PH 351.3

Reg. No. | | | | | |

St Aloysius College (Autonomous)
Mangaluru
Semester III– P.G. Examination – M.Com.(Finance and Analytics)
November – 2019
EQUITY RESEARCH AND SECURITY MARKET OPERATION

Time: 3 hrs.

Max Marks: 70

SECTION – A

Answer any FIVE questions. (5x4=20)

1. Define investment. How does investment differs from speculation?
2. Give an overview of future prospects of Equity Research in India.
3. What is fundamental analysis? How it differs from Technical Analysis?
4. Write a note on Odd Lot Theory and Short Selling.
5. What is demand and supply shocks?
6. Comment on equity research in India.
7. From the following data construct Price Weighted Index and Value Weighted Index.

Share	Price in base year (₹)	Price in year 't' (₹)	Number of outstanding shares (in millions)
M	50	70	10
N	40	50	20
O	100	90	5
P	20	80	15
Q	15	24	50

SECTION – B

Answer any FOUR questions. (4x10=40)

8. Describe the Investment Objectives. Explain the various Investment strategies?
9. Discuss the different forecasting techniques that are commonly used in equity research.
10. What factors would you look at while studying the characteristics of an Industry?
11. Describe briefly the important technical formations on bar and line charts and the indications provided by them.
12. Explain the functions of primary and secondary markets in India.
13. Explain listing, trading and settlement procedure in BSE and NSE.

SECTION – C

(10)

14. **Compulsory**

Closing value of BSE Sensex from 6th to 17th day of the month of January of the year 200X were as follows.

Contd...2

Days	Date	Day	Sensex
1	6	Thu	14,522
2	7	Fri	14,925
3	8	Sat	No Trading
4	9	Sun	No Trading
5	10	Mon	15,222
6	11	Tue	16,000
7	12	Wed	16,400
8	13	Thu	17,000
9	14	Fri	No Trading
10	15	Sat	No Trading
11	16	Sun	No Trading
12	17	Mon	18,000

Calculate Exponential Moving Average (EMA) of Sensex during the above period. The 30 days simple moving average of Sensex can be assumed as ₹15,000. The value of exponent for 30 days EMA is 0.062.

Give detailed analysis on the basis of your calculations.

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Semester III– P.G. Examination – M.Com.(Finance and Analytics)

November – 2019

MERGERS, ACQUISITIONS AND CORPORATE RESTRUCTURING

Time: 3 hrs. **Max Marks: 70**

SECTION – A

Answer any FIVE questions. **(5x4=20)**

1. Describe the scope and different methods of Corporate Restructuring.
2. Enumerate the common mistakes made by the corporate leading to pitfalls in Mergers and Acquisitions.
3. What is a "voluntary offer" as per Regulation 6 of SEBI takeover code – 2011?
4. 'P' wants acquire 'Q' by exchanging 0.5 of its shares for every share of 'Q'. the relevant financial data is given below:

Particulars	P	Q
EAT (Rs.)	900000	180000
No. of shares	300000	90000
MPS (Rs.)	36	20

Calculate:

a) EPS and P/E of both firms before the acquisition.
b) The number of equity shares required to be issued by 'P' for acquiring 'Q'.
c) EPS of 'P' after acquisition.
d) MPS of 'P' after acquisition assuming its P/E multiple remains unchanged.
e) The market value of the merged firm.

5. Explain the human ad cultural aspects involved in Merger and Acquisition.
6. Discuss the Fredrick Trautwein's motivation theory of merger in detail.
7. What are the common motives for Divestiture?

SECTION – B

Answer any FOUR questions. **(4x10=40)**

8. Elucidate different takeover preventive defenses used by corporate organization.
9. Discuss "Strategic Alliance" and "Joint Venture" as corporate restructuring strategies.
10. You are the director of Ram Company one of the projects you are considering is the acquisition of Shyam Company. Shyam, the owner of Shyam Company is willing to consider selling his company to Ram Company, only if he is offered and all-cash purchase price of Rs. 5 million. The project estimates that the purchase of Shyam Company will generate the following marginal after-tax cash flow:

Year	Cash flow (Rs.)
1	10,00,000
2	15,00,000
3	20,00,000
4	25,00,000
5	30,00,000

Contd...2

If you decide to go ahead with this acquisition, it will be funded with Ram's standard mix of debt and equity, at the weighted average (after tax). Cost of capital of 9%. Ram's tax rate is 30%. Should you recommend acquiring Shyam Company to your CEO?

