

**CA FINAL**  
**ELECTIVE PAPER 6B: FINANCIAL SERVICES AND**  
**CAPITAL MARKET**

***Case Study***

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 ₹ 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 ₹ 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.
- (ii) Find out if there is any possibility of arbitrage opportunity both domestically and internationally.
- (iii) How market has reacted to the bonus announcement and what may be the reason for the same.
- (iv) Explain with reasons the effect of EPS on the Bonus Issue
- (v) Discuss by referring to relevant regulations of SEBI the following:
  - (a) Board of Director's meeting regarding bonus issue was held on 1<sup>st</sup> April, 2015. Within what period the bonus issue shall be implemented. Also, discuss the necessary approvals required in this respect.
  - (b) Basic earnings per share and diluted earnings per share are equal. Discuss the reason for this effect.
  - (c) The company has decided to make a bonus issue. However, later it wants to withdraw it. Can it do so?
- (vi) Prices of ABC Ltd. on the Ex-Bonus date has been reduced drastically. What can be reasons for this effect?
- (vii) What does higher dividend payout on the part of ABC Ltd. indicates?
- (viii) Whether it is feasible for the company to go for a buy-back offer? Discuss with reference to the exhibits provided in the Case Study? What conditions will be required to be fulfilled by ABC Ltd., if the company decides to go for the buyback? Discuss with reference to SEBI Regulations.
- (ix) What is the market price just before and after the ex-bonus date on both the stock exchanges? Calculate P/E ratio considering closing prices just before and after the ex-bonus date on both the stock exchanges and other figures as given in the exhibit itself.
- (x) Why the company is debt free? How the present capital structure of the company is helping its cause?
- (xi) What is the reason for company's high cash reserves? What is the impact of high cash holding?
- (xii) Compute the financial ratios:
  - (a) Dividend Payout Ratio
  - (b) Net Foreign Earnings/ Earnings Ratio
  - (c) Research and Development Expenses/ Revenue Ratio
  - (d) Net Profit Ratio

- 3. Multi Choice Questions (MCQs)**
- (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
- (vi) In case if Rupee further depreciates vis-à-vis US \$ in the beginning of the year 2017 then the Net Profit of the company**
- a) is likely to increase for the fin year 2016-2017
  - b) is likely to decrease for the fin year 2016-2017
  - c) is likely to remain same for the fin year 2016-2017
  - d) is likely to increase for the fin year 2015-2016

## Exhibit – 1

### Balance Sheet

#### EQUITY AND LIABILITIES

##### Shareholders' Funds

	31 <sup>st</sup> March, 2016 (In ₹ Crores)	31 <sup>st</sup> March, 2015 (In ₹ Crores)
Share capital	1,148	574
Reserve and Surplus	56,009	47,494
	<u>57,157</u>	<u>48,068</u>

##### Non - Current Liabilities

Deferred tax liabilities (net)	-	-
Other long term liabilities	73	30
	<u>73</u>	<u>30</u>

##### Current Liabilities

##### Trade Payables

Total outstanding dues of micro Enterprises and small enterprises		
Total outstanding dues of creditors other micro enterprises and small enterprises	623	124
Other current liabilities	6105	5546
Short term provisions	8809	8045
	<u>15,537</u>	<u>13,715</u>
	<u>72,767</u>	<u>61,813</u>

#### ASSETS

##### Non-Current Assets

##### Fixed Assets

Tangible assets	8248	7347
Capital work-in-progress	934	769
	<u>9182</u>	<u>8116</u>
Non-current investments	11,111	6108
Deferred tax assets (net)	405	433
Long term loans and advances	5970	4378
Other non-current assets	2	26

Current Assets		
Current investments	2	749
Trade Receivables	9,798	8,627
Cash and Cash Equivalents	29,176	27,722
Short term loans and advances	7,121	5,654
	<u>46,097</u>	<u>42,752</u>
	<u>72,767</u>	<u>61,813</u>

### **Relevant Profit and Loss details**

Income from software services And products (Turnover or Sales)	53,983	47,300
Profit for the year (Standalone)	15,786	12,164
Profit for the year (Consolidated)	13,678	12,372
Interim Dividend	2,297	1,723
Final Dividend	3,273	3,388
Total Dividend	<b>5,570</b>	<b>5,111</b>
Dividend Tax	1,134	1,034

## **Exhibit – 2**

### **Details of Earning Per Share (EPS)**

Earning per equity share	31 <sup>st</sup> March, 2016	31 <sup>st</sup> March, 2015	31 <sup>st</sup> March, 2014
Basic	₹ 68.73	₹ 105.91	₹ 178.39
Diluted	₹ 68.73	₹ 105.91	₹ 178.39

