OPEN BOOK EXAMINATION

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Roll No.…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 6 *Total number of printed pages : 4*

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

1. Rise Ltd., a listed company having registered office in Delhi, has proposed two financial plans. Details of the same are given below :

Sources of funds	*Plan – 1*	*Plan – 2*
Equity shares of ₹100 each	₹22,50,000	₹45,00,000
12% Preference shares of ₹100 each	₹50,00,000	Nil
Debentures *(convertible after 2 years)*	₹10,00,000 @10% interest	₹30,00,000 @11% interest
Tax rate	35%	35%

You are required to answer the following —

(a) Compute :

(i) Two EBIT-EPS co-ordinates for each plan, assuming expected EBIT ₹25,00,000.

(10 marks)

(ii) Indifference point.

(5 marks)

(iii) Financial break-even point for each plan.

(5 marks)

(b) Explain which financial plan is more risky out of the above two plans and why ?

(5 marks)

(c) Find out the EBIT range in which one plan is better than the other plan.

(5 marks)

(d) Recommend the plan if Rise Ltd. is fairly certain that its EBIT will be ₹25,00,000. Give reasons.

(5 marks)

(e) Prepare verification table for the above.

(5 marks)

(f) List out the advantages of convertible debentures for the company and to its investors.

(5 marks)

(g) Explain the conditions for private placement of non-convertible redeemable preference shares.

(5 marks)

2. (a) Glory Ltd. is a listed company with :

— Authorised capital of ₹500 crore (*i.e.*, 50 crore equity shares of ₹10 each); and

— Fully paid-up equity share capital of ₹200 crore.

Glory Ltd. is now making equity issue of balance capital, *i.e.*, for 30 crore shares of ₹10 each under qualified institutional placement (QIP). The receipt of funds on account of applications and present status are as follows :

(i) There are 4 (four) available qualified institutional buyers (QIBs) including mutual funds who have deposited the amount upto the amount of issue.

(ii) Out of QIBs as mentioned in (i) above, one QIB is willing to buy 51% of the said issue, *i.e.*, for ₹153 crore for better exercise of control. The other three investors are not related/associated with the former.

(iii) Out of QIBs as mentioned in (i) above, one QIB is still not satisfied with the performance of the company and has written that they may be given an opportunity to withdraw 50% of the application money after the closure of issue.

(iv) The issue is made with optionally convertible instruments and exchangeable with equity shares up to 7 years (*i.e.*, 84 months).

(v) The allotment is being made in the 13th month after passing the shareholders' special resolution and it is explained by the company that there was delay in negotiation with QIBs for investment and the delay is beyond the control of the company and cause is external one.

The issue is within the prescribed limit of the pre-issue net worth and it is intended for enlistment as a further issue with the stock exchange where it is listed. As a Practising Company Secretary engaged by Glory Ltd., advise the company keeping in view the situations mentioned in points (i) to (v) above, with reasons.

(10 marks)

(b) Foreign currency convertible bonds (FCCBs) and foreign currency exchangeable bonds (FCEBs) are both aimed at to finance business of Indian companies, but the two are quite different in methodology.

Bring out the similarities and distinctions between the two type of bonds.

(10 marks)

(c) Kite Ltd. is a public company which intends to get its equity shares listed at BSE. Kite Ltd. has approached you to advise about the conditions of listing regulations with respect to maintenance of mandatory functional website by every listed entity.

Give your advice to Kite Ltd. about the specific requirements mentioning the relevant provisions of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

(10 marks)

3. Under the Depositories Act, 1996, the depository facilitates its beneficiary account holders to create a pledge or hypothecation in favour of another person/entity, who also has a beneficiary owner's (B.O.) account.

Neeraj has a B.O. account and wishes to create pledge against holding of some equity shares in favour of another person who will provide him loan. However, he is confused to differentiate between 'pledge' and 'hypothecation'. Neeraj approached you as a Company Secretary in Practice to understand the difference between the two and which is safer for him.

Advise Neeraj referring to the relevant provisions of the Depositories Act, 1996.

(5 marks)

4. Meera Ltd. has 50,000 fully paid-up equity shares as on 31st March, 2016. The shareholding pattern of Meera Ltd. is given below :

	No. of Shares
Shares held by founders/directors/acquirers — who can exercise control	21,000
Shares held by partner with controlling interest	3,000
Holding of shares through FDI	2,000
Independent public companies	4,000
Strategic stakes by corporate bodies	3,000
Cross holding by group/associate companies	1,000
Lock-in-shares which would not be sold in open market	2,000
Retail investors	13,000
Employees' welfare trust	1,000
TOTAL	50,000

You are required to —

(a) Define 'free float' and 'free float market capitalisation'.

(2 marks)

(b) Compute the free float of the company and its percentage to the total equity shares based on the above facts.

(3 marks)

5. Illustrate the difference between 'money market' and 'capital market'.

(5 marks)

6. "For the purpose of prevention of misuse of 'price sensitive information' all the directors/officers and designated employees will have to work under a restricted mechanism and environment." Discuss.

(5 marks)

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