Scanner Appendix

CS Professional Programme Group - II
(2022 Syllabus)
Solutions of December - 2024

Paper - 5 : Strategic Management and Corporate Finance

Chapter - 1 : Introduction to Strategic Management
2024 - June [1]

(a) **Report to the Board of Directors of Supreme Group of Industries (SGI)**

Meaning of Corporate Social Responsibility: According to rule 2(d) of the Companies (Corporate Social Responsibility Policy) Rules, 2014, the term "Corporate Social Responsibility (CSR)" means the activities undertaken by a Company in pursuance of its statutory obligation laid down in section 135 of the Companies Act, 2013 in accordance with the provisions contained in these rules.

CSR is a concept in which companies not only consider their profitability and growth, but also interests of society and the environment by taking responsibility for the impact of their activities on the society, environment and communities in which they operate. CSR aims to fulfil expectations that society has from business and it is viewed as a comprehensive set of social policies, practices and programs that are integrated throughout the business operations. The concept of CSR has evolved over the years and it is now used as a strategy and a business opportunity to earn stakeholders' goodwill.

Advantages of Corporate Social Responsibility: Business cannot exist in isolation; business cannot be oblivious to societal development. This has also been highlighted in Section 166(2) of the Companies Act, 2013.The social responsibility of business can be integrated into the business purpose so as to build a positive synergy between the two. Some of the points highlighting the benefits of CSR are given below:

- CSR creates a favourable public image, which attracts customers. Reputation or brand equity of the products of a company which understands and demonstrates its social responsibilities is very high. Customers trust the products of such a company and are willing to pay a premium on its products. Organizations that perform well with regard to
  CSR can build reputation, while those that perform poorly can damage brand and company value when exposed. Brand equity, is founded on values such as trust, credibility, reliability, quality and consistency.
- CSR creates a positive image encouraging social involvement of employees-officially or even personally, which in turn develops a sense of loyalty towards the organization, helping in creating a dedicated workforce proud of its company.
- The company's social involvement may assist in discouraging excessive regulation or intervention from the Government or statutory bodies, and hence gives greater freedom and flexibility in decision-making.
- The internal activities of the organisation have an effect on the external environment, since the society is an inter-dependent system.
- A business organisation has a great deal of power and money, entrusted upon it by society and should be accompanied by an equal amount of responsibility. In other words, there should be a balance between authority and responsibility.
- The atmosphere of social responsiveness encourages co-operative attitude between groups of companies. One company can advise or solve social problems that other organizations can not solve.
- Companies can better address the grievances of their employees and create employment opportunities for the unemployed.
- Financial institutions are rapidly incorporating social and

environmental criteria into their assessment of projects. When making decisions about where to place their money, investors are looking for indicators of effective CSR management.

- In a number of jurisdictions, governments have expedited approval processes for firms that have undertaken social and environmental activities beyond those required by regulation.

Factors influencing Board's CSR initiative

- Globalization - coupled with focus on cross-border trade, multinational enterprises and global supply chains - is increasingly raising CSR concerns related to human resource management practices, environmental protection, and health and safety, among other things.
- Governments and intergovernmental bodies, such as the United Nations, the Organisation for Economic Cooperation and Development (OECD) and the International Labour Organization (ILO) have developed compacts, declarations, guidelines, principles and other instruments that outline social norms for acceptable conduct.
- Advances in communications technology, such as the Internet, cellular phones and personal digital assistants, are making it easier to track corporate activities and disseminate information about them.
- Non-governmental organizations (NGDs) now regularly draw attention through their websites to business practices they view as problematic.
- Consumers and investors are showing increasing interest in supporting responsible business practices and environmental issues.
- Numerous serious and high-profile breaches of corporate ethics have contributed to elevated public mistrust of corporations and highlighted the need for improved corporate governance, transparency, accountability and ethical standards. However, being ethical and socially responsible by making a positive contribution to society may not be same.
- People in many countries are increasingly demanding that

corporations should meet standards of social and environmental care, no matter where they operate, including their supply chain.

- There is increasing awareness of the limits of government legislative and regulatory initiatives to effectively capture all the issues that corporate social responsibility addresses.
- Businesses are recognizing that adopting an effective approach to CSR can reduce risk of business disruptions, open up new opportunities, and enhance brand and company reputation.
- Effective CSR will depend on the mind set of executives of the corporate who are taking up CSR initiatives.
- CSR is also dependent on the implementing agencies with regard to their seriousness, integrity, honesty and attitude.

(b) **A brief write-up on the role of Board of Directors in CSR related activities of the company:**

CSR is a process driven by Board of Directors. The responsibilities of the Board of a company which has a CSR mandate under the Companies Act, 2013,include the following:

- approve the CSR policy;
- disclose contents of such policy in its report and also place it on the company's website, if any;
- ensure that the activities included in the CSR policy are undertaken by the company;
- ensure that the company spends, in every financial year, at least two per cent of the average net profits of the company made during the three immediately preceding financial years;
- satisfy itself regarding the utilisation of the disbursed CSR funds; and
- if the company fails to spend at least two per cent of the average net profits of the company, the Board shall, in its report made under clause (o) of sub-section (3) of section 134, specify the reasons for not spending the amount and transfer the unspent CSR amount as per provisions of sections 135(5) and 135(6) of the Companies Act, 2013.

- alter such annual action plan based on reasonable justification as per recommendation of CSR committee.

In addition to the above, the Board of Directors of the Company also has to take decisions on the following important matters related to CSR:

- Matters relating to monitoring of CSR projects - ongoing or otherwise
- Administrative Overheads
- Setting off excess amount
- Transfer of Capital Asset
- CSR Reporting
- Impact Assessment Report
- Disclosure on Website etc.

Corporate Social Responsibility (CSR) - Board's Compliance Responsibility of Implementing and Reporting-Case Law:

In the matter of Chettinad Earth Movers (P.) Ltd. CA NO. 1096/CB/2018 NCLT Chennai, the Hon'ble court held that the Company and its Officers are in default have violated the provisions of Section 134(3)(o) read with Section 135 of the Companies Act, 2013, which is punishable under Section 134(8) of the Companies Act, 2013. The said offence is not intentional and it is not prejudicial to the interest of the shareholders or the creditors.

As per provisions of Section 134(8) of the Companies Act, 2013, the Company shall be punishable with fine which shall not be less than fifty thousand rupees but which extend to twenty-five lakh rupees, and every officer of the Company who is in default shall be punishable with imprisonment for a term which may extend to three years or with fine which shall not be less than fifty thousand rupees but which may extend to five lakh rupees or with both. [This provision was amended vide Notification dated 28th September, 2020 by the Companies (Amendment) Act, 2020.]

The applicant pleaded for taking a lenient view on the ground that it was the first offence, which has been confirmed by the concerned RoC. Therefore, the Application of the Company and its Officers in default is to be allowed and the offence is to be compounded in exercise of the powers conferred under section 441, by imposing a fine under section 134(8), to the tune of ₹ 1,50,000 i.e. ₹ 50,000 on each the Company, and its two Officers.

(c) A brief note to the Board prepared by CS Pratyush

(i) **Objectives of corporate governance:**

Corporate Governance aims at creating an organization which is transparent in its operations vis-à-vis its stakeholders. It envisages an organization in which emphasis is laid on fulfilling the social responsibilities towards the stakeholders in addition to the earning of profits. The objectives of Corporate Governance are to ensure the following:

(a) Properly constituted Board capable of taking independent and objective decisions.

(b) Board is independent in terms of Non-Executive and Independent Directors.

(c) Board adopts transparent procedures and practices.

(d) Board has an effective machinery to serve the concerns of the Stakeholders.

(e) Board to monitor the functioning of the Management Team.

(f) Board remains in effective control of the affairs of the Company.

(ii) **Role of Company Secretary in implementation of corporate governance framework in SGI group**

Company Secretary provides the impetus, direction and guidance for achieving world class corporate governance. Company Secretary are primary source of advice on the conduct of business. A Company Secretary:

- acts as a vital link between the company and its Board of Directors, shareholders and other stakeholders and regulatory authorities;
- plays a key role in ensuring that the Board procedures are followed and regularly reviewed;
- provides the Board with guidance as to its duties, responsibilities and powers under various laws, rules and regulations;
- acts as a compliance officer as well as an in-house legal counsel to advise the Board and the functional departments of the company on various corporate, business, economic and tax laws;

- is an important member of the corporate management team and acts as conscience keeper of the company. The company secretary is an important human capital of the management of the business organization and therefore should put all the efforts to ensure that through his/her roles corporate governance prevails.

Chapter - 2 : Analyzing the External and Internal Environment
2024 - June [2A] (Or) (b)
All the environmental forces have an impact on industries in varying degree. Over a period of time, these may change and oscillate between dominant factors and insignificant factors.
Retail Industry:
- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political factors
- Rapid change in production process and product innovation
- Foreign Direct Investment and policies thereon
- Changes in Direct and indirect taxes
- Inflation, interest rates
- Changes in employment/ labour laws
- Change in attitude towards health
- Developments in IT can help in support supply chain management, logistics and transportation

Automobile Industry:
- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political factors
- Government policies and subsidies
- New research and development9 | P a g e
- Anti-pollution pressures like, use of eco-friendly cars.
- Use of alternative fuels
- Population growth & age mix
- Rural urban ratio
- Changes in family structure

- Changes in income levels
- Changes in Import & Excise Duties
- Foreign Direct Investment
- Financing facilities at low interest rates

Education Industry:

- Macro environmental factors such as Technological, Economic, Demographic, Social, Legal and political factors
- Changes in government policies, Proposed Higher Education and Research Outlays
- Privatization of Higher Education
- International Universities
- Availability of soft loans for higher/ professional education
- Attitude towards education
- Mobility of students
- Income
- Job opportunities

Chapter - 3 : Business Policy and Formulation of Functional Strategy

2024 - June [2] (a)

Kamakshi is working at the functional level of management, specifically as the marketing manager at a software company. Functional managers like Kamakshi oversee specific departments or functions within an organisation, such as marketing, finance, or operations. Their primary responsibilities include implementing corporate strategies and policies within their area of expertise and ensuring that daily operations are conducted efficiently and effectively.

In Kamakshi's case, as a marketing manager, her role involves developing and executing marketing strategies for the company's products. This include leading a team of marketing professionals, collaborating with product development and sales teams, and analysing market trends and customer feedback to refine strategies. By working closely with these teams, Kamakshi ensures that the company's products are effectively promoted in the market and that marketing efforts align with overall business goals.

Functional strategy is related to a single functional operation and the activities involved in it. Decisions at this level within the organization are often described as tactical. Such decisions are guided and constrained by some overall strategic considerations. Functional strategy deals with relatively restricted plan providing objectives for specific function, allocation of resources among different operations within that functional area and coordination between them for optimal contribution to the achievement of the SBU and corporate-level objectives.

Functional managers (like Kamakshi) play a critical role in the organisation by bridging the gap between corporate strategy and daily operations. They are responsible for translating high-level strategic goals into actionable plans for their departments and ensuring that these plans are executed effectively. Additionally, they are often key decision-makers within their areas of responsibility, making strategic choices that impact on the company's success. Overall, Kamakshi's role as a marketing manager exemplifies the importance of functional managers in driving the success of their organisations.

2024 - June [2A] (Or) (c)

As the head of a strategic business unit of a large multiproduct company, Mrs. Aashna Kedia has been advised to perform the following key strategic leadership roles:

- **Navigator -** Clearly and quickly works through the complexity of key issues, problems and opportunities to affect actions (e.g., leverage opportunities and resolve issues).
- **Strategist -** Develops a long-range course of action or set of goals to align with the organization's vision.
- **Entrepreneur -** Identifies and exploits opportunities for new products, services and markets.
- **Mobilizer -** Proactively builds and aligns stakeholders, capabilities, and resources for getting things done quickly and achieving complex objectives.

- **Talent Advocate and Innvoator -** Attracts, develops, and retains talent to ensure that people with the right skills and motivations to meet business needs are in the right place at the right time.
- **Captivator -** Builds passion and commitment toward a common goal.
- **Global Thinker -** Integrates information from all sources to develop a well-informed, diverse perspective that can be used to optimize organizational performance.
- **Change Driver -** Creates an environment that embraces change; makes change happen-even if the change is radical - and helps others to accept new ideas.
- **Enterprise Guardian -** Ensures shareholder value creation through courageous decision-making that supports enterprise - or unit-wide interests.

The above nine roles are important at senior strategic levels because they help leaders understand what to do to be strategic. They address the broader challenges leaders face as they transition from managing more narrowly focused 'silos' to taking on the challenges of more enterprisewide leadership.

Chapter - 4 : Strategic Analysis and Planning

2024 - June [2] (c)

According to Michael E. Porter, strategies allow organisations to gain competitive advantage to for long-time survival and growth, from three different bases: cost leadership, differentiation, and focus. These three bases form different generic strategies as under:

- **The Cost leadership** strategy also involves the firm winning market share by appealing to cost-conscious or price-sensitive customers. This is achieved by having the lowest prices in the target market segment, or at least the lowest price to value ratio (price compared to what customers receive).
- **Differentiation** is appropriate where the target customer segment is not price-sensitive, the market is competitive or saturated, customers have very specific needs which are possibly under-served, and the firm has unique resources and capabilities which enable it to satisfy these needs in ways that are difficult to copy.

- The **focus** strategy is also known as 'niche' strategy. This is so because, companies adopting focus strategies focus on niche markets and, by get hold of the dynamics of such niche market and unique requirements of its customers

In the given examples, the generic strategies that are being followed are discussed below:

i. **Differentiation:** Bell Computer is differentiating on product delivery. Computer market is highly competitive and the products are very similar.

ii. **Cost Leadership:** Keeping the prices low so that microcomputer makers acquire the software rather than developing themselves is a case of cost leadership.

iii. **Focus:** DNTV has identified a profitable area (audience niche) and is focusing on it.

2024 - June [2A] (Or) (d)

SWOT stands for strengths, weaknesses, opportunities, and threats. It is a tool for strategic analysis of any organization, which takes into account examination of the company's internal as well as its external environment. It consists in recognition of key assets and weaknesses of the company and marching them to exploit future opportunities and combating threats. SWOT is quite helpful in formulating a company's strategy.

1. **Strength:** Strength is an inherent capability of the organisation which it can use to gain strategic advantage over its competitors.
2. **Weakness:** A weakness is an inherent limitation or constraint of the organisation which creates strategic disadvantage to it.
3. **Opportunity:** An opportunity is a favourable condition in the organisation's environment which enables it to strengthen its position.
4. **Threat:** A threat is an unfavourable condition in the organisation's environment which causes a risk for, or damage to, the organisation's position.

SWOT analysis helps managers to build a business model (or models) that will allow a company to gain a competitive advantage in its industry (or industries). Competitive advantage leads to increased profitability, and this maximises a company's chances of surviving in the fast- changing, competitive environment. Key reasons for SWOT analyses are:

- It provides a logical framework
- It presents a comparative account
- It guides the strategist in strategy identification

Chapter - 5 : Competitive Positioning

2024 - June [2] (b)

To help the small manufacturing company for navigating its digital transformation successfully, it is recommended to adopt the following strategy:

(i) **Education and Communication:** If misinformation and lack of information create barriers to managing change, education and communication might be appropriate. It requires an atmosphere of mutual trust, confidence and respect between managers and employees.

(ii) **Participation:** Participation helps to provide people in organizational change a feeling of importance. It generates the feelings among the employees that the decision is their own.
They realise that the change process is a must. Those people who are directly affected by the change should be given opportunity to participate in that change before the final decisions are reached.

(iii) **Obtaining commitment:** Commitment to take part in changed programme can be taken in private from each individual. However, getting a person to commit himself in private to a changed programme may yield fewer results than if he voluntarily and publicly gives his commitment to an idea of change.

(iv) **Leadership:** A transformational leader can use personal reasons for change without arousing resistance. An effective leader tries to change the psychological needs of his followers.

(v) **Training and Psychological Counselling:** Management can change the basic values of the people by training and psychological counseling. People should be educated to become familiar with change, its process, and working. They must be taught new skills, helped to change attitudes and indoctrinated in new relationships.

(vi) **Coercion or Edict:** Coercion or edict is the imposition of change or the issuing of directives about change. It is the explicit use of power. Coercion is the least successful style of managing change except in a state of crisis or confusion.

Chapter - 6 : Managing the Multi-Business firm and Analyzing Strategic Edge

2024 - June [2] (d)

Six Sigma is a disciplined, statistical-based, data-driven quality control program. Six sigma is a:

- **Business Strategy:** Using Six Sigma Methodology, a business can strategize its plan of action and drive revenue increase, cost reduction and process improvements in all parts of the organization.
- **Vision:** Six Sigma Methodology helps the Senior Management in creating a vision to provide defect free, positive environment to the organization.
- **Benchmark:** Six Sigma Methodology helps in improving process metrics. Once the improved process metrics achieve stability; we can use Six Sigma methodology again to improve the newly stabilized process metrics. For example: The Cycle Time of Pizza Delivery is improved from 60 minutes to 45 minutes in a Pizza Delivery process by using Six Sigma methodology. Once the Pizza Delivery process stabilizes at 45 minutes, we could carry out another Six Sigma project to improve its cycle time from 45 minutes to 30 minutes. Thus, it is a benchmark.
- **Goal:** Using Six Sigma methodology, organizations can keep a stringent goal for themselves and work towards achieving them during the course of the year. Right use of the methodology often leads to achievement of these goals.

- **Statistical Measure:** Six Sigma is a data driven methodology. Statistical Analysis is used to identify root- causes of the problem. Additionally, Six Sigma methodology calculates the process performance using its own unit known as Sigma unit.
- **Robust Methodology:** Six Sigma is the most accepted methodology available in the market today which is a documented methodology for problem solving. If used in the right manner, Six Sigma improvements are sometimes considered bullet-proof and they give high yielding returns.

2024 - June [2A] (Or) (a)

Business Process Reengineering (BPR) is a concept to fabricate the operations of the business on an extensive scale and the act of recreating a core business process with the goal of improving product output, quality, or reducing costs. The primary objective of BPR is to eliminate redundancies or futile layers in the whole process and eliminate enterprise costs.

BPR has the following steps:

i. **Define objectives and framework:** There must be a clear definition of the objectives of choosing BPR. Such objectives must be clearly laid out in qualitative and quantitative terms. After defining such objectives, the requirement for change must be communicated to the employees to apprise them about the upcoming processes. This becomes important as the willingness of the employees to adopt the change is a key for the success of BPR.

ii. **Identify customer needs:** The requirements and feedback of the customers must be given due importance while designing the BPR. It must be ensured that the new processes are able to deliver the added value to the customer.

iii. **Study the existing process:** In order to re-engineer, the company must have to analyze its existing business process. A SWOT should be carried out to have a clear view of the strengths and weaknesses of the existing processes.

iv. **Formulatea redesigned process plan:** After an analysis of the prevailing business process, the modifications to be made are chalked down. These modifications form a base for the re-designing of process. Then, a plan is laid down by selecting the best alternative.
v. **Implement the redesign:** After an analysis of the prevailing business process, the modifications to be made are chalked down. These modifications form a base for the redesigning of process. Then, a plan is laid down by selecting the best alternative.

Chapter - 7 : