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Roll No..................................... **OPEN BOOK EXAMINATION**

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 7***

NOTE : *Answer **ALL** Questions.*

1. (*a*) A team of young technocrats formed a startup named iNova Softech. The startup has developed an ERP software for leading Cargo firm, with estimated project cost is ₹ 10 Crore. The team is able to invest only a sum of ₹ 5 Crore as equity at a face value of ₹ 100 each, the balance is proposed to be financed through Venture Capital. The company offers two alternate investment packages to the Venture Capital (VC) firm :

(*i*) Straight Equity Investment.

(*ii*) Fully Convertible Debentures (FCDs) with a coupon of 20%. At the end of 4 years, which would be converted into Equity Shares. This conversion would be at a P/E ratio of 10 on the weighted average EPS of the preceding three years with weights of 1, 2 and 3 for the EPS of 2nd, 3rd and 4th year respectively.

The startup is planning to launch an IPO at the beginning of 6th year, which is expected to be priced at P/E multiple of 12 on the EPS of the 5th year. The VC firm intends to divest its holding at the time of the IPO.

It has proposed to maintain a Dividend Pay-out Ratio of 10% for all 5 years. The expected EBIT for the 5 years is as under :

(₹ in crore)

Probability	**0.2**	**0.5**	**0.3**
Year 1	4.0	8.0	10.0
Year 2	8.0	10.0	12.0
Year 3	10.0	12.0	14.0
Year 4	12.0	16.0	18.0
Year 5	16.0	20.0	24.0

Ignore Taxes.

As a financial advisor you are required to choose the alternative investment to be made by VC firm if its required rate of return is 14%.

Present Value Factor @ 14%

Year	1	2	3	4	5
PV Factor	0.877	0.769	0.675	0.592	0.519

(*15 marks*)

(*b*) XYZ Company is planning an IPO of ₹ 100 crore (10 crore shares @ ₹ 10 each face value at a book-built price of ₹ 10 to ₹ 11). On expectation of huge response from the investors the company has provided for Green Shoe Option.

What role shall be played by the Stabilising Agent under below mentioned situations while going for Green Shoe Option :

(*i*) Situation #1 - Where the Stabilising Agent manages to buy-back all of the Green Shoe Shares, i.e., 1,50,00,000 shares;

(*ii*) Situation #2 - Where the Stabilising Agent manages to buy-back none of the Green Shoe Shares;

(*iii*) Situation #3 - Where the Stabilising Agent manages to buy-back some of the Green Shoe Shares, say 90,00,000 shares.

Narrate the process of Green Shoe Option as per the SEBI (ICDR) Regulations, 2009, with regard to the above.

(*15 marks*)

(*c*) Disha Exports Ltd., engaged in garment exports, has proposed to expand its operations for which it requires funds of $5 million, net of issue expenses amounts to 2% of the issue size. It has planning to raise the funds through a GDR issue. While considering this, the important factors in pricing the issue may be as under :

(*i*) The expected domestic market price of the share is ₹ 300

(*ii*) 4 shares underlie each GDR.

(*iii*) Underlying shares are priced at 10% discount to the market price.

(*iv*) Expected exchange rate to be Rs. 45/$.

You are required to compute :

(*a*) The number of GDRs to be issued.

(*b*) Cost of GDR to the company if the dividend expected to be paid is 20% with a growth rate of 10% p.a.

(*10 marks*)

(*d*) ABC Bearings, a leading bearings manufacturer and exporter, is engaged in the business of' flexible engineering solutions. The company enjoys almost monopolistic position (for its innovative products) throughout the country.

Presently the company is operating at 50% capacity however, it has surplus capacity which could be utilised later, if needed.

The financial results for 2019-20 are as under :

Particulars	**Amount (₹ crore)**
Sales	740
Operating Exp.	494
Operating Profit	246
Interest	36
Depreciation	60
Profit Before Tax	150
Taxes	30
Profit After Tax	120
Share Capital	80
Reserves & Surplus	400
12% Non-Convertible Debentures	300

The company has earned cash profit of ₹ 180 crore for 2019-20. The company is proposing to declare 100% dividends which would result in a cash outflow of ₹ 80 crores.

