

*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.

- |   | Marks    |                        |                        |                     |   |   |                    |    |    |  |
|---|----------|------------------------|------------------------|---------------------|---|---|--------------------|----|----|--|
| 1. (a) In each of the cases given below one out of four is correct. Indicate the correct answer (=1 mark) and give your workings/reasons briefly (=1 mark):   | 2x4=8    |                        |                        |                     |   |   |                    |    |    |  |
| (i) The following securities are available in the market for investment:  | (0)      |                        |                        |                     |   |   |                    |    |    |  |
| <table border="0" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Security</th> <th style="text-align: center;">Return %</th> <th style="text-align: center;">Standard Deviation (%)</th> </tr> </thead> <tbody> <tr> <td style="padding-left: 20px;">Gift-edged security</td> <td style="text-align: center;">6</td> <td style="text-align: center;">0</td> </tr> <tr> <td style="padding-left: 20px;">Equity of ROLT LTD</td> <td style="text-align: center;">20</td> <td style="text-align: center;">20</td> </tr> </tbody> </table> | Security | Return %               | Standard Deviation (%) | Gift-edged security | 6 | 0 | Equity of ROLT LTD | 20 | 20 |  |
| Security  | Return % | Standard Deviation (%) |                        |                     |   |   |                    |    |    |  |
| Gift-edged security   | 6        | 0                      |                        |                     |   |   |                    |    |    |  |
| Equity of ROLT LTD  | 20       | 20                     |                        |                     |   |   |                    |    |    |  |
| If MR VARDHAN is planning to invest Rs.5,00,000 to construct a portfolio with standard deviation of 18%, the return on such portfolio will be:  |          |                        |                        |                     |   |   |                    |    |    |  |
| A. Rs.72,000<br>B. Rs.93,000<br>C. Rs.95,000<br>D. None of the above  |          |                        |                        |                     |   |   |                    |    |    |  |
| (ii) In September, 2010, a six-month call on MELANIN LTD's stock with an exercise price of Rs.30 sold for Rs.6. The stock price was Rs.25, the risk free interest was 5% per annum. How much would you be willing to pay for a six-month put on Melanin Ltd's stock with same maturity and exercise price?  | (0)      |                        |                        |                     |   |   |                    |    |    |  |
| [Given: $e^{-rt} = e^{-0.05 \times 0.5} = 0.9753$ ]   |          |                        |                        |                     |   |   |                    |    |    |  |
| A. Rs.7.41<br>B. Rs.9.52<br>C. Rs.10.26<br>D. Insufficient information  |          |                        |                        |                     |   |   |                    |    |    |  |
| (iii) ANISHA LTD issues rights shares which increases the market value of the shares of <a href="#">the company</a> by Rs.200 crore. The aggregate market value of all shares included in the index before the rights issue made was Rs.4000 crore. If the base year average for calculating  | (0)      |                        |                        |                     |   |   |                    |    |    |  |

the index number for a period starting from the time of right issue is made till the next base year change becomes necessary is Rs.2000 crore, what is the existing base year average?

- A. Rs. 2011.88 crore
- B. Rs. 1904.76 crore
- C. Rs. 1897.76 crore
- D. Incomplete information

(iv) MR. KHUBERAN wants to purchase a stock that has a beta coefficient of 0.75. He estimates the expected market return to be 0.12 while T-Bills yield 0.09. What rate should he expect and require on the stock according to the SML (Security Market Line): (0)

- A. 0.11
- B. 0.12
- C. 0.13
- D. None of the above

(b) Choose the most appropriate answer from the stated options and write it down. 1x4=4  
(Only indicate A, B, C or D as you think correct)

(i) Which of the following would be true evidence against the semi-strong form of market efficient theory? (0)

- A. Trend analysis is worthless in determining stock prices
- B. Positive abnormal returns can be expected from low P/E stocks
- C. Mutual fund managers do not persistently make superior returns
- D. Investor cannot make superior profits by changing his portfolio according to change in interest returns.

(ii) At the beginning of a trading day, MS SONIA is in a [short position](#) in the futures market and her collateral is exactly at the required margin. If the closing futures price is below the opening price, what will happen at the end of the day? (0)

- A. She will be subject to a margin call
- B. Her losses will be carried forward to the next day
- C. Her account will be marked to market and gains will be transferred in the account
- D. None of the above

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

- A. Initial public offering
- B. Follow on public offering
- C. Green shoe option
- D. None of the above

(iv) Book building process is different from fixed price process for raising [share](#) capital from the 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 investors. Only an indicative price 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

