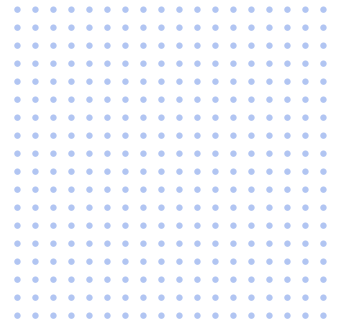




FOR CA FINAL EXAM PREPARATION

CA Final 2019 Question Paper · Paper 6B Financial Services and Capital Markets

EXAM

CA Final

YEAR

2019

TYPE

Question Paper

SUBJECT

Paper 6B Financial Services and Capital Markets

DATE

May 2019

Final New Syllabus**Paper - 6 B****Financial Services & Capital Markets****MAY 2019**

Roll No.

Total No. of Case Study Questions – 3**Total No. of Printed Pages – 31****Time Allowed – 4 Hours****Maximum Marks – 100****JKM2**

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate who has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question paper comprises **three** case study questions. The candidates are required to answer any **two** case study questions out of three.

Answers in respect of multiple choice questions are to be indicated in capital letters i.e.,

A or B or C or D or E as the case may be.

Marks**QUESTION NO. – I****CASE STUDY :**

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.

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For making such investments, IIC 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 ₹ 90,000 crores. IIC'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, IIC 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 IIC were for the maximum permitted 10 years, in order to have better marketability of the debt instruments, IIC also issued short term CPs - the redemptions of which became difficult in view of cash flow situations.

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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 ₹ 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 IIIC’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.

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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, realising 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 instalments. 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.

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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
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=20

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

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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
6. When any upgrading or downgrading of rating happens
 - (A) The CRA shall make a disclosure through its website to the investing public
 - (B) The CRA shall communicate to the rated entity
 - (C) The CRA should inform the regulatory authority of the rated entity
 - (D) All of the above
7. In the given case study, the loss for institutional and individual investors is predominantly caused by
 - (A) The Company, which mismanaged public funds
 - (B) The auditors who have given true & fair certification to the company's financials
 - (C) The rating companies which had given good rating of the securities
 - (D) The regulator which had failed in its oversight function

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8. The Credit Rating process is not mandatory for
- (A) Listed Non Convertible Debentures
 - (B) Initial Public Offerings of companies that are getting listed
 - (C) All Public Deposits by NBFCs
 - (D) Commercial Papers by Corporates
9. The more prominent risk that CRAs have to bear in mind is
- (A) Financial risk of the entities
 - (B) Business Risks encountered by the rated entity
 - (C) Operational Risks relating to people and process
 - (D) None of the above
10. Which one of the following is not a Credit Rating Agency ?
- (A) Fitch
 - (B) Credit Analysis & Research Ltd.
 - (C) CIBIL
 - (D) Standard & Poor

PART - B**5×6
=30**

1. In the given case study, discuss the role and failure, if any, of the Credit rating agency.
2. In your opinion, should the Credit rating Agencies be better monitored and regulated to be made more accountable ?

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3. 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 ?
4. What is the CAMEL model in rating methodology ? Is it sufficient in case of large public offerings of debt securities ?
5. If you are asked to rate as 1 to 4 (1 being most responsible) in the MCQ No. 7 above, how would you rate and why ?

QUESTION NO. – II**CASE STUDY**

There are nearly 12 lakh students who aspire to get in to one of the Indian Institutes of Technology which number over 20 all over India. There are many private coaching academies which train aspiring students to take on the challenging entrance tests, popularly known as IIT-JEE, as only about 11,000 students would finally make it to one of the IITs. JEET Academy (Pvt. Ltd. Co.) headquartered in a tier-II city in the Northern India, is a cult name in the field of coaching for IIT aspirants, right through their 9th grade up to class-XII. It is predominantly owned by one Mr. Ashwath Gupta, who, himself an IITan, started this academy in a small scale after a stint of employment abroad.