11. Mirza with its need to grow and maintain its leadership position in the leather industry is planning to acquire ABC. The recent financial details of the two companies are as follows:

Particulars	Mirza	ABC
PAT	Rs. 2200 lakhs	Rs. 40 lakhs
MPS (FV Rs. 10)	Rs. 200	Rs. 24
P/E ratio	18.18	12
Projected Growth Rate (p.a)	9%	5%

There are two views expressed by two leading consultants on the benefits due to synergy, one arguing that there can be no benefits from synergy while the other, projects a 3% increase in earnings after the acquisition.

a) If ABC's shareholders want an exchange ratio of 0.4 [i.e., 4 shares for every 1 shares of ABC], would that be acceptable to the shareholders of Mirza, if.
   1. There is no synergy due to merger.
   2. There is an increase in earnings of the merged entity by 3% due to synergy.

b) If Mirza accepts an exchange ratio of 0.4 and synergy benefits are not realized, will there be any dilution in EPS of Mirza? If so, when will the dilution be wiped off?

12. Discuss the forces that act as drive for M&A activities?

13. Rumpole Bailey Company recently has become subject to a hostile takeover attempt. Management is considering either a leveraged buyout or a leveraged recapitalization with the LBO, it would initially own 30% of the stock, but this would diluted if mezzanine lenders were to exercise their warrants. These warrants, upon exercise, give holders 30 percent of the total share. Management presently owns 4,00,000 shares of the 10 million shares outstanding. With a leveraged recap, it would receive 6 shares of "stub" stock for each old share owned, but no dividend, while public stock holders would receive one new share for each old share owned plus a large cash dividend.

a) In the case of the LBO, after exercise of the warrants, what will be management proportion of ownership of the company?

b) If a leveraged recap were to occur, what would be management proportion of ownership?

SECTION – C

14. **Compulsory** **(10)**

Firm 'A' is planning to acquire firm 'B'. The relevant financial details of the two firms prior to merger announcement are as follows:

Particulars	Firm A	Firm B
Market Price per share (Rs.)	75	30
Number of shares	10,00,000	5,00,000
Market value of the firm (Rs.)	7,50,00,000	1,50,00,000

The merger is expected to bring gains which have present value of Rs. 1.50 Crore. Firm 'A' offers 2,50,000 shares in exchange for Rs. 5 lakh shares to the shareholders of firm B.

You are required to calculate:

a) True cost of firm 'A' for acquiring firm 'B'.

b) Net Present Value of the merger to firm 'B'.

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St Aloysius College (Autonomous)
Mangaluru

Semester III – P.G. Examination - M.Com. (Finance and Analytics)

November - 2019

INVESTMENT BANKING AND FINANCIAL SERVICES

Time: 3 hrs. Max Marks: 70

SECTION - A

Answer any FIVE of the following (5×4=20)

1. Explain the characteristics of Indian Investment Banking Industry.
2. State the qualities required to a Merchant Banker.
3. What do you understand by underwriting?
4. What is forfaiting? How does forfaiting help the exporter?
5. What are the advantages of depository system to companies?
6. State the functions of new generation banks.
7. What are the limitations of credit rating?

SECTION - B

Answer any FOUR of the following (4×10=40)

8. Briefly explain the functions of investment banking?
9. Compare and contrast merchant banking, commercial banking and investment banking.
10. Describe the problems and prospects of leasing in India.
11. Explain the methodology followed by CRICIL in rating credit instrument.
12. Discuss the drawbacks of depository system and suggest measures to make it an efficient one.
13. The following facts relate to the Avon Ltd.

    Annual credit turnover in the current financial year 1,200 lakh.

    Average collection period 75 days.

    Variable cost ratio 0.75

    Cost of funds 0.21 per annum.

    Annual credit and collection expenditure ₹250 lakhs of which three-fourths is avoidable.

    Financing of receivables by bank borrowings 0.75.

