December 2009

Time Allowed : 3 Hours Full Marks : 100

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

Please answer all parts of a question at one place.

Please open a new page for answer to a new question.

SECTION I (60 Marks)

(CAPITAL MARKET ANALYSIS)

Answer *Question No. 1* (carrying 20 marks) which is compulsory and 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 alternatives is correct. Indicate the correct answer (= 1 mark) and give working/reasons briefly in support of your answer (= 1 mark): 2x5=10

(i) MELANIN LTD. issues right shares which increases the market value of the shares of the Company by Rs.100 crore. The aggregate market value of all the shares included in the index before the right issue made is Rs.2000 crore. If the base year average for calculating the index number for a period starting from the time the right issue is made till the next base year change becomes necessary is Rs.1000, what is the existing base year average? (0)

A. Rs.10054–94 crore
B. Rs.952.38 crore
C. Rs.948.88 crore
D. None of (A), (B), (C)

(ii) RAVI SHANKAR holds a portfolio consisting two stocks–stock A and stock X. Stock A has a standard deviation of returns of 0.6 and stock X has a standard deviation of 0.8. The correlation co–efficient of the two stock returns is 0.50. If Ravi Shankar holds equal amount of each stock, what will be risk of the portfolio consisting two stocks? (0)

A. 0.40
B. 0.52
C. 0.61
D. None of (A), (B), (C)

(iii) The TATA TEA trades on the spot market at Rs.855. The cost of financing is 12 per cent per year. It is expected to pay a dividend of Rs.10, 45 days later. What is the fair value of a 90 days future on Tata Tea (rounded up to nearest rupees)? – Assume day count basis as actual/365. (0)
[Given: FVIF (12%, 0.2466 years) = 1.0283 and
FVIF (12%, 0.1233 years) = 1.0141].

A. Rs.869.00
B. Rs.879.00
C. Rs.896.00
D. Rs.899.00

(iv) The covariance between the return on the stock of ARIHANT LTD. and the return on the market index is 96%. If the variance of the return on market index is 60%, what will be the systematic risk of Arihant Ltd. stock? (0)

A. 165.70%
B. 160.36%
C. 153.60%
D. Insufficient information

(v) In November 30, 2009, a six–month call on MORTION LTD.'s stock with an exercise price of Rs.50, sold for Rs.10. The stock price was Rs.40. The risk–free rate was 5% per annum. How much would you be willing to pay for a put on Morton Ltd.'s stock with the same maturity and exercise price? (0)
[Given: $e^{-rt}=e^{-0.05x0.5}=0.9753$]

A. Rs.14.76
B. Rs.16.00
C. Rs.18.76
D. None of (A), (B), (C)

(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=5

(i) When an existing listed company either makes a fresh issue of securities to the public or makes an offer for sale of securities to the public for the first time, such issues are called (0)

A. Initial public offer
B. Follow on public offering
C. Green shoe option
D. None of (A), (B), (C)

(ii) MR.ANAND an employee of GIRITA LTD. was not able to earn profit from the information he had about the likely profit figure for the company, even after trying for an extended period of time. This means that the market is (0)

A. Week form of market efficiency
B. Semi–strong form of market efficiency
C. Super strong form of market efficiency
D. Inefficiency of market

(iii) Book–building process is different from fixed price process for raising share capital from public. Which of the following statements is/are true about book–building process? (0)

A. Price at which securities will be offered/allotted is not known in advance to investor. Only an indicative price range is known.
B. Demand for the securities offered can be known everyday.
C. Payment is made at the time of subscription
D. Both (A) and (B) above

(iv) The responsibility for regulating the securities market is shared by (0)

A. Department of Economic Affairs and RBI
B. Ministry of Company Affairs and SEBI

C. Both (A) and (B) above
D. Government of India

(v) Every stock exchange desirous of being recognised for the purpose of the Securities Contracts (Regulation) Act, 1956 has to make an application in (0)
A. Form A
B. Form A–3
C. Form B–1C
D. Form B–10

(c) State whether each of the following statements is TRUE (T) or FALSE (F): 1x5=5

(i) Every Depository Participant is required to be registered with the Securities and Exchange Board of India. (0)

(ii) Security Market Line (SML) shows the relationship between return on the stock and Return on market portfolio. (0)

(iii) The IRDA has permitted withdrawal of surrender value of a new ULIP by the client only after completion of 2 policy years. (0)

(iv) As per the IT Act 2000, the Cyber Law of India, an e–mail is not an acceptable form of approved evidence towards receipt of communication from a person. (0)

(v) The Banking Ombudsman Scheme 2006 will not enable aggrieved customers to appeal against any Ombudsman's decision. (0)