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Of course, there are many such coaching academies and JEET has been doing fairly well among stiff competition, presently training around 22,000 students annually, with the numbers growing steadily. JEET has been sending nearly 1400 to 1600 students annually to various IITs and its success rate @ 6 to 7.5% has been consistently better than the overall success rate of IITs, which has been less than 1%. The professors, numbering around 300 of the academy, a good number of them from IITs themselves, were enthusiastic to develop the institution further.

There was, of course, a good scope for JEET to expand as Ashwath knew that in cities like Hyderabad, Kolkata, Chennai, Bengaluru and even a few centres abroad, there were untapped potential. There were technological advancements like remote classes through Skype, online interactions, mobile phone apps, prometric type of testing etc. that needed to be taken advantage of. Ashwath needed to invest heavily in infrastructure facilities also, besides opening centres in various cities, hiring teaching talents etc.

Not wanting to go through the debt or IPO routes, he slowly explored the options of Private Equity investments. His ambitions were funneled by two Private Equity firms -one a big ticket firm from UK called Blue Diamond and one mid-size PE fund by name Aquarius based out of Mumbai. Though Ashwath was not keen to divest any of his holdings in the Academy, as he became aware that it would not be possible for him to expand his business horizon without additional infusing of funds and as was more averse to debt, he mentally decided that he would divest a portion of his stake in favour of a new PE investor but was keen to get a good valuation for his business.

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Both the PE funds sent him term sheets, on the basis of the financial projections given by JEET, as below (post PE infusion) :

PROJECTED FINANCIALS (₹ in crores)					
	2016-17	2017-18	2018-19	2019-20	2020-21
Income					
Tuition fees	133.70	180.50	243.60	304.50	380.60
Study Materials sales	6.60	9.90	14.80	22.20	33.40
Exam fees	3.40	4.60	6.10	8.30	11.20
	143.70	195.00	264.50	335.00	425.20
Expenses					
HR expenses	59.20	74.00	92.50	115.60	144.80
Rentals	9.80	12.30	15.30	19.30	24.00
Marketing	14.40	17.30	20.70	24.90	29.90
Admn & Operating Expenses	9.00	10.70	13.10	15.50	18.60
	92.40	114.30	141.60	175.30	217.30
Net Operating Revenue	51.30	80.70	122.90	159.70	207.90
Interest Earned	5.20	5.80	7.20	8.40	9.50
PBT	56.50	86.50	130.10	168.10	217.40
Taxes	19.78	30.28	45.54	58.80	76.09
PAT	36.73	56.23	84.57	109.30	141.31

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The salient features of Term Sheets sent by Aquarius and Blue Diamond UK are as below :

AQUARIUS (MUMBAI) TERM SHEET : PROPOSAL 'A'

A. The investment amount is the aggregate of the following :

1. Compulsorily Convertible Preference Shares ("CCPS") each to be issued by the company to the Investors at face value (total subscription amount being ₹ 22 Crores). These CCPS are required to be compulsorily converted (along with CCPS obtained post conversion as mentioned in sub-clause 4 below), at the option of the Investors, into so many Equity Shares of the Company based on the valuation determined in accordance with Clause 2 below;
2. Such number of Equity Shares of the Company to be purchased from the Promoters by the Investors for a consideration of ₹ 11 Crores at a price per share which is 20% lower than the price per share determined for conversion of CCPS into Equity Shares in accordance with Clause 2 below;
3. The "Warrant(s)" to be issued by the Company to the Investors free of cost, at the time of issue of CCPS (as mentioned in preceding sub-clause 2) entitling the Investors to subscribe to CCPS at face value for the total consideration of ₹ 11 Crores. Such option to subscribe to CCPS will have to be exercised from July 1, 2017 to December 31, 2018.

B. Pre-Money Valuation and Post-Money Valuation and ESOP

The actual post-money equity valuation will be at 12 times multiple of the audited consolidated FY 2016-17 Profit After Tax, adjusted for any extraordinary items, etc. This is subject to a maximum post-money valuation of ₹ 440 Crores and a minimum valuation of ₹ 340 Crores. Accordingly, the minimum pre-money valuation will be ₹ 296 Crores and maximum pre money valuation will be ₹ 396 Crores.

