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. (*i*) A Ltd. is considering the acquisition of B Ltd. The financial data at the time of acquisition is as follows :

	A Ltd.	**B Ltd.**
Net profit after tax (₹/lakh)	30	6
Number of shares (lakh)	6	2.50
Earning per share (EPS) (₹)	5	2.40
Market price per share (₹)	75	24
Price earning ratio	15	10

Assuming that the net profit after tax of the two companies would remain the same after amalgamation (i.e. ₹ 36 lakh).

Explain the effect on EPS under each of the following situations :

(*a*) A Ltd. offers to pay ₹ 30 per share to the shareholders of B Ltd.

(*15 marks*)

(*b*) A Ltd. offers to pay ₹ 40 per share to the shareholders of B Ltd.

(*15 marks*)

The amount in both the cases is to be paid in the form of shares of A Ltd.

(*c*) Comment on the above offers.

(*10 marks*)

(*ii*) Ramesh has sold one month put option of equity share of Moon Ltd. @ ₹ 60. The strike price of the option is ₹ 600 and current market price is ₹ 572.

(*a*) What is the time value of the option when he is selling the option ?

(*2 marks*)

(*b*) What is net profit/loss to him if the price of Moon Ltd. closed on the expiry is ₹ 549 and he hold the position till the expiry ?

(*3 marks*)

(*iii*) An index consist of two companies having different market capitalisation. The market capitalisation of first company is ₹ 100 crore while that of the second company is ₹ 50 crore. If the first company plans bonus issue and second company plans rights issue, what will be the effect on the index ?

(*5 marks*)

2. (*i*) The following information is available with respect to an investor Ram, trading in future market :

- Ram has purchased 80 lot of index future @ 881, on day one out of which he sold 20 lot @ 878 and carry remaining 60 lot. Closing price of index future is 888 for day one.
- For day two the closing price is 878 and he has not made any trade.
- On day three he sold all the remaining 60 lot @ 908. The closing price of the day is 864.
- One lot = 125 units.

Based on the above information, compute :

(*a*) The mark to market position for day one and day two.

(*5+5 marks*)

(*b*) The total pay off from the above transaction and also cross verification with the daily Mark to Market (MTM) of all three days adjusted with intra day trade.

(*5+5 marks*)

(*ii*) ABC Limited, an Indian profit making dividend paying company, for the past 40 years, proposes to issue convertible debentures. List out the advantages to the company and to the investor of this issue.

(*10 marks*)

3. (*a*) What is the penalty for depository participant who fails to enter into an agreement with its account-holder. It is assumed that depository participant is registered with Securities and Exchange Board of India.

(*2 marks*)

(*b*) Sohan has two different demat accounts, one account with one depository and the other with second depository. Can he transfer the shares from one depository account to other depository account ? Explain.

(*3 marks*)

4. Bombay Stock Exchange (BSE Limited) came out with an IPO. The shares are listed at National Stock Exchange (NSE). State the reasons for the same and why the stock is not listed on BSE ?

What is the co-relation between sensex and the stock price of BSE Limited ?

(*5 marks*)

5. XYZ Ltd. merchant banker while conducting due dilligence of his client company shared the information to a real estate company, Real Ltd., an another client of the company.

Examine the case in the light of SEBI (Merchant Bankers), Regulations 1992.

What are the consequences which XYZ Ltd. may face ?

(*5 marks*)

6. A farmer expects an output of 500 tonnes of wheat in the month of May. He expects wheat prices in the May month to go down. The current month is February and cost of wheat per tonne is ₹ 1043. The May month future of wheat is trading at ₹ 1,172.

(*i*) What position he should take in future market to protect himself from sudden fall ?

(*1 mark*)

(*ii*) The May month future expires @ ₹ 1133 and he sold wheat @ ₹ 1133 in physical market on the expiry day. What will be the net profit/profit to him, if he hedges the position in the future market ?

(*2 marks*)

(*iii*) He sold all the 500 tonnes of wheat of the May future market @ ₹ 1172 in the month of February. Thereafter, in the month of May he square-up future option position @ ₹ 1155 and sold all lots in physical market @ ₹ 1153. Based on this information, compute the net pay off.

(*2 marks*)

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