



ATTEMPT ANY FOUR CASE STUDIES OUT OF FIVE.

CASE STUDY -1

A large infrastructural conglomerate (let us call it India Infrastructure Investment Corporation Ltd - shortly IIIC), whose shareholders include large institutional investors both from India (including PSUs) and abroad had invested in several infrastructural projects — all of which are having long gestation periods (minimum and maximum spans of 20 years and 30 years) respectively, through several subsidiary companies formed as SPVs numbering about 250, for specific projects. Though a significant portion of the shareholdings are by corporations like LIC and public financial institutions like SBI (around 40%), technically IIIC is not a Government company.

For making such investments, IIIC sourced funds through debt instruments like Non-Convertible Debentures and Commercial Papers with coupon rates that were best at the market at relevant points of time. Several Indian financial institutions like banks, insurance companies, mutual funds and pension funds (in effect, savings of the public at large) had invested in such NCDs and CPs to the extent of about Rs.90,000 crores. IIIC's application of funds were through equity and debt investments in hundreds of subsidiary companies and associates, all of which had taken up projects like construction of roads, expressways, airports, seaports, waterways, power & energy sectors, maritime infrastructure etc. Though the operations of many of these subsidiary companies and associates were progressing but slowly, some of them had hit roadblocks in terms of local body approvals, land acquisition issues, litigations etc. In any case, as mentioned earlier, even to generate revenues and cash flows enough to service its debts, IIC knew that it would take a minimum of 10 to 15 years from even its fastest projects.

However, as there were big names in the shareholders list and the company could get support from various Governments and State Agencies that accorded projects after projects, IIIC was also able to obtain good, why, even great ratings from the various credit rating agencies (CRAs). Such good ratings were the comfort bells for the above mentioned institutional investors, the AUM (Assets under Management) of which comprised of public money as deposits or NCD investments of mutual fund investments or insurance savings.

Though much of the CPs and NCDs issued by IIIC were for the maximum permitted 10 years, in order to have better marketability of the debt instruments, IIIC also issued short term CPs - the redemptions of which became difficult in view of cash flow situations.

At first, two subsidiaries reported having trouble paying back loans and inter corporate deposits to other banks and lenders. In a few weeks, there was another report that another subsidiary failed to repay a short term loan of Rs. 1,000 crores from another leading public financial institution, resulting in turmoil and resignations of senior officials in that institution. Successive news items kept coming about defaults in loan repayments and non-servicing of loans on committed dates by one or the other subsidiary. Amidst the melee, the rating agency which had reaffirmed a rating of A1 Plus, within the next 40 days

made two successive rating actions which saw the downgrading to D for specific commercial papers, citing reasons of “recent irregularities in debt servicing driven by the material weakening of the company’s liquidity profile”.

It was widely believed that the CRA acted more reactively than proactively possibly because they have always had zero accountability and even at their worst performing scenarios, the maximum rebuke they used to get were something like this : “Rating agencies need better market intelligence and surveillance rather than depending upon historical data and some structure based on past estimates.” Even in this case, the fact that IIC’s short term borrowings increased by 30% in one year, has not rung any alarm bells. In a nation that is very quick to blame the lenders who trusted the ratings and the auditors for not doing a perfect post mortem, no blame lies on those whose recommendations are held sacrosanct as in most case they are mandated by regulators even.

The founder CEO, who was later accused of having given himself a very fat remuneration all along, suddenly resigned citing ill-health as pressures started mounting. The Government, realizing that the impending fall-out was already causing tremors in the financial markets, moved to take control and replaced the entire Board. Serious Fraud Investigation Office (SFIO) started investigation as there were huge procedural lapses. Though there is no fraudulent motives imputed or alleged as of now on the company, the findings that the company has had multiple layers of holding and subsidiary companies and has had a complicated web of inter-corporate relationships, have made the new management to go on record that the erstwhile board had indulged in ‘massive mismanagement of public funds’. The issue has caught the eye of MCA, SEBI, NCLT etc. and developed as a major worry in the financial market horizon of the country.

Several institutions and mutual funds who have invested in CPs and debt securities, due to the strict NPA norms they are subjected to, began classifying their investments as Non-performing and have also taken haircuts of their investments in installments. An intense discussion also started among the financial market players on the role of rating agencies. The market value of quoted mutual funds got a severe beating, resulting in erosion of invested values for ordinary investors.

In this background, the following questions have been framed:

You are required to answer **all** of the following Multiple-Choice Questions in Part - A and also give reasoned replies (minimum **125** words) to each of the questions in Part - B.

