

*The figures in the margin on the right side indicate full marks.*

*Please answer all parts of a question at one place. Wherever necessary, the student can make suitable assumptions and state them clearly in the answer.*

**SECTION I (60 Marks)**

**(CAPITAL MARKET ANALYSIS)**

Answer *Question No. 1* which is compulsory and any two 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) 2x5  
and give your workings/reasons briefly(= 1 mark):

- |   |     |
|---|-----|
| (i) The co-efficient of correlation between returns of SPARK LTD and SENSEX is 1.10. The expected returns on the stock of Spark and Sensex are 18% and 14.37% respectively. The return on 182 day T-Bill is 6.31%. What would be the standard deviation of the returns of Spark if the standard deviation of Sensex's return is 17%?<br>A. 20.12%<br>B. 22.46%<br>C. 26.46%<br>D. Insufficient data   | (0) |
| (ii) SAFARI LTD has an excess cash of Rs.6,00,000 which it wants in short term marketable securities. The securities invested will have an annual yield of 8%. If the expenses relating to investment in securities is Rs.20,000, what would be the minimum period for <u>the company</u> to break even its investment expenditure? Ignore time value of money.<br>A. 9.50 months<br>B. 5.00 months<br>C. 3.75 months<br>D. Insufficient data | (0) |
| (iii) MS.BRISTI can earn a return of 18% by investing in equity shares on her own. Now she is considering a recently announced Equity based Mutual Fund scheme in which initial expenses are 1% and annual recurring expenses are 2%. How much should the Mutual Fund earn to provide Ms Bristi, a return of 18%?<br>A. 18.18%<br>B. 20.18%<br>C. 22.18%<br>D. 22.78%   | (0) |
| (iv) The Spot is currently selling at Rs.270. The call option to buy the stock at Rs.265 costs Rs.12. What will be the Time Value of the option?<br>A. Rs.13<br>B. Rs.5   | (0) |

C. Rs.17

D. Rs.7

- (v) The Spot value of Nifty is 4430. An investor bought a one month Nifty for 4410 call option of a premium of Rs.12. The option is: (0)
- A. In the money
  - B. At the money
  - C. Out of the money
  - D. Insufficient data

(b) Choose the most appropriate one from the stated options and write it down. (Only indicate A, B, C, D as you think correct): 1x5

- (i) There will be no conflict in ranking between Sharpe's ratio and Treynor's ratio, if the portfolio has: (0)
- A. Zero unsystematic risk
  - B. Zero systematic risk
  - C. Zero total risk
  - D. Equal amount of systematic risk and unsystematic risk

- (ii) MS.ANKITA, an employee of MERLIN LTD was not able to earn profit from the information she had about the likely profit figure for the company, even after trying for an extended period of time. This means that the market is exhibiting: (0)
- A. Weak form of market efficiency
  - B. Semi-strong form of market efficiency
  - C. Super-strong form of market efficiency
  - D. Inefficient market

- (iii) SEBI (Disclosure and Investors Protection) Guidelines 2000 are applicable to: (0)
- A. All public issues by listed and unlisted Companies
  - B. Public sector Banks
  - C. Infrastructure Companies
  - D. Both (B) and (C) above

- (iv) RBI has permitted some of the financial institutions like IDBI, ICICI etc. to borrow on the strength of money market instruments for a period of \_\_\_\_\_ months to \_\_\_\_\_ month (0)
- A. 6, 9
  - B. 3, 12
  - C. 3, 6
  - D. 1, 12

- (v) IRDA Act was passed in the year (0)
- A. 1987
  - B. 1993
  - C. 1999
  - D. 2003

(c) Fill up the blanks with appropriate answers:

1x5

- (i) A \_\_\_\_\_ contains all information of the Company contents but does not have information on price of securities offered and number of securities (quantum) offered through such document to the public. (0)
- (ii) \_\_\_\_\_ are those Institutional Investors generally perceived to possess expertise and the financial muscle to evaluate and invest in the Capital market. (0)
- (iii) The risk attributable to factors unique to a security is \_\_\_\_\_. (0)
- (iv) Penalty imposed on a stock exchange for margin violation, for the first instance is \_\_\_\_\_. (0)
- (v) In the context of public issue, the expansion of RI is \_\_\_\_\_. (0)

2. (a) Explain in brief the terms ‘Contango’ and ‘Backwardation’ as used with respect to Futures Contracts. 3 (0)
- (b) Explain any 2 methods by which companies can raise funds through the primary market for setting up or expanding their business. 2 (0)
- (c) In six month’s time, Darjeeling Darlings Ltd., Bristol, United Kingdom will have to make a payment of \$ 4,00,000. It is currently 1st June. With a view to hedge its transaction exposure, the company is contemplating the various alternatives: 15 (0)

**Exchange rates:**

Spot rate \$ 1.5719 – 1.5823  
 Six month forward rate \$ 1.5502 – 1.5704

**Money market rates:**

	Borrow(%)	Deposit (%)
US	6	4.5
	7	5.5

Foreign currency option prices (1 unit is £ 12,500):

Exercise price	Call option (December)	Put option (December)
\$ 1.70	\$ 0.037	\$ 0.096

With the help of necessary calculations you are required to help Darjeeling Darlings Ltd in deciding which of the following hedging alternatives is the most favourable one:

- (a) Forward market
- (b) Cash (money) market
- (c) Currency options

Ignore time value of money (in case of premia).

3. (a) Explain briefly the advantages of holding securities in "Demat" form rather than in physical form. 4 (0)

- (b) State five important regulations prescribed by SEBI for the investments that can be made by a Mutual Fund. 5 (0)
- (c) The stock of MOULIN LTD is currently trading at Rs.500 and call option exercisable in three months time and has an exercise rate of Rs.488. The standard deviation of continuously compounded stock price change for MOULIN LTD is estimated to be 20% per year. The annualized Treasury bill rate corresponding to this option life is 6% p.a. The company is going to declare a dividend of Rs.15 and it is expected to be paid in two months time. 5+2 (0)

Requirements:

- (i) Determine the value of a three-month call option the stock of MOULIN LTD (using Black Scholes model)
- (ii) What would be the value of Put Option if the current price of stock is considered to be Rs.485.15?  
 Note: Extracted from tables:  
 (1) Natural Logarithm :  $\ln(0.99416) = -0.005857$   
 $\ln(1.02459) = 0.024929$   
 (2) Value of  $e^{-x}$  :  $e^{-0.02} = 0.9802$ ,  $e^{-0.015} = 0.9851$   
 (3) For  $N(x)$  : Where  $X \geq 0$  :  $N(0.1414) = 0.5562$   
 $N(0.0414) = 0.5165$   
 Where  $X \leq 0$  :  $N(-0.1414) = 0.4438$   
 $N(-0.0414) = 0.4835$   
 (4) PVIF (6%, 0.25 years) = 0.9852, PVIF(6%, 1/6 years) = 0.9901.

- (d) What is the settlement schedule for the Interest Rate Futures contracts for:  
 (i) Daily Mark-to-Market settlement.  
 (ii) Final settlement 2+2 (0)

4. (a) The target payout ratio for DYNAMIC SUPERMACHINES LTD. IS 0.4. The dividend per share for the current year is Rs.14. The dividend per share in the previous year was Rs.12. The weightage given to the current year earnings is 0.60. The number of Equity Shares outstanding in the company is 10,00,000. If P/E multiple is 9, applying Lintner Model of dividend policy to the company, compute the market capitalization of the company. 5 (0)

- (b) MR.ANKAN ANAND an analyst at REVAMP SECURITIES LTD. has made risk and return projections for the securities of GLOBSIN LTD and ASHEEKA LTD which are as follows: 6+3 (0)  
+4+2

Scenario	Probability	Return on Globsin Ltd. (%)	Return on Asheeka Ltd. (%)	Market Return (%)
2% GDP growth	0.03	- 5	21	- 20
4% GDP growth	0.10	4	15	- 5
6% GDP growth	0.27	10	0	10
8% GDP growth	0.20	18	- 1	20
9% GDP growth	0.40	25	- 4	30

It is felt that the interest rate of 5.60% on the 91 day T-bill is a good approximation of the risk free rate.

