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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 : 8***

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

1. (*a*) ABC Ltd. is planning to borrow a sum of ₹ 100 crore after 3 months. To hedge itself against the risk of increase in 91-days interest rate (which is currently 5.25%), the Company decided to trade in 91-Day Government of India (GOI) Treasury Bill Future which is currently available at ₹ 95. The specification relating to these Future Contract are as follows :

Unit of Trading	Face value ₹ 2,00,000
Underlying	91-Day GOI Treasury Bill
Contract Size	₹ 2,00,000
Settlement	At Weighted Average Discount Yield obtained from weekly auction of 91-day T-Bill conducted by RBI on the day of expiry.

You are required to :

(*i*) State the position to be taken by ABC Ltd. in the Future Market to hedge itself against interest rate risk on the loan to be taken with reasons thereon. (*5 marks*)

(*ii*) Calculate the Number of Future Contracts (rounded off on lower side) needs to be traded to hedge the risk on the loan to be taken. Also calculate the amount of loan left exposed to risk even after taking Future Contracts. (*15 marks*) (*iii*) Calculate the effective cost of funds to ABC Ltd.

(1) If on the day of settlement 91-Day Interest Rate rises to 6% and the Weighted Average Discount Yield obtained from weekly auction of 91-day T-Bill conducted by RBI comes out to be 5.95%.

(*5 marks*)

(2) If on the day of settlement 91-Day Interest Rate falls to 4.75% and the Weighted Average Discount Yield obtained from weekly auction of 91-day T-Bill conducted by RBI comes out 4.70%.

(*5 marks*)

(*iv*) Comment on the use of Interest Rate Futures to hedge the cost of borrowing by ABC Ltd.

(*5 marks*)

Notes : (1) Use simple compounding in the calculations.

(2) Assume 365 days a year.

(3) Round off the Contract Value/Price (i.e. no decimal points).

(4) Use Weighted Average Discount Yield for settlement of Future Contracts traded.

(*b*) Hari and his Persons Acting in Concert (PAC) holding 15% Equity Shares in XYZ Ltd. They purchased another 20% equity shares at a negotiated price of ₹ 120. The data pertaining to acquisition of shares by Hari and PAC in the period previous to this announcement are as follows :

Date	Price of Share (₹)	No. of Shares Acquired
09.10.2018	94.55	5,000
19.11.2018	103.40	10,110
13.12.2018	107.50	12,124
28.12.2018	70.15	27,120
31.12.2018	72.50	30,150
03.01.2019	82.15	32,120
09.01.2019	87.10	29,750
07.02.2019	91.20	23,270
15.02.2019	75.50	32,330
07.03.2019	82.10	27,220
11.04.2019	85.10	22,110
09.05.2019	91.50	18,240
20.06.2019	92.70	20,000
19.07.2019	87.60	15,170
21.08.2019	82.70	12,714
19.09.2019	83.75	13,115
15.10.2019	93.70	37,111
14.11.2019	94.20	30,240
21.11.2019	101.70	29,999
10.12.2019	85.00	31,147
20.12.2019	95.60	30,960

Further the Volume Weighted Average Market Price for 60 trading days prior to announcement made is ₹ 110 per share.

From the above information :

(*i*) State the meaning of triggering of take over code with defined percentages.

(*3 marks*)

(*ii*) What are the obligations of Acquirers on triggering of take over code with details ?

(*3 marks*)

(*iii*) In case an open offer is to be made to acquire shares, what shall be the quantum and the procedure involved.

(*3 marks*)

(*iv*) Determine the 'Offer Price' at which the open offer shall be made with calculations.

(*3 marks*)

(*v*) As an investor, how one can tender shares in the open offer.

(*1 mark*)

(*vi*) Is there any reservation for the small shareholders ?

(*1 mark*)

(*vii*) Discuss the situation wherein the price of the share in stock market goes beyond the offer price.

(*1 mark*)

2. (*a*) DEF Ltd. was established 10 years ago and is in the business of manufacturing Electronic Chips which are used in electronic toys for the children. The Company listed in NSE and BSE, was the main buyer consisting of about 90% of DEF Ltd.'s total sale. LMN Ltd. uses one customized Chip manufactured by DEF Ltd. mainly for the production of one model of toy called 'Teletotto'.