PART- A (5 x 2 =10 Marks)

1. Normally the role of Credit Rating Agencies (CRA) is
 - (A) Financial due diligence of an enterprise
 - (B) Limited to giving opinion on any specific instrument
 - (C) Giving investment recommendation
 - (D) Opining on the holding or subsidiary companies as well

2. In India, the Credit rating agencies are licensed to operate by
 - (A) Reserve Bank of India
 - (B) SEBI
 - (C) Ministry of Corporate Affairs
 - (D) Ministry of Finance
3. Credit Rating process is initiated
 - (A) Suo'moto by CRAs
 - (B) At the request of rated entities
 - (C) By mandatory requirement of SEBI
 - (D) None of the above
4. The regulatory authority of CRAs is
 - (A) Ministry of Corporate Affairs
 - (B) SEBI
 - (C) Credit Rating Regulatory Authority of India
 - (D) None of the above
5. Once a rating has been assigned, when can the next revision happen?
 - (A) Next financial year
 - (B) On the happening of an event such as default of interest payment
 - (C) Regular monitoring triggers
 - (D) Again, at the request of the rated entity

PART – B

(5 x 3 = 15 Marks)

1. In your opinion, should the credit rating agencies be better monitored and regulated to be made more accountable?
2. What, in your view, is the fundamental reason for the financial mess that was created in the above case study and how could it have been better addressed?
3. What is the CAMEL model in rating methodology? Is it sufficient in case of large public offerings of debt securities?

CASE STUDY -2

Suraksha Mutual Fund is one of the successful Mutual Funds operating in India and among other things, they have Index Fund and also Exchange Traded Fund (both NIFTY plans).

Table- A gives the Portfolio of Index Fund NIFTY Plan and Exchange Trade Fund (NIFTY Plan) of Suraksha MF.

Table- B gives the Key information of Index Fund NIFTY Plan of Suraksha MF.

Table- C gives the Key information of Exchange Trade Fund (NIFTY Plan) of the same Mutual Fund.

These have been given for illustrative purposes only. Not all of the data required as per the statutory disclosure policy have been presented in the above tables. Information may not have been presented with intent or for the reason that it is irrelevant.

TABLE -A

| | | Table-A | |
|---|----------------------------|---|--|
| Monthly Portfolio Statement as on December 31,2017 | | INDEX FUND- NIFTY PLAN (An open ended scheme replicating/ tracking NIFTY 50) | ETF NIFTY BSES (An Open Ended Index Exchange Traded Fund) |
| Name of the Instrument | Industry / Rating | % to NAV | % to Net Assets |
| Equity & Equity related | | | |
| (a) Listed / awaiting listing on Stock Exchanges | | | |
| HDFC Bank Limited | Banks | 10.46% | 10.47% |
| Reliance Industries Limited | Petroleum Products | 8.81% | 8.82% |
| Housing Development Finance Corporation Limited | Finance | 7.45% | 7.45% |
| Infosys Limited | Software | 5.75% | 5.75% |
| ITC Limited | Consumer Non - Durables | 5.54% | 5.55% |
| ICICI Bank Limited | Banks | 5.33% | 5.33% |
| Tata Consultancy Services Limited | Software | 4.57% | 4.57% |
| Larsen & Toubro Limited | Construction Project | 4.07% | 4.08% |
| Kotak Mahindra Bank Limited | Banks | 3.85% | 3.85% |
| Hindustan Unilever Limited | Consumer Non - Durables | 2.98% | 2.99% |
| State Bank of India | Banks | 2.55% | 2.55% |
| Axis Bank Limited | Banks | 2.52% | 2.53% |
| Maruti Suzuki India Limited | Auto | 2.28% | 2.28% |
| | | | |
| | | | |

| | | | |
|---|-------------------------|-------|-------|
| IndusInd Bank Limited | Banks | 1.88% | 1.88% |
| Mahindra & Mahindra Limited | Auto | 1.72% | 1.72% |
| Bajaj Finance Limited | Finance | 1.44% | 1.44% |
| Asian Paints Limited | Consumer Non - Durables | 1.42% | 1.42% |
| HCL Technologies Limited | Software | 1.23% | 1.23% |
| NTPC Limited | Power | 1.16% | 1.16% |
| Sun Pharmaceuticals Industries Limited | Pharmaceuticals | 1.09% | 1.09% |
| Oil & Natural Gas Corporation Limited | Oil | 1.06% | 1.06% |
| Power Grid Corporation of India Limited | Power | 1.05% | 1.05% |
| Tech Mahindra Limited | Software | 1.04% | 1.04% |
| UltraTech Cement Limited | Cement | 0.96% | 0.96% |
| Bharti Airtel Limited | Telecom-Services | 0.95% | 0.95% |
| Coal India Limited | Minerals/Mining | 0.93% | 0.93% |
| Hero MotoCorp Limited | Auto | 0.93% | 0.93% |
| Tata Steel Limited | Ferrous Metals | 0.90% | 0.90% |
| Bajaj Finserv Limited | Finance | 0.90% | 0.90% |
| Titan Company Limited | Consumer Durables | 0.89% | 0.89% |
| Vedanta Limited | Non-Ferrous Metals | 0.86% | 0.86% |
| Wipro Limited | Software | 0.86% | 0.86% |
| Bajaj Auto Limited | Auto | 0.85% | 0.85% |
| Yes Bank Limited | Banks | 0.77% | 0.77% |
| India Oil Corporation Limited | Petroleum Products | 0.76% | 0.76% |
| Hindalco Industries Limited | Non-Ferrous Metals | 0.76% | 0.76% |
| Grasim Industries Limited | Cement | 0.75% | 0.75% |
| GAIL (India) Limited | Gas | 0.75% | 0.75% |
| Eicher Motors Limited | Auto | 0.74% | 0.74% |
| Dr. Reddy's Laboratories Limited | Pharmaceuticals | 0.73% | 0.73% |
| Tata Motors Limited | Auto | 0.72% | 0.72% |
| JSW Steel Limited | Ferrous Metals | 0.72% | 0.72% |
| Adani Ports and Special Economic | Transportation | 0.70% | 0.70% |
| | | | |