Assuming that CAPM holds good in the market answer the following:

- (i) Calculate Ex-ante betas for both the companies.
- (ii) Calculate Ex-ante alpha for both the companies.
- (iii) Determine the proportion of systematic risk and unsystematic risk in the two stocks.
- (iv) State whether the stocks of Globsin Ltd and Asheeka Ltd are underpriced or overprices.

**SECTION II (40 Marks)**

**(CORPORATE LAWS)**

Answer *Question No. 5* which is compulsory and any two from the rest in this section.

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|--|-------|
| 5. (a) State with reasons whether true or false (Mere conclusion will not suffice):  | 2x3   |
| (i) A company having a paid-up share capital of Rs.50 lakhs or more can appoint a sole selling agent with the approval of the Central Government.  | (0)   |
| (ii) A statement in lieu of prospectus filed when shares are not issued to public, but private sources needs to be signed by any two directors of the company.   | (0)   |
| (iii) The guidelines for good Corporate Government 2009 brought out by Ministry of Company affairs are for voluntary compliance and are not mandatory.   | (0)   |
| (b) Fill up the blanks with the appropriate answers:   | 1x4   |
| (i) Alteration of share capital requires the passing of _____ resolution.  | (0)   |
| (ii) Mr. Anup Kumar is a director of SHEETAL LTD which failed to file its annual return from the year 2006-07. The maximum period for which Mr. Anup will be disqualified from becoming a director in any Public Limited Company is _____ years.   | (0)   |
| (iii) Clause _____ of the Listing Agreement deals with principles of Corporate Governance.   | (0)   |
| (iv) The _____ Committee set up by SEBI submitted its report in February 2003 on Corporate Governance.   | (0)   |
| 6. (a) The Official Liquidator of VASUDHA LTD receives a notice for a trade creditor of the Company that the court has passed a decree in its favour, relating to the dues for services rendered to VASUDHA LTD, and that the amount specified in the court decree should be paid first, prior to the clearing of dues of workmen. The same is opposed by the workmen. Advice the official Liquidator suitably; with reference to provisions of the Companies Act, 1956. | 7 (0) |
| (b) An application was filed by Mr. Lalit Modi under Sec.403 of the Companies Act, 1956 seeking direction to an annual general meeting(AGM) scheduled to be held on 10th June, 2010 at the factory premises instead of the registered office of the company, and also to adopt the accounts and reappointments of auditors at the AGM, in accordance with the outcome of his petition. The   | 4 (0) |

<p>respondents 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?</p>	
<p>(c) Where the Central Government is of the <a href="#">opinion</a> that a member of the Competition Commission has acquired such financial interest that would affect prejudicially his functions as member of the Commission, can such a member be removed? Explain with reference to the relevant provisions of the competition Act, 2002.</p>	4 (0)
<p>7. (a) LMN LTD was incorporated on 1st June, 2007. On 1st March 2010 a political party approaches the company for a contribution of Rs.10 lakhs for political purposes. Your advice is sought with respect to the under mentioned issues:</p> <p>(i) Is the company legally authorized to give this political contribution? [2]</p> <p>(ii) Will it make any difference if the company was in existence on 1st April, 2007? [2]</p> <p>(iii) Can the company be penalized for violation of the applicable provisions relating to political contribution? [2]</p> <p>(iv) What are the disclosure requirements in this regards? [2]</p>	2+2+ (0) 2+2
<p>(b) The Audit Committee of LATHA PHARMA 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:</p> <p>(i) Can the Board adopt the stand of not accepting the audit Committee's recommendations? [2]</p> <p>(ii) If yes, that the Board does not accept the recommendations what should the Board do? [2]</p> <p>(iii) How should the Chairman of the Audit Committee respond? [3]</p>	2+2+3 (0)
<p>8. (a) SEBI has introduced Corporate Governance in a comprehensive manner to protect shareholders interests as well as provide teeth in monitoring Companies' performance through independent Directors. Discuss.</p>	6 (0)
<p>(b) State some of the procedures which an auditor has to follow in order to evaluate going concern uncertainties.</p>	6 (0)
<p>(c) What were the recommendations of the Narasimhan Committee relating to percentage of independent directors?</p>	3 (0)