- (c) Fill in the blanks with appropriate answers: 1x8=8
- (i) Beating the market by analyzing data obtained from magazines, reports and newspapers means that the markets are in form. (0)
  - (ii) The PSU (Public sector undertaking) bonds are securities as defined under \_\_\_\_\_ Act. (0)
  - (iii) In case of a new ULIP, IRDA has permitted partial withdrawal by a client only after \_\_\_\_\_ years. (0)
  - (iv) The fringe market is \_\_\_\_\_ (a disorganized/also an organized but informal) money market, deemed to include everything that is outside the scope of the money market. (0)
  - (v) The conditions that must be satisfied before an entity is licensed to carry out the activities of a collective investment management company are Adequate Management Structure and \_\_\_\_\_. (0)
  - (vi) The expansion of OTCEI is \_\_\_\_\_. (0)
  - (vii) For liquid securities the VaR margins are based on the \_\_\_\_\_ of the security. (0)
  - (viii) By virtue of their structures, mutual fund schemes are classified as open-ended, cost-ended \_\_\_\_\_ schemes. (0)

2. (a) How is a stock [market index](#) created? What are the aspects such an index should capture? List 2 advantages of a stock market index. 1+2+2 (0)
- (b) MS CHAITRA, an investor is evaluating the prospects of investing two stocks viz., SPARTAN LTD and GOLIATH LTD. She has estimated the returns associated with the market index based on the subjective probability approach. 6+2+ (0)  
4+3=15

Economic scenario	Probability	Returns associated with:(in %)		
		Spartan Ltd.	Goliath Ltd.	Market Index
Boom	0.36	22	28	19
Growth	0.28	18	16	16
Stagnation	0.17	14	15	12
Slump	0.19	8	10	4

The expected risk free real rate of return and the premium for inflation are 4% and 4.5% per annum respectively. Assume that CAPM holds good in the market.

You are required to:

- (i) Calculate the betas of Spartan Ltd and Goliath Ltd and comment on the same.
- (ii) Calculate excess return provided by both companies
- (iii) Calculate the proportion of systematic risk and unsystematic risk for both companies.
- (iv) Determine which stock the investor would suggest to invest if he is required to select only

one stock. Justify.

3. (a) What do you mean by “Market impact cost” ? 3 (0)
- (b) What is meant by Green Shoe Option? Briefly discuss the same. 4 (0)
- (c) The expected market return for the general market is 13.5% and the risk premium is 7.5%. DEF Ltd. GHI Ltd and JKL Ltd have betas of 0.7, 0.84 and 1.1 respectively. What are the appropriate required rates of return for these securities? 4 (0)
- (d) The following quotes were observed by MR SAXENA on September 10, 2010 in the Economic Times: 2+3 (0)

Contracts	Open	High	Low	Close	Open Interest	Traded Quantity	No. of Contracts	Underlying
CE –2145– Sept 2010	210.15	222.5	210.15	225.39	45100	1600	8	NIFTY
PE –2310– Sept 2010	21.45	28.6	20.51	21.89	2911700	1369000	6845	NIFTY

Explain what these quotes indicate.

- (e) Two funds are available for investment. Fund A is being launched today i.e. 31.12.2010 and available for investment at Rs.10 per unit. A similar Fund–MX (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. Investor MR ASHITAVA prefers Fund–A and Investor MS SONTAI prefers Fund–MX for investment through SIP (Systematic Investment Plan) each instalment entailing Rs.2000 for four quarters including initial investment: 4 (0)

Closing NAV	<u>FUND –A</u> (in Rs.)	FUND–MX (Rs.)
31.12.2010	10.00	19.45
31.03.2011	11.1567	21.50
30.06.2011	14.7680	27.15
30.09.2011	12.8554	23.69

Required:

Which investor (Mr. Ashitava or Ms Sontai) would clock a higher return on investment as on 30.09.2011?

(Ignore time value of money).

4. (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 within what time limit? 5 (0)
- (b) Under what circumstances can a company registered as a Collective Investment Management Company raise funds from the public? 4 (0)
- (c) From the information furnished below relating to Deep Freeze Containers Ltd you are required to 5 (0)

arrive at the call option price by applying the Black-Scholes option pricing model:

Strike Price = Rs.45;

Number of days remaining for expiration = 183 days;

Prevailing stock price = Rs.47;

Expected price volatility/standard deviation = 25%;

Risk free rate = 10%.

- (d) Based on the credit rating of the bonds, MS ANSITA has decided to apply the following discount rates for valuing bonds:

3+3 (0)

Credit Rating	Discount
AAA	364-day T-bill rate + 3% spread
AA	AAA + 2% Spread
A	AAA + 3% spread

She is considering investing in a AA rated, Rs.1000 face value bond currently trading at Rs.1026.50. The bond has 5 years to maturity and carries coupon at 12% per annum payable annually. The next interest payment is due one year from today and the bond is redeemable at par. (Assume the 364-day T-Bill rate to be 6%).

Your are required to:

- (i) Calculate the intrinsic value of the bond for MS ANSITA;
- (ii) Calculate the current yield (CY) and the yield to maturity (YTM) of the bond.