| | | | |
|---|--------------------------------------|---------|---------|
| Zone Limited | | | |
| Bharat Petroleum Corporation Limited | Petroleum Products | 0.67% | 0.67% |
| Indiabulls Housing Finance Limited | Finance | 0.65% | 0.65% |
| UPL Limited | Pesticides | 0.64% | 0.64% |
| Zee Entertainment Enterprises Limited | Media& Entertainment | 0.61% | 0.61% |
| Cipla Limited | Pharmaceuticals | 0.61% | 0.61% |
| Bharti Infratel Limited | Telecom – Equipment & Accessories | 0.51% | 0.51% |
| Hindustan Petroleum Corporation Limited | Petroleum Products | 0.43% | 0.43% |
| Subtotal | | 99.80% | 99.86% |
| (b) UNLISTED | | | |
| Subtotal | | NIL | NIL |
| Total | | 99.80% | 99.86% |
| Money Market Instruments | | - | - |
| Triparty Repo | | 0.36% | 2.36% |
| Total | | 0.36% | 2.36% |
| Cash Margin - CCIL \$ | | - | - |
| Net Current Assets | | -0.16% | -2.22% |
| GRAND TOTAL | | 100.00% | 100.00% |
| \$ Less Than 0.01% of NAV | | | |

TABLE -B - Key information SURAKSHA INDEX FUND NIFTY PLAN

The Product is suitable for Investors who are seeking

- Long Term Capital Growth
- Investment in Equity & equity related securities and portfolios replicating the composition of the NIFTY 50.

Current Investment Philosophy

The Scheme employs an investment approach designed to track the performance of the NIFTY 50 Index. The Scheme seeks to achieve this goal by investing in securities constituting the NIFTY 50 Index in same proportion as in the Index.

| Benchmark | NIFTY 50 |
|-----------------------------|---|
| Fund Size | Rs.135.89 crores (Month End :137.23 crores) |
| NAV as on 31/12/2017 Direct | Regular Growth Plan: Rs. 18.1422 Direct Growth Plan: Rs. 18.7067 |
| Volatility Measure | Standard Deviation 4.18 Beta 0.98 Sharpe Ratio 0.10 |
| Load Structure | Entry Load: Nil |
| | Exit Load: 0.25% if redeemed or switched out on or before completion of 7 days from the date of allotment of units. Nil thereafter. |
| Total Expense Ratio | Regular, other than Direct 1.05% Direct 0.29% |

TABLE - C - Key information

SURAKSHA EXCHANGE TRADED FUND NIFTY PLAN

The Product is suitable for Investors who are seeking

- Long Term Capital Growth
- Investment in Equity & equity related securities and portfolios replicating the composition of the NIFTY 50

Current Investment Philosophy

The Scheme employs a passive investment approach designed to track the performance of NIFTY 50 Index. The Scheme seeks to achieve this goal by investing in securities constituting NIFTY 50 Index in same proportion as in the Index.

| Benchmark | NIFTY 50 |
|----------------------|---|
| Fund Size | 999,14 crores (Month End: 1048.98 crores) |
| NAV as on 31/12/2017 | Rs. 1136.2932 |
| Volatility Measure | Standard Deviation 4.16 Beta 0.98 Sharpe Ratio 0.12 |
| Load Structure | Entry Load: Nil Exit Load: Nil |
| Total Expense Ratio | 0.11 % |
| Pricing (per unit) | 1/10th of Index |

| | |
|----------|------------|
| Exchange | Listed NSE |
|----------|------------|

PART - A

You are required to select the most appropriate answer.