### **Number of shares used in computing earnings per share**

Basic	2,29,69,44,664	1,14,84,72,332	57,14,02,566
Diluted	2,29,69,44,664	1,14,84,72,332	57,14,02,566

### Exhibit 3

#### Details of Long term Liabilities

Particulars	As at March 31,	
	2016	2015
(i) Gratuity obligation – unamortized amount relating to plan amendment.	-	3
(ii) Payable for acquisition of business	46	-
(iii) Rental deposits received from subsidiary	<u>27</u>	<u>27</u>
	<u>73</u>	<u>30</u>

### Exhibit 4

#### Research and development expenditure

	In ₹ Crore	
	2016	2015
Revenue expenditure	384	590
Capital expenditure	31	15
Total	415	605

#### Activity in foreign currency

	In ₹ Crore	
	2016	2015
Earnings	52,866	46,158
Expenditure	26,529	22,045
Net foreign exchange earnings (NFE)	26,337	24,113

## Shareholding Pattern

## Exhibit 5

Category of Shareholder	No. of shares at the beginning (Demat)	No. of shares at the beginning (Physical)	% of total shares at the beginning	No. of shares at the end (Demat)	No. of shares at the end (Physical)	% of total shares at the end	% change during the year at the end
<b>(A) Promoter and Promoter group</b>							
Indian	15,02,15,636		13.11	29,28,06,199		12.77	(0.34)
Foreign	Nil			Nil			
<b>(B) Public Shareholding Institutions</b>							
a) Mutual Funds	6,07,84,954		5.30	15,23,60,913		6.65	1.33
b) Banks/FIs	7,25,435		0.06	10,88,363		0.05	(0.01)
c) Insurance Co.	11,19,10,924		9.77	24,74,20,991		10.79	1.02
d) FIs	43,59,60,562	19,200	38.04	52,01,79,413	12,800	22.69	(15.35)
<b>Non Institutions</b>							
a) Bodies corporate	92,55,388	25,600	0.81	1,76,76,850	51,200	0.77	(0.04)
b) Individuals							
(i) individuals holding nominal share capital upto ₹ 1 lakh	6,45,97,620	9,83,912	5.64	11,17,72,259	7,37,345	4.88	(0.76)

ii) individuals holding nominal share capital in excess of ₹ 1 lakh	4,19,53,512	14,53,800	3.66	10,62,34,240	40,22,896	4.63	1.03
c) any other							
• Foreign bodies – DR	4,85,371		0.04	2,15,185		0.01	(0.03)
• Foreign portfolio investor	5,86,37,491		5.12	40,40,52,549		17.63	12.51
• NRI/OCB	1,75,52,821	3.205	1.53	3,49,74,684	6,410	1.53	(0.00)
• Trusts	78,32,920		0.68	1,80,14,430		0.79	0.11
(C) Shares held by custodians for ADRs	18,60,73,981		<b>16.24</b>	38,53,17,937		<b>16.81</b>	(0.61)
Grand Total (A + B + C)	1,14,59,86,615		<b>100</b>	2,29,21,14,013		<b>100</b>	-



**Exhibit – 6****Information regarding Share Prices at two leading Stock Exchanges - ESB and ESN for the month of June, 2015****(i) ESB:**

Price Date	Open Price	High Price	Low Price	Close Price	Trade Value	Number Of Trades	Traded Quantity
30-06-2015	993	993	983.1	985.35	129230976	4604	130902
29-06-2015	988	999	980	990.25	212449791	6250	214778
26-06-2015	995	1011.75	995	1006.1	178294230	4876	177156
25-06-2015	1000	1003	987.85	991.15	187042279	7375	187888
24-06-2015	1010	1013.4	991.6	995.1	152090723	6050	151837
23-06-2015	1025	1028	999.1	1001.15	220838190	7317	219714
22-06-2015	1009	1028.8	997.5	1024.4	191682161	6460	189597
19-06-2015	1005	1010.3	992.5	996.75	105756490	4277	105608
18-06-2015	1000.25	1005.95	996	1000.9	98427249	3690	98293
17-06-2015	1007	1020.4	993.3	995.8	201251242	7792	200684
16-06-2015	994	1002	985	999.45	123941839	4971	124572

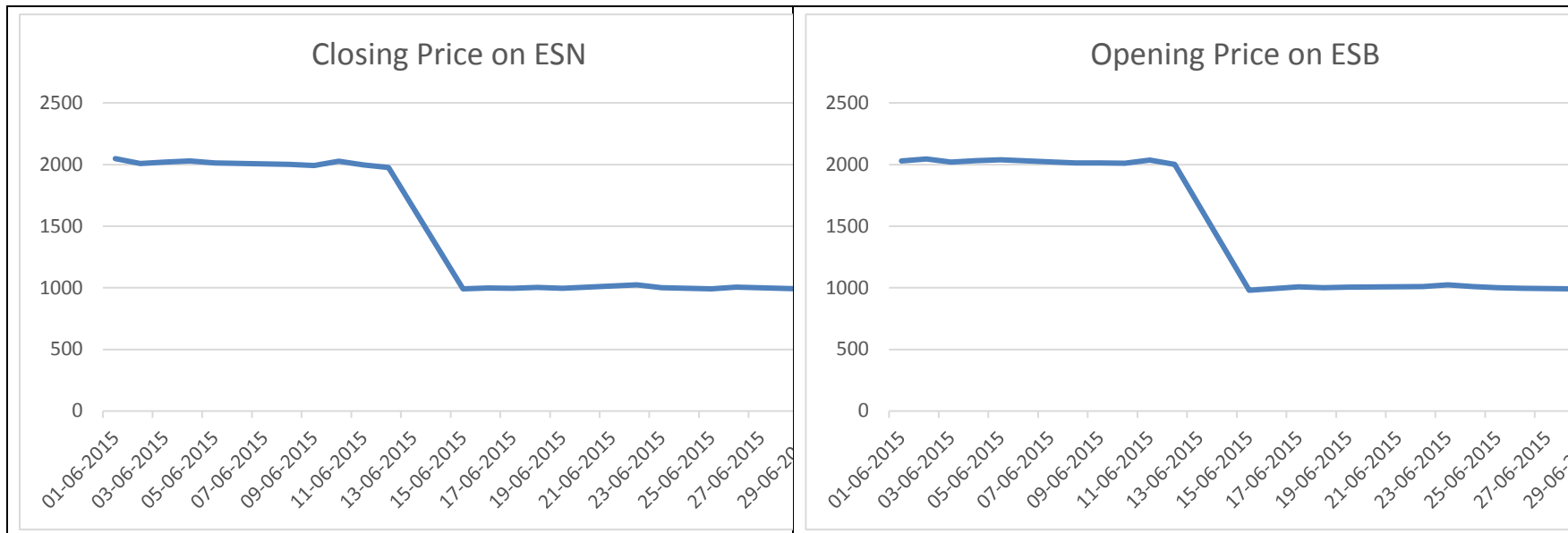
15-06-2015	980	998.85	968.5	991.1	348704570	8291	352567
12-6-2015	2002	2024.5	1955.5	1976.65	730045102	11369	364406
11-6-2015	2035	2045	1997.05	2001.85	441009571	7132	219093
10-6-2015	2010	2039.7	1986	2026.2	213111531	5552	106086
9-6-2015	2013	2013	1985.1	1992.55	324305552	4726	162858
8-6-2015	2012	2020.25	1990	2000.25	112224311	5177	56073
5-6-2015	2039	2044	2009.15	2012.1	242291659	6928	119921
4-6-2015	2031	2056.6	2014.35	2028.05	176073740	6500	86442
3-6-2015	2020	2060	2008.25	2023.1	351489901	7107	174177
2-6-2015	2045	2054.8	2005.1	2008.8	279751806	6055	138784
1-6-2015	2030	2063	2023.3	2045.7	161866930	5558	79075

(ii) ESN:

Price Date	Open Price	High Price	Low Price	Close Price	Trade Value	Number Of Trades	Traded Quantity
30-06-2015	990	993.45	980	984.35	3065047324	71225	3106265
29-06-2015	987	999.5	982.5	990.15	2816829754	76492	2845334
26-06-2015	999	1011.6	998.1	1005.25	2675854600	63866	2660142
25-06-2015	999.2	1003.5	987.65	990.45	3536892263	75358	3558733
24-06-2015	1015	1015	991.2	995.1	3543930987	74881	3536847
23-06-2015	1025	1027.4	998.15	1000.4	3490994517	119559	3476058
22-06-2015	1004.9	1028.75	997	1023.85	2888003447	133708	2855434
19-06-2015	1010.3	1010.4	993.1	995.35	3331553919	97129	3335229
18-06-2015	1005.6	1007.95	995.8	1001.95	1740163420	40621	1737213
17-06-2015	1011	1021	992.2	995.7	3212615218	73928	3206034
16-06-2015	994.35	1003	985	999.35	2599482811	75473	2611722
15-06-2015	976.95	998.8	968	990.45	2592486854	84843	2618213
12-06-2015	2005	2025.55	1955.5	1975.05	4905085618	104931	2463231