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At maximum post-money valuation, Investor Securities (assuming the CCPS on an as-converted basis) will represent 8 percent of the post issued and paid up capital of the Company immediately after the closure of the round and post exercise of the warrants they will represent 12 percent of post issued and paid up Capital assuming all the Warrants have been converted.

The current equity (prior to current funding round) is 100 percent held by Promoters. On or before June 30, 2018, the Promoter will transfer, at a price decided by the Promoter, such number of equity shares to Employees/close associates/friends/relatives such that post investment of ₹ 22 Crores by Investors, and after the above-mentioned transfer, the percentage stake held by Employees/close associates/friends/relatives is a maximum of 10 percent and by the Investors is 8 percent (all assuming conversion happens at ₹ 440 Crores post-money).

C. Board of Directors

The Investors will have the right to nominate a Director ("Investor Director") on the Board of the Company and in the select Board Committees

D. Exit Provisions

The Company and Promoters shall endeavor to list its common shares on recognized stock exchanges in India, by way of an IPO/Offer for Sale, no later than four (4) years from the date of initial investment by the Investors. In case of Offer for Sale, the Investors shall be entitled to participate in the offer by offering Investor Securities on pro-rata (fully diluted) basis. The Company shall undertake to bear all the expenses related to the listing of the equity shares. The IPO shall be considered as a "Qualified IPO" for the purpose of the clauses below, only if the following conditions are satisfied.

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- (a) The floor price per share in IPO is such that it gets an IRR of at least 15 percent on purchase price (subject to adjustments for stock dividends, splits, combinations, and similar events).
- (b) The gross proceeds of the offer to the public by means of a fresh issue of shares are not less than ₹ 150 Crores.

In the event that the Company is unable to provide the Investors with an exit via a Qualified IPO, the Investors will have following alternatives.

E. Sale to Third-Party Buyers

If the Investors exit has not happened in the manner contemplated above, within 5 years from the date of initial investment by the Investors, Promoters shall be required to enter into an agreement with the Investors to sell up to a maximum of same number of shares as are held by the Investors at that point in time, along with all of the Investors' shareholding, to a third-party buyer. It is clarified that for the purpose of this Clause, the Investors shall be entitled to sell to any third party including Competitors.

F. Brand Equity:

The Brand value which has been the exclusive ownership of the owner Mr Ashwath has to be transferred to the Company, at no cost.

G. Others

Besides the above, there are usual terms and conditions regarding end-use of investment funds, anti-dilution rights, minimum holding period of investment, investors' rights to future rounds of funding, non-compete, non-disclosure, exclusivity etc.

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BLUE DIAMOND, UK's TERM SHEET : PROPOSAL 'B'

<i>Issuer</i>	: JEET Academy, a Company Incorporated in India
<i>Securities</i>	: Series A Preferred Stock (the "Series A Preferred")
<i>Company Valuation</i>	: ₹ 600 crores post-money, i.e., 16x of the audited FY 2016-17 PAT (R/a to nearest hundred)
<i>Present Offering</i>	: ₹ 150 crores
<i>Consideration</i>	: Cash
<i>Number of securities</i>	: 5,00,000 shares
<i>Price per share</i>	: ₹ 300
<i>Dividends</i>	: Dividend rate. 8% Noncumulative
<i>Dividends (continued)</i>	: Priority. Senior to Common Equity
<i>Liquidation preference</i>	: Amount. Original purchase price plus accrued dividends
<i>Priority</i>	: Senior to common
<i>Participation</i>	: After payment of preferential liquidation proceeds, the Series A Preferred does not participate in further liquidation proceeds.

Redemption : Outstanding shares of Series A Preferred will be redeemed on March 31, 2021 at purchase price plus declared dividends from the closing date plus 4% p.a. If the Series A Preferred is not redeemed on the date or dates set for redemption, the redemption price will increase to the purchase price plus declared dividends plus 10% per annum from the date originally set for redemption.