(Where reasons have to be given, the same is indicated in the question)

1. An investor is required to have a----- and to purchase/sell an ETF of a Mutual Fund as distinguished from an Index Fund/Others funds of a Mutual Fund:(**2 Marks**)

(A) Share Trading Account and DP Account
(B) ISIN Account and Fund Account
(C) MF Trading Account and MF Holding Account
(D) Securities Ledger Account and Bank Account
2. The Index Fund is expected to Mirror the underlying benchmark in terms of return. However there is always a difference between the returns of an Index Fund and the returns of the underlying benchmark. (**2 Marks**)

(A) Trailing error
(B) Tracking error
(C) Mirror error
(D) Random error
3. The main advantage(s) of an Exchange Traded Fund over an Indexed Fund is (**2 Marks**)

(A) Low Expense Ratio.
(B) At Par returns with Underlying benchmark
(C) Transaction in Small quantities
(D) All of the above
4. Both the Index Funds & ETF of Mutual Funds are expected to closely mimic the underlying index in terms of gross returns. In this regard which of the following is true? (**2 Marks**)

(A) The returns of both, ETF & Index Funds are identical to the underlying index.
(B) The return of ETF is closer to the underlying index than the Index Fund of a similar nature.
(C) The return of Index Fund is closer to the underlying index than the ETE Fund of a similar nature.
(D) None of the above

5. Which of the following is true of ETF?

(2 Marks)

- (A) ETFs can be used for generating returns through intra-day trading.
- (B) ETFs can be invested to generate returns of the market.
- (C) ETFs can be used as an ideal investment for hedging / arbitrage.
- (D) All of the above

PART – B

(15 Marks)

The Indian Mutual Fund Industry has grown from Rs. 6.6 Trillion in August 2013 to about Rs. 24.70 Trillion Rupees by October 2018, signifying a 4(four) fold rise in around 5 years. This is expected to grow exponentially owing to factors such as High economic growth rate, under-penetration of Investment through the Mutual Fund Vehicle, drop in FD rates; emergence of a newer working class comprising of youth wanting to diversify their investment horizon etc., This has resulted in a proliferation of Fund Houses and Fund Schemes with more than 35 Mutual Fund Houses and thousands of schemes to invest - leaving the MF investor with a unique proposition of being spoilt for choice on the one hand to selecting a fund with a fund house meeting his requirements within the Ocean.

With this backdrop in mind, you are required to discuss on the recent circular* carried out by SEBI on the categorization and rationalization of Mutual Fund Schemes.

Your answer should inter-alia provide for

- (A) A brief note on the rationalisation
- (B) Broad categorization
- (C) Sub-categorization within the broad categorization (mention all sub- categories but restricted to 5 in each broad category)

* Wrongly typed as regulation.

CASE STUDY -3

One fine morning Zahir woke with the beep sound of Whatsapp message in his mobile. Half woke up thinking it to be some urgent message from his boss read the message (Exhibit 1) from his one friend Joseph who accidently sent the same to him instead of Tahir.

Joseph who is lawyer by profession and employed with a leading law firm handling the legal matters listed companies. Last year he was also handling a legal case of Rajendra Holidays.

Since Zahir has no interest in the Stock Market without understanding the message further forwarded the same to his friend Kanjibhai (a jobber in stock market).

A few days later Zahir received a call from Kanjibhai inviting him on a party bash at coming Saturday at one of the 5 Star Hotel of the city. To the utter surprise of Zahir, Kanjibhai who never offered a cup of tea to anyone and always in debt is organizing such a big party. Zahir called back Kanjibhai to know the exact of organizing such party. Kanjibhai expressed there is no special occasion only few of his friends have been invited as a matter of change from daily life.

On Saturday evening Zahir reached the venue of party where other friend were already there. On asking what is reason for this party from all friends, Kanji told he made a huge profit from the stock market and after repaying his old debts now he is buying a small office of his own to work as sub-broker.

During the party after consuming a lot of alcohol Kanji gone out of control and started shouting it is because Zahir who made him rich. Since earlier one or two occasions Kanji had gone out of control after consuming alcohol no one paid heed to his loose talks.

Next morning as a daily routine Zahir was enjoying reading a financial daily. One news (as per Exhibit 2) catches his attention. Although Zahir had no interest in the Stock Market but the amount of penalty was enough to further read the news (as per Exhibit 2).

Further he compiled some of actual information of these listed companies from website. (as per Exhibit 6)

Questions

(15 MARKS)

After reading the news he approaches you requesting you to provide him a report on the under-mentioned three questions.

- (A) Why is it so difficult to monitor messages passed on through WhatsApp? What is the way out to track such messages?
- (B) What is the meaning of the term 'insider' and 'unpublished price sensitive information' in SEBI Guidelines?
What amendments have been made Government to curb the practice of Insider Trading?
- (C) Whether Joseph can be called as insider trader or not?
- (D) How the introduction of Automation or Insider Trading Management System (ITMS) seems to curb the menace of insider trading?
- (E) How the financials of the company given in the exhibit 1 depicts about the unfair role of insider trading in the stock market and what course of action can be followed by such insiders on receiving such information?