2. (a) The Stock of APTECH LTD. (A.L.) is currently trading at Rs.597.12 and PUT Option exercisable in three months time has an exercise rate of Rs.600. The standard deviation of the continuously compounded stock price change for Aptech Ltd. is estimated to be 22 per cent per year. The annualised Treasury Bill rate corresponding to this option life is 5%. 3+1+4=8 (0)
Required:
What is the value of a three month PUT OPTION on the stock of APTECH LTD. (Using Black and Scholes Model)?
Note:
Extracted from the Tables:
1. Natural Logarithms:
   In (0.9952) = –0.00481, In (1.0048) =0.00789.
2. Value of e^{-x}: $e^{-0.01}$=0.99010, $e^{-0.0125}$=0.98758.
3. Cumulative standardized normal probability distribution: NCX
   When X ≥ O : N (0.125) = 0.5498, N(0.015)=0.5060
   When X ≤ O : N (–0.125)=0.4502, N(–0.015) = 0.4940.

(b) Based on the credit rating of the bonds MR.ANUP has decided to apply the following discount rates for valuing bonds. 2+4=6 (0)

Credit rating	Discount
A A A	364–day T–bill rate + 3% spread
A A	AAA+2% spread
A	AAA+3% spread

He is considering to invest in a AA rated, Rs.1000 face value bond currently trading at Rs.1026–50. The bond has five years to maturity and carries coupon at 12% p.a. payable annually. The next interest payment (Assume the 364–day T–bill rate to be 6%.)

You are required to:

(i) Calculate the Intrinsic value of the bond for Mr. Anup;
(ii) Calculate the current yield (CY) and the yield to Maturity of the bond (YTM).

Note: (i) Ignore Floatation Costs and transaction Costs;
(ii) Extracted from the table of PV.

Interest Rate	:	6%	8%	9%	11%	12%
PVIFA (5 years)	:	4.212	3.993	3.890	3.696	3.605
PVIF (5 years)	:	0.747	0.681	0.650	0.593	0.567

(c) Listing of securities on the Stock Exchange is advantageous to the Company as well as to the investors. – Discuss. 3+3=6 (0)

3. (a) Describe the grounds on which an ombudsman can reject complaints lodged with him, under the Banking Ombudsman Scheme, 2006. Can an appeal be filed against such a rejection and if so to whom and will him what time limit? 4+2=6 (0)

(b) An analyst at ASHEEKA SECURITIES LTD is considering the stocks of Spark Ltd. and Sunray Ltd. for investment. Expected returns on these stocks depends on the growth rate of the GDP. The conditional returns of the market and the excess returns of the stocks over the return on market are given below: 6+3+3 +2=14 (0)

Economic Scenario (G.D.P. Growth rate)	Probability	Excess Return in % Spark Ltd.	Sunray Ltd.	Return on Market in %
Less than 1.00%	0.03	15	41	–20
1.0–2.5%	0.10	9	20	–5
2.5% – 5.0%	0.27	0	–10	10
5.0–7.0%	0.20	–2	–21	20
More than 7.0%	0.40	–5	–34	30

The expected risk–free return is 5.60 per cent.
Assume that CAPM holds good in the market.
You are required to:

(i) Calculate the ex–ante betas for the two stocks;
(ii) Find out whether the stocks of Spark Ltd. and Sunray Ltd. are underpriced or overpriced;
(iii) Determine the proportions of systematic risk and unsystematic risk in the two stocks.
(iv) Determine which stock the analyst would suggest to invest, if he is required to select only one stock, justify.

4. (a) The settlement price of DECEMBER NIFY Futures contract on a particular day was 5045. The minimum trading lot on Nifty futures is 100. The initial margin is 8% and the maintenance 1+4+2=7 (0)

margin is 6%. The index closed at the following levels on the next five days:

Day	Settlement price(Rs.)
1	5159
2	5236
3	5005
4	4928
5	5027

Required:

(i) Calculate the Mark to Market Cash Flows and daily closing balances in the account of an investor who has gone long at 5045;

(ii) Calculate the net profit/(loss) on the contract.

(b) Two funds are available for investment. FUND–A is being launched to–day is 31.12.2008 and available for investment at Rs.10 per unit. A similar Fund–B (Same risk profile like Fund–A) is also available for investment at Rs.19.45 per unit. The information of quarterly NAV for the next three quarters are available as given below: 5+1=6 (0)

Closing NAV	FUND–A (Rs.)	FUND–B (Rs.)
31.12.2008	10.00	19.45
31.03.2009	11.1567	21.50
30.06.2009	14.768	27.15
30.09.2009	12.8554	23.69

Investor– ALOKE prefers FUND–A and Investor–RITU prefers FUND–B for investment through SIP (Systematic Investment Plan) each installment entailing Rs.2000 for the four quarters including the initial investment.