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Conversion : The Series A Preferred may be converted at any time, at the option of the holder, into shares of common stock. The conversion rate will initially be 1:1, subject to anti-dilution and other customary adjustments.

Automatic conversion : Each share of preferred stock will automatically convert into common stock, at the then applicable conversion rate, upon
(i) the closing of a firmly underwritten public offering of common stock (a "Qualified Public Offering"), or (ii) the consent of the holders of a majority of the then outstanding shares of the preferred stock.

Anti-dilution Adjustments : The conversion price of the Series A Preferred will be subject to adjustment, on a broad-based weighted-average basis, if the Company issues additional securities at a price per share less than the then applicable conversion price, except in specified circumstances.
(Not necessary for this case study)

General voting rights : Each share of preferred stock will have the right to a number of votes equal to the number of shares of common stock issuable upon conversion of each such share of preferred stock. The preferred stock will vote with the common stock on all matters except as specifically provided in the articles of incorporation or as otherwise required by law.

Voting for directors : The holders of Series A Preferred will be entitled to elect two directors. Any additional directors will be elected by the holders of preferred stock and common stock voting together.

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Right of first refusal : If the Promoter proposes to transfer any common stock or other securities convertible into or exercisable for common stock, the holders of Series A Preferred will have a right of first refusal (on a pro rata basis based on the Company's outstanding securities (on an as-converted and as-exercised basis) with respect to the proposed transfer. The rights of first refusal will be subject to customary exceptions and will terminate on a Qualified Public Offering.

In the background of the Private Equity investments scenario in India and with reference to the case study given and the Term sheets, the questions need to be answered.

You are required to answer **all** of the following Multiple Choice Questions in Part-A and also, give reasoned replies (in about **150 to 200** words) to each of the questions in Part-B.

PART - A**10×2
=20**

1. In a Venture Capital Investment deal, valuation is done on the basis of
 - (A) Pre-money Valuation
 - (B) Post-money Valuation
 - (C) Valuation as per Company Law
 - (D) Valuation as per SEBI Formula
2. The most important thing that a Promoter looks for, during a Private Equity Investment Deal is
 - (A) PE investor's domain knowledge
 - (B) Maximum valuation offered by the PE Investor
 - (C) PE investor's track record
 - (D) PE Investor's expected IRR
 - (E) Deal structure

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3. The most important thing that a Private Equity Investor looks for, during a Private Equity Investment Deal is

- (A) No. of Directorships in the Board
(leaning towards Majority of the Board)
- (B) Control of the Company
- (C) Business Model and Promoter qualities
- (D) Duration & Mode of Exit offered by the Promoter
- (E) Promoter Education and experience in the Business

4. The Key difference between Private Equity Investor & Venture Capital Investor is

- (A) Size / Extent of Investment
- (B) Intent of Control / Takeover of Investee Company
- (C) Age & growth of Investee Company
- (D) Stage of Investment
- (E) All of the above

5. The term Sheet in a Private Equity Deal is

- (A) of utmost importance to Investor & binding on Promoter
- (B) of utmost importance to Promoter & binding on Investor
- (C) of no importance to Promoter & Investor and Companies Act will prevail
- (D) of importance only where the Investor chooses to exit via an IPO

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6. The right by which the majority of the shareholders bind the minority shareholders in the event of sale / transfer of shares is known as
- (A) Pre-emptive
- (B) Predatory
- (C) Democratic
- (D) Drag along
7. In the given case study, the preferred exit strategy for the investors is
- (A) Buy back by the Promoters at a pre-agreed valuation
- (B) Public Offering after a given period of time
- (C) Sale to Third Parties
- (D) A combination of the above
8. In any PE investment, the investor would insist on the following :
- (A) Forensic audit
- (B) Financial Due Diligence by a reputed external consultancy firm
- (C) Complete audit of operations and financials
- (D) All of the above