Multi Choice Questions (MCQs)

(Each MCQ carries 2 Marks)

- (i) Which of the following is not the real risk of a security.
 - a) Market Risk
 - b) Inflation Risk
 - c) Political Risk
 - d) Business Risk
- (ii) When a Collateralized Debt Obligation (CDO) does not acquire original assets but does a 'default swap', it is called _____
 - a) Cash CDO
 - b) Market Value CDO
 - c) Swap CDO
 - d) Synthetic CDO

- (iii) Which of the following Fund focuses on trends that are likely to result in the 'out-performance' by certain sectoral funds.
- Contra Fund
 - Index Fund
 - Thematic Fund
 - Hedge Fund
- (iv) Certificate of Deposit is a _____ negotiable instrument.
- Front-ended
 - Back-ended
 - Face Value
 - None of these
- (v) Once client have identified a particular target company to be acquired advisory services are provided in which of the order.
- Short-Listing → Due Diligence → Preparing and Executing Term Sheet → Transaction Closure
 - Short-Listing → Preparing and Executing Term Sheet → Due Diligence → Transaction Closure
 - Due Diligence → Short-Listing → Preparing and Executing Term Sheet → Transaction Closure
 - Due Diligence → Preparing and Executing Term Sheet → Short-Listing → Transaction Closure

Exhibit 1

| Today |
|--|
| <p>DR WADES Forecast a loss of more than ₹ 50 cr.</p> <p>CFDC BANK The predicted profit of ₹ 3,900 cr and a GNPA of 1.25 per cent.</p> <p>SIXES BANK GNPA 5.03; NNPA: 2.30; NIM: 3.63 against 3.63; Slippages: ₹ 8,000 cr (majority were from outside watch-list); Writeoff: ₹ 2,300 cr; CASA: 48.33 per cent.</p> <p>ABCD STEEL Gross sales ₹ 33,900 cr; Ebitda 7,000 cr; Ebit 5,400 cr; Exceptional items ₹ 4,000 cr; PBT ₹ 257 cr; PAT loss of ₹ 7 cr.</p> <p>RAJENDRA HOLIDAYS The message read "Rajendra holidays will declare a bonus today".</p> |

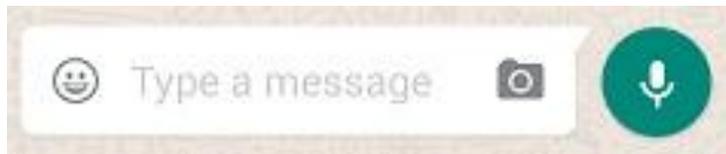


Exhibit 2

A recent news report identifies a dozen messages that accurately predicted Second Quarter (Q2) earnings patterns (and a bonus announcement in one case) for specific listed stocks. In each case, the messages were being passed around, just before the results were officially announced. These messages were being circulated in private Whatsapp groups frequented by equity traders. These were all big companies - in fact, more than half of the stocks concerned are members of the Nifty-50.

WhatsApp, an instant messaging service owned by Facebook, is a popular platform for all sorts of sensitive communications. It is encrypted end-to-end, making it impossible for even the service provider to monitor content.

It is not easy given the end-to-end encryption but it is possible for example, to set up specialised units to track and monitor such a medium. It is also possible for Sebi to set up an email id, for example, where such messages can be anonymously forwarded for analysis. That would give the regulator some idea about the scale of the problem and an opportunity to judge which messages are credible and actionable and worth following up.

India significantly toughened insider trading rules in early 2015, expanding what constitutes "unpublished price-sensitive information" to include "any information" that is not "generally available" and that could have a market impact.

The law also expanded the scope of who constitutes an "insider" to include "anyone in possession of or having access to unpublished price-sensitive information" regardless of how they came "in possession of or had access to such information".

Circulating "unpublished price-sensitive information" can result in penalties of up to 250 million rupees and a jail term of up to 10 years. The monetary amount can be higher if it can be proven that an individual traded on such information.

(Source: Extract from a leading Newspaper)

Exhibit 3

Consultation Paper by SEBI to curb unauthorized investment tips through social media

Last year, SEBI issued a consultation paper on curbing unauthorized investment tips through social media. So, it proposed to ban unauthorised trading tips through SMSes, WhatsApp, Twitter, Facebook and other social media platforms, as also games, competitions and leagues relating to securities market. It also proposed an overhaul of regulations governing investment advisors.

SEBI also proposed to ban 'free trial' offers by investment advisors for their prospective clients and sought to make it mandatory for even registered research analysts to provide their research reports for all class of investors at the same time.

SEBI has also proposed a detailed 'advertisement code' for those providing investment advice to check misleading advertisements promising unrealistic returns in the securities market.

SEBI has also proposed a re-look on the exemption from registration as an investment adviser, provided to mutual fund distributors and other registered market intermediaries. Besides, banks, NBFCs and various corporate bodies would have to set up a separate subsidiary for investment advisory services. Under current rules, such services can be provided through a separate division or department.

SEBI has proposed a time period of three years for existing entities offering investment advisory services through separate department or division to set up a separate subsidiary. Similar time period can be provided to the mutual fund distributors and other registered market entities currently exempted from registration as investment advisors.