It came to the notice of Ministry of Information and Technology, Government of India that the toy 'Teletotto' poses a threat to national security and accordingly ordered the stoppage the production and sale of the same toy and also instructed the company to deactivate the Chip in the toys already sold.

As a Company Secretary of DEF Ltd., comment on :

(*i*) Whether any disclosure was required before the order of Ministry of Information and Technology ?

(*5 marks*)

(*ii*) What kind of disclosure are required after the notice of Ministry of Information and Technology ?

(*5 marks*)

(*iii*) An employee of Ministry of Information and Technology who was holding 10,000 shares of DEF Ltd. and was aware of the impending order sold the shares in the stock market before the order was issued by the Ministry. Whether the action of the employee of the Ministry is morally and legally correct ?

(*5 marks*)

(*b*) NBP Bank Ltd. (a banking company) approaches you to develop a framework for the identification of 'Suspicious Transactions' in the bank.

As a Company Secretary in practice you are required to provide some examples helping the bank in identification of 'Suspicious Transactions'.

(*5 marks*)

(*c*) MLK Ltd. is planning to expand its business both at domestic level and global level and therefore its Board has decided to :

(*a*) enter into joint venture with TMK GmbH of Germany. This proposal will have an investment of Euro 40 Million.

(*b*) acquisition of majority of shares of a PSU company under GOI disinvestment programme. This proposal shall involve an outlay of ₹ 5600 Million.

As a Company Secretary of the company answer the following questions :

(*i*) Whether company can adopt the route of External Commercial Borrowings (ECBs) to finance the proposed expansion plans ?

(*ii*) If the floatation cost of financing from ECBs route is US$ 2 Million, what will be the amount of ECB to be raised in US$ if spot rates of Foreign Exchange are follows :

1 US$ = ₹ 70 and 1 Euro = US$ 1.25

Assume that company will be not be affected by the changes in exchange rates as it will hedge its position.

(*10 marks*)

3. XYZ Ltd. is manufacturing electric wires. To ensure smooth production it buys and hold the inventory of copper.

Explain what types of risk XYZ Ltd. is exposed to and how it can hedge these risks.

(*5 marks*)

4. Rakesh, a commodity trader borrowed a sum of ₹ 1,00,00,000 (Rupees One Crore) @ 10% p.a. for a period of 3 months.

This fund was used to buy 2 kg gold @ 4,400 per gram and due amount was paid. Rakesh sold 2 kg gold in future of 3 months in the Commodity Exchange @ 4,500 per gram. The Trader paid ₹ 10,00,000 to the broker towards margin as well as maintenance margin for this transaction.

After 3 months Rakesh squared off the future transaction of gold @ ₹ 4,500 per gram. The broker charged ₹ 8,000 as commission all inclusive for this transaction.

Rakesh sold the physical gold @ ₹ 4,500 per gram.

Calculate the Net gain/Loss made by Rakesh.

(*5 marks*)

5. B Ltd. has an issued capital of 5 Crore equity shares of ₹ 10 each. The company has free reserves of ₹ 300 Crore. The stock price quoted in stock market is ₹ 300. The promotor holds 70% of the equity capital in the company. B Ltd. has decided to distribute part of its surplus cash to its shareholders. The company short-listed two options :

(*i*) Declare a dividend of 160 percent.

(*ii*) Buy-back 2,00,000 equity shares @ ₹ 400 per share by way of Tender Route. Comment on the following aspects :

(*a*) Out of above two options which are more beneficial to the promotor for the purpose of taxation.

(*2 marks*)

(*b*) Will there be any difference in outgo of funds for the company ?

(*2 marks*)

(*c*) In case of buy-back by way a tender route and it is fully subscribed and the promotors also tender shares as per their entitlent, what will be the impact on the promotor's holding ?

(*1 mark*)

6. (*i*) What is the difference between Exchange Traded Fund (ETF) and other schemes of the Mutual Fund ?

(*2 marks*)

(*ii*) What is the role of Mutual Fund Manager in these schemes ?

(*2 marks*)

(*iii*) Mutual Fund charges a fee for maintenance of these schemes to meet its various expenditures such as Salaries, Research, Maintenance of records etc. Is there any difference in the expenses charged by Mutual Fund on maintenance of both these Schemes ?

(*1 mark*)

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