman of the Audit Committee respond? 6

(b) An application was filed by MRS VASUDHA under section 403 of the Companies Act, 1956 seeking direction by the CLB to convene an annual general meeting scheduled to be held on 10th June, 2012, at the factory premises instead of the registered office of the company, which had recently been shifted. In the meeting it is proposed to adopt the accounts and consider reappointments of auditors.

The company submitted that the applicant was a party to the meeting held for the amendment of Articles 15 and 16 and to substitute a new Article 16, that the petitioner had signed the Minutes and that the necessary Form 23 was filed with the Registrar of companies for shifting the registered office to its new location.

Is the claim of the applicant tenable? 4

(c) There are 9 Directors in NATHAN TEXTILES LIMITED, besides the Managing Director (MD), who is authorized by the Articles to act as Chairman for the Board meetings and also have a casting vote. In a Board meeting, relating to a matter put to vote, the MD did not cast his own vote as director. After the voting there are 4 votes for and 5 votes against. Now the MD wants to exercise his own vote as director and casting vote as Chairman, and move the resolution as passed.

Is this proper? 5

Answer to Question No .6 (a)

(i) As per Section 292A (8) the recommendations of the Audit Committee shall be binding on the Board of Directors, in so far as relating to the Financial Management including audit report. In respect of other matters, the recommendations are not binding on the board.

(ii) Section 292A(9) enjoins that if the Board does not accept the recommendations of the Audit Committee; it shall record the reasons therefore and communicate such reasons to the share holders.

(iii)As per Section 292A(10) of the Companies Act 1956, the chairman of the Audit Committee shall attend the Annual General Meeting(s) of the company to provide any clarifications on matters relating to audit; Beyond this, the Chairman of the Audit Committee cannot do anything in the case of non-listed companies. It may be noted that in case of listed companies, clause 49 of the listing Agreement gives more power to the Audit Committee in this context.

Answer to Question No .6 (b)

Tenability of the applicant's contentions

No. Mrs. Vasudha, the applicant/petitioner is **not correct** in her claim, since all the formalities for shifting the registered office of the company were undertaken duly taking the approval of the shareholders in a properly convened meeting in which the petitioner/applicant also had participated and signed in the Minutes for the alteration of Articles of Association, her present request for changing of venue of AGM is not tenable.

As per Sec. 166(2), the Company has to hold the AGM only at its Registered Office and there is no reason to shift the proposed meeting to a new location.
It was so held by the Company Law Board in **MYLSAMY Vs. GAJENDIRA PAPER AND BOARDS P. LTD. (2009) 153 Comp Cas2 (CLB)** and the application was dismissed.

Answer to Question No .6 (c)

Voting by chairman in Board meeting

As per Guidance Note on Meetings of the board of Directors issued by ICSI, a chairman does not have an inherent right to the casting vote nor it is a right given by the statute. It has to be conferred on the chairman by the Articles. In the given case, the Articles of the company authorize the chairman to cast his casting vote.
However, the guidance note provides that where the chairman chooses to exercise his vote as a director, he should do so before the voting is conducted. It also provides that a casting vote is a second or deciding vote. If the votes are divided unequally, the question of using a casting vote does not arise. It is only in the event of equality of votes, for and against, that the question of a casting vote assumes relevance.
Therefore, in the given case, the chairman cannot cast his own vote which he had not exercised earlier as the voting has concluded. Again, he cannot cast his casting vote as the votes are not divided equally.

7. (a) Can any fine or penalty be imposed on the Public Information Officer of a Government Department where he has deliverately delayed the furnishing of information sought for properly, under the RTI Act, 2004?
Is such levy automatic?
How can the fine or penalty imposed be recovered from him? 5

(b) The Central Government has formed as opinion that MR. RAJESH. B (a member of the competition commission of India) has acquired such financial interest that it may affect prejudicially his functions as a member of the competition commission and it wants to remove him from his office.

You are required to state with reference to the provisions of the competition Act, 2002, whether the Central Government can do so and if yes, how? 4

(c) Outline the key roles in the context of PROJECT GOVERNANCE. **6**

Answer to Question No. 7(a)

As per section 12(4) of the **RTI Act, 2004** subject to sub-section (3), where any Public Information Officer has, without any reasonable cause, failed to supply the information sought, within the period specified under section 7(1), penalty can be levied.
Such levy of penalty is not automatic. The relevant Information Commissioner shall, on appeal, impose a penalty of rupees two hundred fifty, which amount must be increased by regulation at least once every five years, for each day's delay in furnishing the information, after giving such Public Information Officer a reasonable opportunity of being heard.
Any fines imposed under sub-sections (1), (2) and (3) shall be recoverable from the salary of the concerned officer, including the Public Information Officer, or if no salary is drawn, as an arrears of land revenue, recoverable within a maximum of six months of the order imposing the fine.

