

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 : 8

NOTE : *Answer ALL Questions.*

1. Parimal Pharma Ltd. sold its few brands to another pharmaceutical company namely Areva Ltd. for a sum of ₹ 6,000 crore.

Number of options were available to Parimal Pharma Ltd. to deploy these funds to generate profits for the company.

A team was constituted to decide and finalize the following proposals :

- (I) ₹ 2,000 crore shall be invested in the equity of various companies as a strategic partner.
- (II) ₹ 1,500 crore shall be used to provide inter-corporate loans as to provide yield of 12%.
- (III) ₹ 1,500 crore shall be used to buy back its own equity shares having face value of ₹ 10 each at a price of ₹ 3,000 per share (present market price of ₹ 2,400 per share) being 10% of the paid up equity share capital of the company by way of tender route wherein promoters also intend to participate.
Promoters hold 75% equity shares in the company.
- (IV) ₹ 500 crore were allocated to a team which will actively participate in capital and commodity market to generate a return of 15%.

Proposal I (a) ₹ 2,000 core shall be invested in the equity of various companies as a strategic partner :

- (i) ₹ 500 crore were invested in a listed company and after one year the investment was sold at a profit of 35%.
- (ii) ₹ 1,000 crore were invested in a unlisted company by purchasing 5 crores shares of ₹ 10 each at a premium of ₹ 190 each. The company came out with a public

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offer and all these shares were offered for sale in the public offer at a premium of ₹ 240 per share. Issue was subscribed and the proceeds were received by the company after deducting a sum of ₹ 15 crore towards expenditure.

- (iii) The remaining investment of ₹ 500 crore was made in PQR Ltd. by purchasing 2 crore shares at an average price of ₹ 250. These shares were sold in a block deal at the rate of ₹ 235 per share in the NSE.

Calculate the total profit/loss made for the above said activities of investments.

(8 marks)

Proposal II (b) ₹ 1,500 crore shall be used to provide inter-corporate loans to provide yield of 12% :

- (i) ₹ 1,000 crore were given to A Class Ltd. @ 10 percent per annum. Amount was received with interest at the end of a year. Parimal Ltd. waived the interest for 6 months and the loan was sold with a hair cut of 40%.
- (ii) ₹ 500 crore were given to Z Ltd. @ 20% p.a. Interest was received for 6 months. The company became a defaulter and the case against the Z Ltd. was filed with NCLT. Parimal Ltd. waived the interest for 6 months and the loan was sold with a hair cut of 40%.

Calculate profit/loss made by the department.

(8 marks)

Proposal III (c) ₹ 1,500 crore shall be used to buy back its own equity shares having face value of ₹ 10 each at a price of ₹ 3,000 per share (present market price of ₹ 2400 per share) being 10% of the paid up equity share capital of the company by way of tender route wherein promoters also intend to participate. Promoters hold 75% equity shares in the company.

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- (i) Prepare a Board note to be placed in the Board Meeting. (5 marks)
- (ii) Mention stepwise procedure to be adopted. (5 marks)
- (iii) State the reservation to be made for small shareholders together with the relevant statutory provisions thereon. (3 marks)
- (iv) Calculate the total share capital in numbers as well as amount and also the number of shares held by promoters. (3 marks)

Proposal IV (d) ₹ 500 crore were allocated to a team which will actively participate in capital and commodity market to generate a return of 15% :

- (i) 1,00,000 nifty future were purchased @ ₹ 10,485 and equivalent nifty call at the strike price of ₹ 10,500 was sold @ ₹ 80. At the end of the month nifty closed at 10,455. Calculate profit/loss. (3 marks)
- (ii) 1,00,000 shares of Symphosis Ltd. were purchased at an average price of ₹ 1,200 in the cash market and the equivalent amount of shares was sold in the derivative market at ₹ 1,208. At the end of the month the shares were sold at an average price of ₹ 1250 and the future was also settled at ₹ 1250. Calculate profit/loss in the transaction. (3 marks)
- (iii) Call option of Surf Ltd. were purchased for 1,00,000 shares at the strike price of 1300 @ ₹ 26 and call option of 2,00,000 shares at the strike price of 1400 were sold @ ₹ 9. At the end of the month the price of Surf Ltd. was settled at ₹ 1,320. Calculate profit/loss. (3 marks)

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(iv) Call option of Honda Ltd. at the strike price of ₹ 3,500 was sold for ₹ 46 for 1,00,000 shares. Put option for equivalent number of shares at the same strike price was also sold for ₹ 54. At the end of the month the price was settled at 3,640. Calculate profit/loss in the transaction.

(3 marks)

(v) Call option of Excellent Cement Ltd. at the strike price of ₹ 1,500 was purchased at ₹ 45 for 1,00,000 shares. Put option for equivalent number of shares at the same strike price was also purchased for ₹ 54. At the end of the month the price was settled at ₹ 1,740. Calculate profit/loss in the transaction.

(3 marks)

(vi) Presuming that the activities of this team generates similar kind of profit for 12 months, what shall be the profit/loss in percentage terms on the investment made by this team.

(3 marks)

2. (a) A company by way of resolution authorised foreign participation in the equity share capital of the company to the extent of 74%. After obtaining all necessary approvals this was implemented and share of foreign participation reached to the extent of 74% of the total paid up capital of ₹ 500 crore divided into 50 crore shares of ₹ 10 each. The foreign participants could not purchase further shares of the company after it reached its limit.

Due to issue of sweat equity shares, the paid up share capital of the company increased from ₹ 500 crore to ₹ 600 crore divided into 60 crore shares of ₹ 10 each, resulting into the reduction of foreign participation in equity share capital in percentage terms.

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In what way the company can further allow foreign participation in the equity capital of the company and to what extent so that it can again reach to the limit of 74% of the total paid up share capital of the company.

As a Company Secretary, prepare a Board note giving complete calculation and the procedure involved in this case. The note must also include whether leakage of the information will be a matter of Insider Trading in terms of various regulations.

(10 marks)

(b) You are a financial consultant and advisor providing advice to the investors. M.M. Khanna an investor approached you and presented the following facts :

- (1) He has an investment of ₹ 50 lakh in various equity schemes of Mutual Funds with an option of dividend pay-out.
- (2) On an average he gets ₹ 3.50 lakh as dividend per annum besides appreciation.
- (3) He is a retired person and need this money to meet his expenditure.
- (4) He has learnt that Government has introduced 10% dividend distribution tax on the dividend paid by mutual funds as it is to be paid by various companies at the time of making payment.

In this scenario, MM Khanna seek your advice on the following points :

- (i) What is the dividend distribution tax and whether as a senior citizen he will get an exemption from this tax ?
- (ii) Will it be deemed as a tax deducted at source and can he claim this as advance tax paid by him ?

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- (iii) What will be the impact on his investment in mutual funds due to this dividend distribution tax ?
- (iv) What is the alternative available so that he gets money from time to time to meet his day to day expenditures and his investments do not attract dividend distribution tax also.
- (v) In case he switch over to any Debt Scheme of Mutual Fund on dividend/interest payment basis, will it be beneficial for him in tax savings.

(10 marks)

- (c) Board Meeting of Trust Bank was to take place at 2.00 p.m. on 23rd October, 2017 to take on record the results for the quarter ending 30th September, 2017. There was sharp movement in stock price of Trust Bank from 11 a.m. onwards on 23rd October 2017.

The matter came to the notice of NSE (National Stock Exchange).

On enquiry, it was noted that son of an Independent Director who was in possession of agenda of the Board Meeting, flashed the results on whatsapp group. Hence the people in that particular whatsapp group were in possession of results before the Board Meeting.

In this scenario offer your comments :

- (i) Who are the people against whom the SEBI can take an action under SEBI (Prohibition of Insider Trading) regulations, 2015 ?
- (ii) Steps to be taken by Managing Director to avoid such type of violation in future.
- (iii) Prepare a note as a Company Secretary for the management on this matter and also suggestons to the management so that such type of violation does not take place in future.

(10 marks)

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3. Ram intends to invest ₹ 10 lakh for a period of one year. He is in the tax bracket of 30%. He has been given the following options :

- (i) Fixed deposit with a bank with interest of 8%.
- (ii) Debt fund of a mutual fund with expected return of 7%.
- (iii) Inflation index bond with a return of 3% over and above inflation assuming that inflation will be 4.5%.
- (iv) Tax free bond with a coupon of 6.8%.

Provide your advise with complete calculation of each instrument.

(5 marks)

4. A composite index was made with a base of 100. Parameters were fixed for making investment in stock based on sector as under :

Banking and Finance	30%
Information Technology	20%
Metals	20%
Real Estate	10%
FMCG	10%
Pharmaceuticals	10%

Returns derived from these Stocks/Sectors after the end of one year are given below :

Banking & Finance	20%
Information Technology	Nil
Metals	30%
Real Estate	10%
FMCG	15%
Pharmaceutical	(-) 25%

Calculate the index value.

(5 marks)

5. Purushottam has a daughter, Laxmi who is 18 years old. He intends to give 500 grams of gold at the time of her wedding. The wedding is likely to take place after 7 years. The current price of gold is ₹ 3,000 per gram. He has sufficient money at present and desires to keep safe from any future price rise in the gold. As a professional, advise Purushottam on making investment of ₹ 15 lakh so as to achieve his objectives.

(5 marks)

6. An offence is committed under section 175, 178 and 179 of the Indian Penal Code, 1860 related with Commodity Market. The Forward Market Commission of India conducted criminal trial in the matter and held the accused guilty for committing offence. Is Forward Market Commission of India justified in its action ?

(5 marks)

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