Note:

- (1) Ignore floatation costs and transaction costs;
- (2) 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

**SECTION II (40 Marks)**

**(CORPORATE LAWS)**

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

5. (a) Choose the most appropriate answer from the stated options and write it down (Only indicate A, B, C or D as you think correct). 1x4=4

- |       |   |     |
|-------|---|-----|
| (i)   | ESCORT LTD has 12 directors on its Board. The maximum number of non-rotational Directors the Company can have on its Board is:  | (0) |
|       | A. 2<br>B. 3<br>C. 4<br>D. 5  |     |
| (ii)  | The office of the Director becomes vacant if he fails to obtain the share qualifications, if any required by the Articles:  | (0) |
|       | A. Within 2 months of appointment;<br>B. Within 1 month of appointment;<br>C. Within 1 year of appointment;<br>D. Before appointment,   |     |
| (iii) | The concept of Corporate Governance was initiated on the recommendation of the report by:   | (0) |
|       | A. Confederation of Indian Industry (CII);<br>B. Dr. Y. V. Reddy;<br>C. Mr. Kumar Mangalam Birla;<br>D. Narayana Murthy.  |     |
| (iv)  | An application to investigate the affairs of a public Company where the shareholders are scattered all over the country can be made to the National Company Law Tribunal (NCLT) by:   | (0) |
|       | A. Any one hundred members;<br>B. Any two hundred members;<br>C. Not less than one fifth of the persons on that Company's register of members;<br>D. Not less than one fourth of the persons on that Company's register of members. |     |

(b) Fill in the blanks with appropriate answers: 1x6=6

- |       |  |     |
|-------|--|-----|
| (i)   | Buy back of equity shares by an Indian company should not exceed _____ % of its paid up equity capital in the financial year,  | (0) |
| (ii)  | In the context of classification of risks, fraud will fall under _____ .   | (0) |
| (iii) | The membership of the Governance and nominating Committee consists of at least _____ — each of whom shall meet the independent requirements established by the Board,                                      | (0) |
| (iv)  | In the case of a listed company, in addition to those stipulated in Clause 40 of the Listing Agreement, Section _____ of the Companies Act 1956 contains additional requirements for Corporate Governance, | (0) |
| (v)   | The status of litigation and claims _____ (need to/need not) be examined for evaluating going concern uncertainties.   | (0) |
| (vi)  | Annual returns of a Company should be filed with the Registrar of Companies within----- from the date of annual general meeting.   | (0) |

- |  |         |
|--|---------|
| <p>6. (a) MR. VASUDEB was appointed as Director of ZISLEEN LTD on 2<sup>nd</sup> April 2010. The Articles of Association of the Company provides that the qualification of a Director shall be holding of at least 10 shares in the Company. Mr. Vasudeb applied for 10 equity shares of the Company on 31<sup>st</sup> May 2010. But the shares were allotted only at the Board Meeting held on 12<sup>th</sup> August 2010.</p> <p>Examine with reference to the relevant provisions of the Companies Act 1956 whether Mr. Vasudeb has complied with the requirements relating to qualification shares. If not what are the consequences?.</p> | 5+2 (0) |
| <p>(b) State the importance of a remuneration Committee in the context of Corporate Governance. What are the responsibilities normally assigned to such a committee?</p>   | 3+2 (0) |
| <p>(c) State any 3 of the additional requirements stipulated in Clause 49 of the Listing Agreement which are silent in Section 292A of the Companies Act 1956.</p>   | 3 (0)   |
| <p>7. (a) Weak Tweek India Ltd made an initial public offer of 2 lakh equity shares. Can these shares be considered as 'Goods' under the Competition Act 2002 before allotment?</p>  | 3 (0)   |
| <p>(b) INSTABLE FERTILIZERS LTD has been continuously incurring losses; the company mortgaged its machinery to MR. BULLY one of its creditors on 1<sup>st</sup> September 2009 relating to outstanding of Rs.15 lakhs due to him. The other creditors of the company filed a petition for winding up the Company on 19<sup>th</sup> December 2009. The company was ordered to be wound up on 30<sup>th</sup> April 2010. Discuss whether the Official Liquidator can declare the transaction of mortgage with Mr. Bully as invalid.</p>  | 6 (0)   |
| <p>(c) Write a brief note on Audit Committee.</p>  | 6 (0)   |
| <p>8. (a) What do you mean by "Right to Information" according to the RTI Act 2004? What are the objectives of the said Act?</p>   | 5 (0)   |
| <p>(b) It is said that after risk identification takes place, the actions involved in pinpointing suitable responses to the risk are broadly of 5 types. Elaborate on these 5 types of actions.</p>  | 6 (0)   |
| <p>(c) State any 8 of the 14 key aspects of the CII (Confederation of Indian Industries) code for desirable Corporate Governance.</p>  | 4 (0)   |