Answer to Question No. 7(b)

Provisions of Section 11(2) of the Competition Act, 2002 empower the Central Government to remove, by an order, a member of the Competition Commission of India from his office if such member has acquired such financial interest as is likely to affect prejudicially his functions as a Member of the Competition Commission.
However, provisions of Section 11(3) of the said Act put some restrictions on such powers of the Central Government. According to this section, in case as stated in the question, the Central Government wants to remove a member of the Competition Commission from his office, it has to make a reference to the Supreme Court. The Supreme court shall hold an enquiry in accordance with the procedure formulated by it and then report that the member in question ought to be removed from his office.
Thus, the Central Government can remove a member of Competition Commission from his office by following the above procedure.

Answer to Question No. 7(c)

PROJECT GOVERNANCE – Key Roles

1) Establish the bases for project governance, approval and measurement -including defining roles and accountabilities, policies and standards and associated process.
2) Evaluate project proposals to select those that are the best investment of funds and scarce resources and are within the firm's capability and capacity to deliver.
3) Enable through resourcing of projects with staff and consultants, harnessing and managing of business support and the provision of the governance resources.
4) Define the 'desired business outcomes' (end states), benefits and value - the business measures of success and overall value proposition.
5) Control the scope, contingency funds, overall project value and so on.
6) Monitor the project's progress, stakeholder's commitment, results achieved and the leading indicators of failure.
7) Measure of the outputs, outcomes, benefits and value - against both the plan and measurable expectations.
8) Act to 'steer' the project into the organization, remove obstacles, manage the critical success factors and remediate project or benefit-realization shortfalls.
9) Develop the organization's 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.

8. a) State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties. **6**

b) Directors of MOULIN LTD. are not holding any shares in SPARK LTD. Similarly directors of SPARK LTD. are not holding any shares in MOULIN LTD. But wife of Director 'S' of Moulin Ltd. holds 40% of the paid up share capital of Spark Ltd. Board of Directors of Moulin Ltd. entered into a contract with Spark Ltd. for purchase of goods and director 'S' did not disclose his indirect interest in Spark Ltd.

Examine whether Director 'S' has violated any of the provisions of the companies Act, 1956 and also the validity of the contract. 6

(c) Critically discuss the role of stakeholders in CORPORATE GOVERNANCE. 3

Answer to Question No. 8(a)

Evaluating the going concern uncertainties

In Order to evaluate various going concern uncertainties an Auditor needs to follow certain procedures which may include :

1) Analyze and discuss cash flow, profit and other relevant forecasts with management
2) Review events occurring after the balance sheet date for items affecting the entity's ability to continue as a going concern.
3) Analyze and discuss the entity's latest available interim financial statements.
4) Review the terms of debentures and loan agreements and determine whether any have been breached.
5) Read minutes of the meeting of shareholders, the board of directors and important committees for reference to financing difficulties.
6) Review the status of matters under litigation and claims
7) Confirm the existence legality and enforceability of arrangements to provide or maintain financial support with related and third parties and assess the financial ability of such parties to provide additional funds.
8) Consider the entity's position concerning unfilled orders.

Answer to Question No. 8(b)

Section 297 does not apply to a contract between two public companies and therefore the present case is outside the purview of section 297. However, as per section 299, every director who is anyway, directly or indirectly, interested in a contract or arrangement shall disclose the nature of his interest. Following must be noted in this regard.

- Relationship of husband and wife, or father and son is capable of influencing the judgment of a person so that it is prima facie a matter of interest which must be disclosed. The interest need not be direct [Pydah Venkatachalapathi v. Guntur Cotton, Jute and Paper Mills Co. Ltd. AIR 1929 Mad 353]
- If to the knowledge of a director, his relative is concerned or interested in a contract or arrangement, the director must disclose the same to the Board (Fateh Chand Kad v. Hind Sons (Patiala) Ltd. (1957) 27 Comp Cas 340].

Therefore, in view of the above judicial rulings, 'S' should disclose his interest since he is indirectly interested in the contract, as his wife is holding 40% of the paid up share capital of SPARK LTD. Failure to disclose the interest by 'S' amounts to non-compliance of section 299 and the following consequences shall follow:

- 'S' shall vacate the office of director held by him (Section 283)
- He shall be punishable with fine which may extend to ₹50,000 (Section299)
- If 'S' acts as a director when he knows that the office of director held by him has become vacant on account of non-disclosure of interest, he shall be punishable with fine which may extend to ₹5,000 for each day on which he acts as a director (Section 283)

The contract is not illegal, void or unenforceable. However, the company has an option to avoid the contract [Amritsar Rayon and Silk Mills Ltd. v. Arirchand Saideh (1988) 64 Comp Cas 762]

Answer to Question No. 8(c)

The corporate governance framework should recognize the rights of stake--holders as established by law and encourage active co-operation between corporations and stakeholders in creating wealth, jobs and the sustainability of financially sound enterprises.

(i) The corporate governance framework should assure that the rights of stakeholders that are protected by law are respected.

(ii) Where stakeholder interests are protected by law, stakeholders should have the opportunity to obtain effective redress for violation of their rights.

(iii) The corporate governance framework should permit performance-enhancing mechanisms for stakeholder participation.

(iv) Where stakeholders participants in the corporate governance process, they should have access to relevant information.