(Source: Extract from a leading Newspaper)

Exhibit 4

Need for Automation in insider trading

Establishing a database of connected persons is a huge task to be done in excel. Top it up with the pre-clearance, monitoring of trading window for each trade for each connected person is an impossible task. Automation or Insider Trading Management System enables entities to comply with the regulations and stay on top.

Insider Trading Management System (ITMS) is an enterprise-class web application which can automate and address the challenge of complying with regulatory requirements specific to insider trading. It serves as a central repository of insider related information for reporting and analytics.

ITMS helps organizations easily capture details about "Insiders" and their relatives as per the policy definition. A workflow enabled pre-dealing approval as well as post trade update mechanism brings efficiency to request handling.

A configurable "Trading Window" and automated alerts & notifications add flexibility to the system.

ITMS Features

Insider Information Collection is a process to build the user and relatives information or who may be terms as connected person. The tool provides for self-update of the profiles.

Trading window management includes configuration of blackout period and automated alerts and notification of opening and closing of trading window.

Built-in work flows for the process including pre-trading request/approval/rejections, and post trading disclosures.

Provides a work-flow for employees to submit pre-trading requests, compliance officer can view all the pre-trading approval requests in a central system, compare with restricted securities (grey list) and approve/reject the request.

Automatic reminders are generated from the system for initial and continual disclosures, post-trading updations. (Source:<http://www.riskpro.in/services/insider-trading-automation>)

Exhibit 5

SOME OF THE PROVISIONS OF SECURITIES AND EXCHANGE BOARD OF INDIA (PROHIBITION OF INSIDER TRADING) REGULATIONS, 2015

(d) "connected person" means,-

(i) any person who is or has during the six months prior to the concerned act been associated with a company, directly or indirectly, in any capacity including by reason of frequent communication with its officers or by being in any contractual, fiduciary or employment relationship or by being a director, officer or an employee of the company or holds any position including a professional or business relationship between himself and the company whether temporary or permanent, that allows such person, directly or indirectly, access to unpublished price sensitive information or is reasonably expected to allow such access.

(ii) Without prejudice to the generality of the foregoing, the persons falling within the following categories shall be deemed to be connected persons unless the contrary is established, -

(a) an immediate relative of connected persons specified in clause (i); or

(b) a holding company or associate company or subsidiary company; or

(c) an intermediary as specified in section 12 of the Act or an employee or director thereof; or

(d) an investment company, trustee company, asset management company or an employee or director thereof; or

(e) an official of a stock exchange or of clearing house or corporation; or

(f) a member of board of trustees of a mutual fund or a member of the board of directors of the asset management company of a mutual fund or is an employee thereof; or

(g) a member of the board of directors or an employee, of a public financial institution as defined in section 2 (72) of the Companies Act, 2013; or

(h) an official or an employee of a self-regulatory organization recognised or authorized by the Board; or

(i) a banker of the company; or

(j) a concern, firm, trust, Hindu undivided family, company or association of persons wherein a director of a company or his immediate relative or banker of the company, has more than ten per cent. of the holding or interest;

(e) "generally available information" means information that is accessible to the public on a non-discriminatory basis;

(f) "immediate relative" means a spouse of a person, and includes parent, sibling, and child of such person or of the spouse, any of whom is either dependent financially on such person, or consults such person in taking decisions relating to trading in securities;

(g) "insider" means any person who is:

i) a connected person; or

ii) in possession of or having access to unpublished price sensitive information;

(n) "unpublished price sensitive information" means any information, relating to a company or its securities, directly or indirectly, that is not generally available which upon becoming generally available, is likely to materially affect the price of the securities and shall, ordinarily including but not restricted to, information relating to the following: –

- (i) financial results;
- (ii) dividends;
- (iii) change in capital structure;
- (iv) mergers, de-mergers, acquisitions, delistings, disposals and expansion of business and such other transactions;
- (v) changes in key managerial personnel; and
- (vi) material events in accordance with the listing agreement.

Exhibit 6

| Actuals |
|---|
| DR WADES On a consolidated basis under Indian accounting standards, it posted a loss of Rs.58 cr. |
| CFDC BANK The lender posted a profit after tax of Rs. 3,894 cr. Its GNPA was 1.24 per cent. |
| SIXES BANK GNPA is 5.03%; NNPA: 2.30 NIM: 3.63; Slippages: Rs.3,519 cr; Rs. 2,300 cr; CASA: 48.33 per cent. |
| ABCD STEEL Gross sales Rs. 34,800 cr; Ebitda 6,982 cr; Ebit Rs. 5,393 cr; Exceptional items Rs.4,069 cr; PBT Rs. 259 cr; PAT loss of Rs. 7.17 cr. |
| RAJENDRA HOLIDAYS 1 for 2 bonus share issue announced. |

CASE STUDY – 4

ABC Ltd. is a global leader in technology services and consulting. It has enable clients in 45 countries to create and execute strategies for their digital transformation. From engineering to application development, knowledge management and business process management, it helps their clients find the right problems to solve, and to solve these effectively. Their team of 198,000+ innovators, across the globe, is differentiated by the imagination, knowledge and experience, across industries and technologies that they bring to every project they undertake.