11-06-2015	2035.95	2044.75	1995.05	1997.65	4639906733	69953	2307366
10-06-2015	1990	2039.35	1985	2026.5	3212123214	76174	1596460
09-06-2015	2003.75	2007.65	1983	1992.1	3766911108	81812	1890435
08-06-2015	2020	2024.65	1987	2000.05	3070769017	59889	1535262
05-06-2015	2030	2044	2008.15	2011.65	3094883382	61438	1531447
04-06-2015	2030	2055	2012.6	2028.05	3813250263	98562	1872366
03-06-2015	2018.2	2039.45	2008	2020.9	2775067935	50402	1373949
02-06-2015	2048.1	2055.1	2005	2008.65	2358331816	67384	1168285
01-06-2015	2032.8	2064	2023.25	2047.8	2931284913	62717	1431223

**Graphs of Prices of shares during the month of June 2015 at two leading Stock Exchange of India**



## Exhibit - 8

### International Perspective

Stock dividend of one ADS for every ADS held has been given. ABC Ltd. shares are also listed on the New York Stock Exchange (NYSE). The detail structure of the company's share prices in NYSE for the month of June, 2015 has been given as below:

Price Date	Open Price	High Price	Low Price	Close Price
1-6-2015	31.97	32.38	31.93	32.21
2-6-2015	31.76	31.88	31.56	31.82
3-6-2015	31.88	32.44	31.76	32.1
4-6-2015	31.83	31.98	31.41	31.65
5-6-2015	31.53	31.91	31.52	31.81
8-6-2015	31.53	31.62	31.46	31.52
9-6-2015	31.32	31.41	31.03	31.11
10-6-2015	31.59	31.81	31.45	31.72
11-6-2015	31.13	31.47	31.01	31.25
12-6-2015	30.66	31.05	30.59	31.02
15-06-2015	30.79	31.32	30.72	31.25
16-06-2015	31.15	31.91	31.15	31.84
17-06-2015	31.45	31.93	31.45	31.92
18-06-2015	31.86	32.42	31.86	32.17
19-06-2015	32.05	32.16	31.86	31.9
22-06-2015	32.38	32.72	32.25	32.53
23-06-2015	32.32	32.5	32.19	32.22
24-06-2015	31.96	32.18	31.48	31.52
25-06-2015	15.9	16.28	15.89	16.13
26-06-2015	16.26	16.31	16.11	16.17
29-06-2015	15.91	15.98	15.81	15.86
30-06-2015	15.94	15.97	15.66	15.85

## Exhibit - 9

### RBI Reference Rate for US \$ during the month of June 2015

1.6.2015	63.6083
2.6.2015	63.8330
3.6.2015	63.8515
4.6.2015	64.1775
5.6.2015	63.8955
8.6.2015	64.1100
9.6.2015	63.9360
10.6.2015	63.8849
11.6.2015	63.8910
12.6.2015	64.0301
15.6.2015	64.0868
16.6.2015	64.1505
17.6.2015	64.1135
18.6.2015	63.8495
19.6.2015	63.8195
22.6.2015	63.5098
23.6.2015	63.6406
24.6.2015	63.6600
25.6.2015	63.6121
26.6.2015	63.6042
29.6.2015	63.9170
30.6.2015	63.7549

## Exhibit – 10

### Article published in leading Financial Daily on 24-04-2015

The board of directors of ABC Ltd sprang a surprise today by recommending a bonus issue of shares in the ratio of 1:1 (one equity share for every equity share held) and a stock dividend of one American Depositary Share (ADS) for every ADS held.

It is the second 1: 1 bonus issue announced by the company in the last six months as it had made a bonus issue only in December 2014.

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) and a bonus issue, viz., a stock dividend of one ADS for every ADS held. Subsequently, ABC Ltd fixed December 3, 2014, as the record date for the purpose of allotment of bonus shares / stock dividend.

ABC Ltd's board today has recommended a final dividend of ₹29.50 per share (equivalent to ₹14.75 per share after 1:1 bonus issue, if approved by shareholders) for the year ended March 31, 2015.

Acting swiftly to get the approval process completed, the company said its register of members & share transfer books will remain closed from June 17 to June 22 for the purpose of payment of final dividend & the AGM will be held on June 22.

The company's equity base is at ₹574 crore as at the end of March 31, 2015. This was after the bonus issue made in Dec last year. But despite the doubling of the equity base, the company's EPS at the end of last fiscal was at a healthy ₹102.33 as compared to ₹89.20 at the end of March 31, 2014. This gives it shares a P/E ratio of about 20 (at the current value of around ₹2010) which does not look to be very high compared to its peers such as DEF Ltd. (P/E of 23) and XYZ Ltd. (P/E of 25). The latter had implemented a 1:1 bonus issue and also a stock split of 2:1 ( face value of shares reduced to ₹5 from ₹10).

Despite the bonus announcement, the ABC Ltd. shares are down by about ₹ 120 to ₹ 2001 levels now. A deeper analysis of ABC Ltd. results would throw further insight into its performance in terms of profitability ratio etc. compared to its peers and explain the reasons for investor response.