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9. Who is an angel investor ?
- (A) One who provides the seed capital
- (B) One who accepts the maximum valuation
- (C) One who is prepared to take the risk of zero return
- (D) One who has a domain experience in the field in which the investee company operates
10. What is that minimum rate of return that needs to get generated before profit sharing begins ?
- (A) Harvest Rate
- (B) Hurdle Rate
- (C) Term sheet Rate
- (D) Bridge Rate

PART – B

1. Even as the Promoter is contemplating between proposal A and proposal B, the Investors and the Promoters are worried about the impact of Angel Tax. You are required to present a note to the Joint Meeting of the Board and the Potential investors on the implications of Angel Tax (legal position as of 31st October, 2018). **8**
2. You are the CFO of the Company who has been given the task of choosing one of the 2 proposals and you choose the proposal from Blue Diamond over that of Aquarius. Prepare a brief note providing at least 4 reasons (each not exceeding 50 words) for your choice. **4**
3. After much deliberations the Board of the Company has chosen to consider Proposal Aquarius over Proposal Blue Diamond. What in your view would the Board have found compelling merits in proposal Aquarius ? (each reasoning may not exceed 50 words) **6**

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4. If you were Ashwath, now with a feel of your company's worth, will you contemplate postponing the PE idea for 2 more years ? (The projected financials as given herein are pre-expansion plans - with a regular growth rate). Evaluate this in the background of the need to obtain better market share, changing environment in the area of such tutorial education, ceding some managerial control to outsiders etc. 4
5. Write Short Notes on : 3+2+3
=8
- (A) Leveraged Buy Out
- (B) Carry
- (C) Vulture Fund

QUESTION NO. – III**CASE STUDY**

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.

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TABLE - A

Monthly Portfolio Statement as on December 31, 2017		INDEX FUND - NIFTY PLAN (An open ended scheme replicating / tracking NIFTY 50)	ETF NIFTY BeES (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%

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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 Pharmaceutical 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%

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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%
Indian 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 Zone Limited	Transportation	0.70%	0.70%
Bharat Petroleum Corporation Limited	Petroleum Products	0.67%	0.67%

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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			

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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	₹ 135.89 Crores (Month End : ₹ 137.23 Crores)
NAV as on 31/12/2017	Regular - Growth Plan : ₹ 18.1422 Direct - Growth Plan : ₹ 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%

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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	₹ 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)	1/10 th of Index
Exchange Listed	NSE

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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
 - (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
 - (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
 - (A) Low Expense Ratio
 - (B) At Par returns with Underlying benchmark
 - (C) Transaction in Small quantities
 - (D) All of the above

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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**
- (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 ETF Fund of a similar nature.
- (D) None of the above
5. Which of the following is true of ETF ? **2**
- (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
6. Which of the following statement describes the NIFTY ETF the best ? **2**
- (A) The NIFTY ETF is closest representation of NIFTY Index Fund.
- (B) NIFTY ETF can itself be viewed as a Stock.
- (C) NIFTY ETF is a distinct security with no relation to NIFTY Index Fund nor does it have any features of a stock.
- (D) NIFTY ETF is a NIFTY Index Fund in the form of a stock.

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7. Write in the relevant column against each statement, given below, if it is True or False as regards an Index Fund / ETF. (Reproduce this in your answer sheet)
- 6×3
=18**

SI No.	Statement	True or False
1	Request for purchase / sale of an index fund can be done outside market hours.	
2	An Index Fund provides for taking advantage of intraday price movements.	
3	Liquidity or redemption is a problem associated with the Index Fund.	
4	ETFs and Index Funds follow a passive fund allocations strategy.	
5	ETFs allow for diversification beyond geographical boundaries without underlying knowledge of foreign stocks.	
6	ETFs can be replicated only in respect of Stock Based Indices.	

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The Indian Mutual Fund Industry has grown from ₹ 6.6 Trillion in August 2013 to about ₹ 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 regulation carried out by SEBI on the categorization and rationalisation of Mutual Fund Schemes. Your answer should inter-alia provide for

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- (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)
- (D) Basis for Sub-categorization in respect of Equity Oriented Mutual Fund
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