The Board of directors are exploring the possibility of buy-back of equity as the company does not have any scope to ploughing back its cash surplus. The shares of the company are quoted at a P/E multiple of 6.67.

Company seeks your advice in decision making. As a Company Secretary submit your report on the basis of the following points :

(1) What impact will buy-back have over the capital structure with respect to :

(*a*) Equity shares,

(*b*) EPS,

(*c*) NAV and

(*d*) Dividend.

(2) Compare and contrast buy-back option with :

(*a*) Early redemption of its Non-Convertible Debentures (NCDs).

(*b*) Deploying the cash surplus in the Inter-Corporate Deposit (ICD) Market at 20%.

(No computations are required).

(*10 marks*)

2. (*a*) Rakesh Ltd., has just paid a dividend of ₹ 32 per share. On account of modernisation (heavy investment in automated technologies) of plant, the directors intend not to pay any dividend for the next two years' period. However, in three years' time the company will resume paying dividend at ₹ 24 per share. The directors are optimistic to achieve dividend growth at 14% p.a. thereafter.

In the event of modernisation not taking place, dividend will be paid in the next two years and the expected dividend growth will remain at present level of 8% p.a. The cost of equity is 18% and will not get affected even if the modernisation processes take place.

As a financial advisor you are required to :

(*a*) Calculate the value of firm's shares in both the situations.

(*b*) Advice the Board of directors to which process they should resort to ?

(*10 marks*)

(*b*) Discuss the guiding code of conduct that shall be followed by Credit Rating Agencies as per SEBI (Credit Rating Agencies) Regulations, 1999.

(*10 marks*)

(*c*) Discuss delisting offer as per SEBI (Substantial Acquisition of Shares and Takeovers) (Amendment) Regulations, 2015.

(*10 marks*)

3. (*a*) State the penalty levied for failure to redress investors' grievances as per The Depositories Act, 1996.

(*2 mark*)

(*b*) On February 15, Priya bought a January Nifty futures contract that cost her ₹ 5,00,000, An initial margin of ₹ 40,000 was paid by her to the broker. Each Nifty futures contract is for the delivery of 200 Nifty. On February 25, the index closed at 2,820. How much amount of profit/loss did she make ?

(*3 mark*)

4. (*a*) Face Value of a Commercial Paper is ₹ 20,00,000, Maturity period to be 90 days, Net Amount realised = ₹ 19,20,000 (excludes discount and other charges associated with issue = 1.5 per cent). Calculate pre-tax effective cost of Commercial Paper.

(*2 mark*)

(*b*) What are the restrictions on communication and trading by insiders ?

(*3 mark*)

5. (*a*) State in brief about the types of financial intermediaries which facilitate a proper channel of investment.

(*2 mark*)

(*b*) The financial information of Beta Ltd. is as under :

	Amount (₹)
Equity Share Capital	56,00,000
Retained Earnings	84,00,000
Face value of Shares	10/-
Current Market Price	20/-
15% Preference Share Capital	40,00,000
Profit after Tax	60,00,000
Equity Dividends paid	22,40,000

Calculate :

(I) Dividend Yield

(II) Return on Equity.

(3 *marks*)

6. On 3rd March 2020, Anuj, a Delhi based gold jeweller buys 12 kgs. of gold in the cash market as a raw material to make jewellery from it. Anuj wants to protect himself from a decline in the prices of gold till the jewellery is ready for sale in 45 days. He decides to hedge by selling futures contract of gold. The standard deviations of the change in the cash price of gold and change in futures price of gold over the last 45 day period is 0.88 and 0.60 respectively. The coefficient of correlation between the change in cash price and the futures price of gold for 45 days is 0.87. Standardised futures contract size of gold is 1 kg.

(*i*) Calculate Optimal Hedge Ratio

(*ii*) How much gold futures contracts should be sold by Anuj ?

(*5 marks*)