Today, businesses operate in an unprecedentedly fluid environment. The technology landscape is turning highly complex as it evolves to meet the demands of a competitive marketplace and an experiential economy. At the same time, customers are increasingly demanding simple, new, and convenient experiences.

ABC Consulting helps global corporations - in over 20 countries - develop unique solutions to address their complex business challenges and create value through sustainable innovation. As pragmatic consultants with an eye on execution, they help you design and achieve market-leading performance roadmaps by combining creative thinking, technology expertise, and global reach.

1. Details of Bonus Issue

The Company has allotted 1,14,84,72,332 fully paid-up equity shares of face value Rs. 5 each in June 2015 to the shareholders of the Company in proportion of 1:1 and consequently, the number of shares increased from 1,14,84,72,332 to 2,29,69,44,664.

The Company allotted 57,42,36,166 fully paid up equity shares of face value Rs. 5 each in December 2014 to the shareholders of the Company in proportion of 1:1 and consequently, the number of shares increased from 57,42,36,166 to 1,14,84,72,332.

It was on October 10, 2014, that the company had recommended a bonus issue of one equity share for every equity share held (1:1 bonus issue).

It fixed December 3, 2014, as the record date for the purpose of allotment of bonus shares / stock dividend.

The company has mentioned in the Board of Directors report that sufficient cash balance has been kept by the company to meet its strategic objectives. The company presently generates sufficient cash internally to finance all its operational, financing and investment requirements.

Announcement date of Bonus Issue – 24/4/2015

Ex-Bonus Date – 15/6/2015

2. Questions:

- (i) Determine the total number of subscribed shares of ABC Ltd. in November 2014. **(1 MARK)**
- (ii) How market has reacted to the bonus announcement and what may be the reason for the same. **(1 MARK)**
- (iii) Explain with reasons the effect of EPS on the Bonus Issue. **(1 MARK)**
- (iv) Discuss by referring to relevant regulations of SEBI the following:
 - (a) Board of Director's meeting regarding bonus issue was held on 1st April, 2015. Within what period the bonus issue shall be implemented. Also, discuss the necessary approvals required in this respect. **(2 MARKS)**
 - (b) Basic earnings per share and diluted earnings per share are equal. Discuss the reason for this effect. **(2 MARKS)**
 - (c) The company has decided to make a bonus issue. However, later it wants to withdraw it. Can it do so? **(1 MARK)**

(v) Prices of ABC Ltd. on the Ex-Bonus date has been reduced drastically. What can be reasons for this effect? **(2 MARKS)**

(vi) What does higher dividend payout on the part of ABC Ltd. indicates? **(3 MARKS)**

(vii) Why the company is debt free? How the present capital structure of the company is helping its cause? **(2 MARKS)**

3. Multi Choice Questions (MCQs) (5*2=10 MARKS)

(i) Ex-Bonus date is the date

- a) On which the share price is adjusted on stock exchanges.
- b) On which the share price is decreased on stock exchanges.
- c) On which the share price is increased on stock exchanges.
- d) Which is before the record date.

(ii) Record Date is the

- a) date on which company record the details of both the dividend payout and bonus issue proceedings.
- b) cut-off date fixed by a company to determine who is eligible to get bonus shares.
- c) date on which company record the details of bonus issue proceedings.
- d) date fixed by a company to determine who has got the bonus shares of the company.

(iii) Which among the following are the effects of Bonus Issue:

- a) Share capital gets increased
- b) Liquidity in the stock increases
- c) Accumulated profits get reduced
- d) All of the above

(iv) A listed company may issue bonus shares to its members if authorized by:

- a) Memorandum of Association
- b) Articles of Association
- c) Both Memorandum and Articles of Association
- d) None of the above

(v) The bonus shares shall be made out of

- a) free reserves only
- b) either free reserves or revaluation reserves
- c) either free reserves or securities premium
- d) either free reserves or revaluation reserves or capital reserves