    The fair growth factors ltd offers a factoring deal to Avon Ltd. It proposes to charge a commission as percentage of the value of book debts of 2% for recourse factoring and 3.5% for non-recourse factoring. In addition, it would charge 22% p.a as discount/interest for pre-payments (advance against uncollected and not due receivables) to the extent of 80% of the value of the receivables. The guaranteed payment date/collection period is 60 days. Making your own assumption wherever necessary, what advice would you give to Avon Ltd. to continue with the in-house management of receivables or accept the factoring of receivables.

Contd...2

SECTION – C (Compulsory)

(1×10=10)

14. From the under mentioned facts relating to the Hypothetical leasing limited, calculate the annual rentals under the following rental structure for the 6 year period.
    a) Equated
    b) Stepped (annual increase of 12%)
    c) Ballooned (annual rental of ₹5 lakh for year 1-2)
    d) Deferred (deferment period of one year)

Investment cost ₹96,00,000

Primary lease term 3 years

Residual value –Nil

Pre-tax required rate of annual return 12%.

Assume that the lease can be renewed for an additional period of 3 years (secondary lease period). The lease rental for the secondary period will be 5% of the rental charged during the primary period.

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St. Aloysius College (Autonomous)

Mangaluru

Semester III – P.G. Examination - M.Com. (Finance & Analytics)

November – 2019

CORPORATE TAX PLANNING

Time: 3 Hours

Max. Marks: 70

SECTION - A

Answer any FIVE of the following: (5x4=20)

1. What is Double Taxation Avoidance agreement (DTAA)? Elaborate the purpose of DTAA.
2. The total income of Robin Ltd., a foreign company, computed under the normal provisions of the Income tax Act, 1961 is ₹ 3,00,000. However the book profits of the company (calculated as per sec. 115 JB) amounted to ₹ 12,50,000. Calculate tax liability of the company for the Assessment year 2019-20.
3. What is dividend under income tax act? Discuss the provisions relating to distribution tax on such dividends.
4. Discuss the provisions relating to Dividend Distribution Tax u/s 115O.
5. Reddy India Ltd. is an Indian Company. For the previous year, the following incomes are noted from the books of Account of the tax payer:

	₹
Income from a business in India	3,80,000
Income from a business in a foreign country with whom India has Avoidance of Double Taxation (ADT) Agreement	2,16,000

According to the ADT Agreement, ₹ 2,16,000 is taxable in India. However, it can also be taxed in the foreign country at 11.85% which can be set off against Indian tax liability. Find out the Indian tax liability.

6. Explain the tax provisions as implication on management decision in the following areas: (in brief)

   a) Product make or buy   b) Repair or replace

7. An individual practicing as a Chartered Engineer is in receipt of fees from a company, which had retained him for purposes of valuation of properties. Total fee agreed upon between the parties was ₹ 50,000 and the Engineer was also to be reimbursed of all expenses incurred by him to visit the various locations where properties are situated. The Engineer was paid the following amounts by company:

   20th July 2018 : ₹ 10,000 (Advance of fees)
   10th July 2018 : ₹ 20,000 (towards expenses incurred)
   05th August 2018 : ₹ 40,000 (balance of fees on completion of work)
   10th August 2018 : ₹ 25,000 (in total settlement of claim for reimbursement of expenses)

   Discuss the liability of the company with regard to tax deduction at source on these payments.

Contd...2

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SECTION - B

Answer any FOUR of the following: **(4x10=40)**

8. The Profit and Loss account of R Ltd (a domestic company) for the year ending March 31, 2019 is given below:

Profit and Loss Account

Particulars	Amt (₹)	Particulars	Amt (₹)
Salary and wages	7,50,000	Sales	48,20,000
Postage and telegrams	40,000	Amount withdrawn from general reserve	3,00,000
Travelling and conveyance	50,000		
Depreciation	5,00,000		
Income tax	4,00,000		
Wealth tax	10,000		
Excise duty due	1,00,000		
Provision for future losses	60,000		
Dividend paid	80,000		
Loss of subsidiary company	50,000		
Audit fee	25,000		
Director remuneration	8,00,000		
Deferred tax liability	1,35,000		
Net profit	21,20,000		
Total	51,20,000	Total	51,20,000

Other informations:

a) Excise duty due on 31.03.2017 was paid on 02.12.2018.

b) Custom duty of ₹ 1,20,000 which was due on 31.03.2016 paid during 2018-19.

c) Depreciation u/s 32 is ₹ 11,43,000.

d) The company wants to set off the following losses and unabsorbed depreciation.

Particulars	For tax purposes (₹)	For accounting purposes (₹)
Brought forward loss of assessment year 2017-18	12,00,000	10,00,000
Unabsorbed depreciation	3,00,000	3,00,000

Compute the tax liability of the assessee for the assessment year 2019-20.

Contd...3

9. Discuss the adjustments to be made in the net profit of P & L a/c for computing "Book profit" under the provisions of MAT [u/s 115 JB], along with the provisions of tax credit.

10. XYZ needs a component in its assembly operation. It is contemplating a proposal to either buy or make the aforesaid component.

    i. If the company decides to make the product itself then it would have to buy the machine for ₹ 8 lakh which would be used for 05 years. Manufacturing cost in each of the 05 years would be ₹ 12 lakh, ₹ 14 lakh, ₹ 16 lakh, ₹ 20 lakh and ₹ 25 lakh respectively. The relevant depreciation rate would be 15% and the machine would be sold for ₹ 1 lakh at the beginning of the 6th year.

    ii. If the company decides to buy the component from a supplier then the component would cost ₹ 18 lakh, ₹ 20 lakh, ₹ 22 lakh, ₹ 28 lakh and ₹ 34 lakh respectively in each of the 05 years.

    The relevant discounting rate is 14% and tax rate is 31.2175%. Should the company make or buy the components assuming additional depreciation is not available.

11. What is 'Arm's length price' in an international transaction? Explain the various methods for computing ALP?

12. What do you understand by TDS? What are the payments on which tax is deducted at source?

13. Mr. Kamesh an individual resident in India furnishes you the following particulars of income earned in India, Country "X" and Country "Y" for the previous year 2018-19. India has not entered into double taxation avoidance agreement with these two countries.

Particulars	₹
Income from profession carried on in India	7,50,000
Agricultural income in Country "X" (Gross)	50,000
Dividend received from a company incorporated in Country "Y" (Gross)	1,50,000
Royalty income from a literary book from Country "X" (Gross)	6,00,000
Expenses incurred for earning royalty	50,000
Business loss in Country "Y" (Proprietary business)	65,000
Rent from a house situated in Country "Y" (Gross)	2,40,000
Municipal tax in respect of the above house [not allowed as deduction in County "Y"]	10,000

Note: Business loss in Country "Y" not eligible for set off against other incomes as per law of that country. The rates of tax in Country "X" and Country "Y" are 10% and 25% respectively. Compute total income and tax payable by Mr. Kamesh in India for the Assessment year 2019-20.

SECTION – C (Compulsory) (1x10=10)

14. Following is the P&L a/c of YZ Ltd, an Indian company for the PY 2018-19.

Profit and Loss account

To materials consumed	22,50,000	By sales	50,00,000
To salaries	37,50,000		
To advertisement	3,75,000		
To provision for doubtful debts	37,500		
To insurance	52,500		
To audit fees	1,20,000		
To depreciation	1,05,000		
To provision for income tax	75,000		
To provision for contingent liabilities	30,000		
To transfer to general reserve	1,50,000		
To proposed dividend	3,00,000		
To office expenses	4,50,000		
To losses of subsidiary company	3,00,000		
To legal fees	1,12,500		
To repair to P & M	82,500		
To net profit	8,10,000		
Total	90,00,000	Total	90,00,000

Additional information:

a) Provision for doubtful debts includes bad debts of ₹ 20,000.

b) The company has various depreciable assets. During the year a block of P & M [15%] was revalued at the start of current P.Y. from ₹ 2,00,000 to ₹ 3,00,000. However, depreciation u/s 32 of IT Act is ₹ 1,00,000.

c) Income tax includes advance IT for P.Y. 2018-19 ₹ 25,000.

d)

	As per books (₹)	As per IT Act (₹)
B/F business losses	2,20,000	2,70,000
Unabsorbed depreciation	62,500	2,00,000

Calculate for A.Y. 2019-20:

i. Total income as per normal provisions of IT Act.

ii. Book projects under MAT.

iii. Final tax liability

iv. Tax credit available to the company u/s 115 JAA.

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