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 : 5***

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

1. ABC Textiles Limited places an order to buy textile machinery with an American company. As per the agreement ABC Textiles Limited will be paying US $ 200000 after 180 days. As the fluctuation in the spot rate of the US dollar over next 180 days will impact the rupee cost of import, the Board of ABC Textiles Limited asks its finance manager to collect data from the currency forward market, money market, currency option market etc. The board also asked a consultant to assess various possible dollar spot rates after six months.

The various findings are as follows :

(*a*) Possible spot rate of dollar after six months, as estimated by the consultant, is ₹ 47.25, ₹ 47.75, ₹ 48, ₹ 48.50, ₹ 48.90.

(*b*) Spot rate of dollar as of today is 48/US $.

(*c*) 180 day forward rate of dollar as of today is ₹ 48.48/US $.

(*d*) Interest rates are as follows :

	India	USA
For 180 days deposit rate (per annum)	7.50%	1.50%
For 180 days borrowing rate (per annum)	8.00%	2.00%

(*e*) A call option on the dollar, which expires in 180 days, has an exercise price of ₹ 48/US $ and premium ₹ 0.52/US $.

(*f*) A put option on dollar, which expires in 180 days, has an exercise of ₹ 48/US $ and premium of ₹ 0.04/US $.

Carry out a comparative analysis of the various outcomes (rupee cost of import) under the alternatives of

(*i*) Not hedging (*10 marks*)

(*ii*) Forward hedging. (*5 marks*)

(*iii*) Money market hedging (*15 marks*)

(*iv*) Option hedging (*15 marks*)

(*v*) Also give your recommendation that which of the above alternative will be beneficial to the ABC Textile Limited (*5 marks*)

2. (*a*) The following financial statistics is available in respect of a listed company :

Price earning (P/E) ratio	8 times
Number of equity shares	4 lakh
Earnings available to equity shareholders	₹ 40 lakh
Earnings per share	₹ 10
Market price per share	₹ 80

The company is currently considering whether it should use ₹ 20 lakh of its earnings to pay cash dividends or purchase shares at ₹ 85 per share. As a financial consultant to the company, you are expected to provide answers for the following situations :

(*a*) How many equity shares can be repurchased, using the funds that would have been disbursed to pay cash dividend ?

(*b*) Determine the EPS after the proposed share repuchase.

(*c*) Assuming no change in the current P/E Ratio, compute the market price after share repurchase.

(*d*) Compare the shareholders' positions under the dividend and repurchase alternatives.

(*e*) In case share repurchase price is higher than ₹ 85, which category of shareholders– those who have sold their shares or those who have not–are financially better off ? (*10 marks*) (*b*) The following is the information of JSP Limited listed on BSE :

(*a*) The paid up equity share capital of the company is ₹ 11,50,00,000 comprising of 1,15,00,000 equity shares of ₹ 10 each

(*b*) The promoters of the company viz. Mr. Jayanth together with his relatives and associate companies are holding 60,12,166 equity shares, representing 52.25% of the total paid up capital of the company as on 31-03-2011.

(*c*) The promoters intend to acquire further 15% (575000 equity shares) of total share capital of the company under regulation 3(2) of the SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 (hereinafter referred as "Takeover Regulations") in the financial year 2013-14.

(*d*) Further, they are desirous of increasing their holding by futher 5% equity shares (5,75,000) in each financial year of 2014-15, 2015-16, 2016-17 in terms of the regulations without making any public announcement, by way of purchase from the open market in normal segment on the stock exchange.

(*e*) The said acquisitions shall also not be through bulk/block deal/negotiated deal or preferential allotment.

In light of the above information, explain the following :

(*a*) Can the promoters of the company acquire additional 5% (575000 shares) during the financial year 2013-14 as per regulation 3(2) of the Takeover Regulation ?

(*b*) Can the promoters further acquire 5% additional shares as per regulation 3(2) of the Takeover Regulations in each financial year 2014-15, 2015-16 and 2016-17 till reaching the level of 75% of the paid up share capital of the company.

(10 marks)

(*c*) (*i*) ABC Limited came out with an IPO of 10,00,000 shares, including 4,00,000 shares as offer for sale by an existing investor @₹ 200 each.

35% of the issue was reserved for retail investors who were given a discount of 5%

The Company incurred an expense of ₹ 70 lacs in completing the issue. Calculate the net amount received by the company from this IPO.

(*5 marks*)

(*ii*) An Investor purchased 1000 shares of HP Oil Limited on Ist April 2016 at a price of ₹ 1,200 each.

The company allotted two shares against each share as bonus on 10th May 2016.

The Company further issued Bonus shares in the ratio of one share against two shares held on Ist January 2017.

The investor sold all the shares of the company on 25th February 2017 @ ₹ 500 each.

What is the net gain to the investor presuming that the investor has to pay short term capital Gain Tax of 15% *(5 marks)*

3. "The main function of Financial Intelligent Unit-India (FIU-IND) is to receive suspicious transaction reports, analyse them and, as appropriate, disseminate valuable information to enforcement department" – do you agree. Discuss. (*5 marks*)

4. MM Ltd has 1,00,000 fully paid-up shares of ₹ 100 each as on 31st March, 2017. The shareholding pattern of the MM Ltd is given below :

Shareholding Pattern	**Number of Shares**
Shares held by promoter group	19750
Strategic investment by the government	500
Independent public companies	10000
Shares held by promoters through ADR	2500
Cross holding of associate companies	125
Employee welfare trusts	1475
Shares under lock-in category	14000
Retail investors	51650

From the above, you are required to

(*a*) Define 'Investible Weigh Factors (IWFS) (*2 marks*)

(*b*) Compute the IWF in terms of percentage ? (*3 marks*)

5. "As per the SEBI (Foreign Portfolio Investors) Regulation 2014, Foreign Institutional Investors (FII) and Qualified Foreign Investors (QFI) have been merged in the name of Foreign Portfolio Investors (FPI)" – As a Compliance Officer of the listed company, describe the various categories of FPI with its constituents. (*5 marks*)

6. A commodity trader borrowed a sum of ₹ 6,50,000 @ 12% p.a. for a period of 3 months. This fund was used to buy 2 Kg gold @ ₹ 2,950 per gram and paid a sum of ₹ 5,90,000 towards cost of physical gold.

   The Trader sold 2 kg gold in future of 3 months in the commodity exchange @ ₹ 3,000 per gram.

   The Trader paid ₹ 60,000 to the broker towards margin as well as maintanance margin for this transaction.

   After 3 months the Trader squared off the future tramsaction of gold @ ₹ 3,050 per gram. The Trader also sold the physical Gold @ ₹ 3,050 per gram.

   Calculate the Net gain/loss made by the trader. (*5 marks*)