Required:

(i) Which investor (ALOKE & RITU) would clock a higher return on investment, as on 30.9.2009?

(ii) Is the difference in return because of one investor choose to invest at Rs.10 and other at Rs.19.45?

(c) Discuss the various kinds of systematic and Unsystematic risk. 4+3=7 (0)

SECTION II (40 Marks)

(CORPORATE LAWS)

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

Ma

5. (a) Choose the most appropriate one from the stated options and write it down (only indicate A, B, C, 1x5=5

D as you thing correct):

(i) Section 292A of the Companies Act lays down a compulsory constitution of Audit Committee by certain public companies. Which of the following companies are required to constitute such committee? (0)

A. A public company having a paid–up capital of not less than Rs.1 crore;

B. A public company having a paid–up capital of not less than Rs.4 crore;

C. A public company having a paid–up capital of not less than Rs.5 crore;

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

(ii) In a Public Limited Company there are 8 Directors including managing Director and a nominee of I C I C I. How many directors are liable to retire by rotation? (0)

A. FOUR

B. FIVE;

C. SIX;

D. SEVEN.

(iii) MR.RAJESH, a director of GROW WELL LTD. died in a train accident. The Board of Directors would like to appoint MR.JANAK in the place of MR.RAJESH. Which of the following statements is/are true? (0)

A. The Company has to call for extraordinary general meeting;

B. The Company has to continue with the 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).

(iv) An application to investigate the affairs of a public company where the shareholders scattered all over the country, can be made to the National Company Law Tribunal (NCLT) by: (0)

A. Any one hundred members;

B. Any two hundred members;

C. Not less than one fifth of the persons on that Company's register of members;

D. Not less than one–fourth of the persons on that Company's register of members.

(v) Which of the following Committees set–up by SEBI, had submitted its report in February 2003 on Corporate Governance? (0)

A. Narasimham Committee;

B. Kumar Mangalam Birla Committee;

C. Narayan Murthy Committee;

D. Naresh Chandra Committee.

(b) Fill in the blanks in the following sentences by using the appropriate words/phrases given in the brackets: 1x5=5

(i) The membership of the Governance and Nominating Committee consists of at least ____________, each of whom shall meet the independent requirements established by the Board (two directors/three directors). (0)

(ii) In the context of classification of risks, R & D risks will fall under ____________ (System (0)

Risks/Management and Operation Risks/Market Risks.

(iii) Investor in order to protect his investment in any company expects proper exhibition of Corporate Governance which is taken care by ____________ (Management Audit/Statutory Audit/Cost Audit). (0)

(iv) When Directors are appointed U/S 225 of the Companies Act, permanent directors should constitute (0)

____________ of the total number of director ($\frac{1}{4}$/$\frac{1}{3}$/$\frac{2}{3}$).

(v) Annual returns of a Company should be filed with the Registrar of Companies with in _____________ from the date of annual General Meeting (30 days/45 days/60 days). (0)

6\. (a) What are the principal responsibilities and functions of the Governance and Nominating Committee? 8 (0)

(b) It is said that after the risk identification takes place, the actions involved in pinpointing suitable responses to the risk are broadly of five types. Elaborate on these five type of actions. 7 (0)

7\. (a) At the time of winding up of SIMON HOTEL LTD. (SHL), a supplier of company named MG LTD., presents to the official liquidator, a court decree in their favour ordering payment of certain sum. The claims of MG LTD. is that they should be paid in preference over the claims of the workmen for their dues. The same is not accepted by the workmen. Examine the validity of the rival claims in the light of the provisions of the Companies Act, 1956. 8 (0)

(b) Briefly list out the areas/aspects to be covered in the certification by the Chief Executive Officer and Chief Financial Officer of a listed company relating to the financial statements, Cash Flow Statements, Directors' Report, Internal Control etc. 7 (0)

8\. (a) Briefly discuss the provisions of the Competition Act, 2002 relating to: 4+4=8

(i) Power of Central Government to exempt; (0)

(ii) Penalty for offences in relation to furnishing of information. (0)

(b) MR. GOPALAN was appointed as Director of ANKIT LTD. on 01.03.2009. The Articles of Association of the Company provides that a Director should hold 500 equity shares of Rs.10 each as the qualification shares. Mr. Gopalan purchased 500 shares from his cousin on 11.06.2009 and the transfer was recorded in the books of the Company on the same day.
Can it be said that Mr. Gopalan has complied with the provisions of the Companies Act, 1956 in the matter of qualification requirements?
What are the ensuing consequences of non–compliance, if any? 7 (0)