OPEN BOOK EXAMINATION

NEW SYLLABUS

342

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. Kavya & Co., an Indian resident, the television manufacturer, has related parties in India named Mullai & Co., Marutham & Co. and Neithal & Co., all related parties which make spare parts for the television manufacturer. Purchases and sales between related parties occur frequently. All of them know about arbitrage process. The means of attaining equilibrium at spot markets is called 'arbitrage'. Conversely saying, it is a profit earned in buying in one currency at lower rates and selling in another currency at higher rates. There are two types of arbitrage namely, geographical arbitrage and triangular arbitrage.

Kavya & Co. concentrates on geographical arbitrage, which consists of two currencies. Buying in one currency at lower rates and selling in another currency at higher rates. This arbitrage gain can be attained either through telephone or fax messages. Kavya & Co. has ₹10 crore for this purpose.

During that time rates of US $1 were :

London	:	₹47.5730 – ₹47.6100
Tokyo	:	₹47.6350 – ₹47.6675

Mullai & Co. concentrates on triangular arbitrage, which consists of three currencies. One buying currency, one selling currency and another one is intermediary currency. Mullai & Co. wants to utilise US $1 million for this purpose.

During that time rates were :

US $1	:	₹48.3011 in Mumbai
£1	:	₹77.1125 in London
£1	:	US $1.6231 in New York

Marutham & Co. concentrates in forward market. Their borrowings are ₹1 crore.

Rates are as under :

Spot rate	:	₹78.10/£
3-month forward rate	:	₹78.60/£
3-months interest rates	:	Rupees: 5%; British £: 9%

Neithal & Co. concentrates in forex market. Data are as under :

1-month treasury bill (US)	:	2.50% – 2.55% p.a.
1-month treasury bill (India)	:	6.75% – 6.80 % p.a.

The dollar spot rate in India is ₹48.4050 / 48.4550 per US $.

You are required to —

(a) List out the benefits of investing in treasury bills.

(5 marks)

(b) Mention the conditions to be fulfilled for arbitrage.

(5 marks)

(c) Find the no arbitrage range of future prices for a 1-month dollar future for Neithal & Co. with the following possibility :

Borrow dollar, buy rupee. Invest in rupees and sell rupees in future.

(10 marks)

(d) Find out arbitrage gain of Kavya & Co. and Mullai & Co. separately.

(15 marks)

(e) Marutham & Co. concentrates on interest rate differentials of two currencies, as it is referred to cover interest arbitrage. Find out the arbitrage gain of Marutham & Co.

(15 marks)

2. (a) Amar & Co., a credit rating agency, intends to instil high standards of integrity and fairness in all its dealings with its clients. Advise the company about the code of conduct it should adopt, keeping in view the SEBI Regulations.

(10 marks)

(b) You are the Company Secretary of Popular Ltd. The Board has entrusted you with the task of suggesting a comprehensive investor protection mechanism. Prepare a note for the Board highlighting salient points in the light of Justice Dhanuka Committee recommendations.

(10 marks)

(c) An investor expects the stock market to decline, but instead of selling the equity short, he decided to sell the stock index futures contract based on the XYZ stock exchange composite index. The index is currently 138 and the contract has a value that is 500 times the amount of the index. The margin requirement is ₹3,500 and the maintenance margin requirement is ₹1,000.

Based on the above, answer the following —

(i) When the investor sells the contract, how much must he put-up ?

(ii) What is the value of contract based on the index ?

(iii) If after one week of trading, the index stands at 140, what would happen to investor's position ? How much has he lost or gained ?

(iv) If the index declined to 136.6 (approximately 1% from the starting value), what will be investor's percentage of profit or loss on his position ?

(v) If the investor had purchased the contract instead of selling it, how much would he have invested ?

(2 marks each)

3. Amaze Ltd., a listed company, is running its business with strong fundamentals, but does not foresee any option to bring fresh capital from its existing shareholders. Raising capital from the public is also out of reach due to sluggish capital market sentiments. The financial position of Amaze Ltd. as on 31st March, 2015 is as follows :

Amaze Ltd.

		₹ (in lakh)
Liabilities		
Authorised capital		20.00
Paid-up share capital :		
1,00,000 shares @ ₹10 each		10.00
Securities premium account		15.00
General reserve		5.00
Surplus		10.00
Goodwill		3.00
	TOTAL	43.00

		₹ *(in lakh)*
Assets		
Net fixed assets	20.00	
Current assets	20.00	
Cash at bank	6.00	46.00
Less: Provision for dividend		(3.00)
	TOTAL	43.00

The company is contemplating to make its follow-on public offer (FPO) after 2 years. Now the company wants to restructure its capital base and is willing to show good prospects. What is the best option available for its capital restructuring, so that at the time of FPO, it will increase investors' confidence. State the immediate formalities required for FPO.

(5 marks)

4. A trade bill is drawn by a supplier of goods as follows :

Value of goods sold	:	₹10,00,000
Number of days of the bill *(take 365 days per year)*	:	60 days
Rate of discount *(to be charged by banker)*	:	12.50 % p.a.

You are required to calculate —

(a) Discount on the bill; and

(3 marks)

(b) Amount to be paid by the bank on the date of presentment of the bill at the bank for discounting.

(2 marks)

5. You are the Company Secretary of Shine Ltd. As a Compliance Officer of the company, what are the safeguards you will impliment so that the price sensitive information is properly protected ?

(5 marks)

6. "Money market mutual funds are the lowest-risk variety of mutual funds, but they are not risk-free." Discuss.

(5 marks)

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