CASE STUDY – 5

The following data relates to a Mutual Fund as at 31-3-2018:

| | Quantity (Nos.) | Value (Rs.'000) |
|---|-----------------------|--------------------|
| Unit Capital | | |
| Outstanding at the beginning of the year | 264,31,998.59 | 2,64,319 |
| Issued during the year | 6,85,59,200.117 | 6,85,592 |
| Redeemed during the year | 66,77,620.32 | 66,776 |
| Outstanding at the end of the year | 883,13,578.387 | 8,83,135 |
| Reserves and Surplus | | |
| (1) Unit Premium Reserve | | |
| Balance at the beginning of the year | | (3,396) |
| Net Premium/Discount on issue/ redemption of units | | 98,266 |
| Balance at the end of the year | | 94,870 |
| (2) Unrealized Appreciation Reserve | | |
| Balance at the beginning of the year | | 7,870 |
| Change in unrealized appreciation in value of Investments | | 14,972 |
| Balance at the end of the year | | 22,842 |
| (3) Retained Surplus | | |
| Balance at the beginning of the year | | 6,23,319 |
| Transferred to Revenue account | | (1,366) |
| Surplus transferred from revenue account | | 19,65,669 |
| Balance at the end of the year | | 25,87,622 |
| Total Reserves (1) + (2) + (3) | | 27,05,334 |
| Current Liabilities | | |
| Amount due to AMC for Management Fees | | 1615 |
| Others | | |
| Sundry Creditors of units redeemed by investors | | 64 |
| Lateral Shift payable | | 420 |
| Others | | 19 |

| | |
|---|------------------|
| Contract for purchase of investments | 2,60,840 |
| Inter Scheme Payable | - |
| Dividend payable on units | - |
| Dividend Distribution Tax Payable | - |
| Unclaimed Dividend | - |
| Unclaimed redemption | - |
| Unit Application pending allotment | 70 |
| Investor education expense provision | 60 |
| Interest on borrowing | 2,878 |
| Other Current Liabilities | - |
| Total Current Liabilities | 2,65,966 |
| TOTAL | 38,54,455 |
| Investments | - |
| Listed Debentures and Bonds | 14,20,321 |
| Government Securities | 20,69,363 |
| Total Investments | 34,89,684 |
| Deposit with scheduled banks | - |
| Other Current Assets | - |
| Balances with Banks in Current Accounts | 4,851 |
| Sundry debtors for units issued to investors | - |
| -Lateral shift receivable | 3 |
| -Others | 2 |
| Inter-scheme receivables | 689 |
| Margin Deposit with Clearing Corporation of India | - |
| Outstanding and accrued income | 86,336 |
| Amount due from AMC | - |
| Collateralized Lending | 2,72,890 |
| Total Current Assets | 3,64,771 |
| TOTAL | 38,54,455 |

Interest Statement

| | | |
|--|--|-----------------|
| Interest | | - |
| Money market Instruments | | 188 |
| Debentures and Bonds | | 57,425 |
| Deposits | | - |
| Government Securities (including Treasury Bills) | | 1,17,501 |
| Collateralised Lending | | 6,951 |
| Less : Interest on Borrowing | | - |
| Total | | 1,82,065 |

The average expenses ratio (including management fees) amounted to 2.65% which also included GST.

Answer the following questions and reason out your answers:

- (i) Under what type of a mutual fund product would you classify the above? Why? **(2 Marks)**
- (ii) Is the scheme open or close ended? Why? **(2 Marks)**
- (iii) Can it be assumed without any contradiction that the product is traded in the stock exchange? **(2 Marks)**
- (iv) Is switching between plans permitted in this mutual fund product? **(2 Marks)**
- (v) Why is there a nil balance in deposit with scheduled banks? **(2 Marks)**
- (vi) Do you think that this scheme is a safe investment with negligible risk? Would you expect high returns from this product on an annualized basis? **(3 Marks)**
- (vii) The fund had invested in Treasury Bills of face value Rs. 1,00,000 each amounting to Rs. 90 crores. If the average annualized yield calculated based on 85 days as on 31st March, 2018 was 8.76%, what was the amount of average purchase price? **(3 Marks)**

Multiple Choice Questions (2 Marks x 5 = 10 Marks)

- (i) Who among the following is not a service provider in financial market?
- (a) Merchant Bankers
 - (b) Brokers
 - (c) Association of Mutual Funds of India
 - (d) Depositories
- (ii) The facility under which scheduled commercial banks can borrow additional amount of overnight money from the central bank is called
- (a) Liquidity Adjustment Facility
 - (b) Margin Standing Facility
 - (c) Market Stabilization Scheme
 - (d) Open Market Operations

(iii) Which among the following is not a function of capital market?

- (a) To demobilize resources for investments
- (b) To facilitate buying and selling of securities
- (c) To facilitate the process of efficient price discovery
- (d) To facilitate settlement of transactions in accordance with the predetermined time schedules

(iv) is a facility given to the investors in which they invest in shares by part financing from the bank.

- (a) Securities Lending and Borrowing
- (b) Straight Through Processing
- (c) Market Making
- (d) Margin Trading

(v) Repo rate is the rate

- (a) at which Reserve Bank of India lends to Commercial Banks for a short period of time without any collaterals
- (b) at which Reserve Bank of India lends to Commercial Banks for a short period of time against Government Securities
- (c) at which Commercial Banks lends to Reserve Bank of India for a short period of time without any collaterals
- (d) at which Commercial Banks lends to Reserve Bank of India for a short period of time against collaterals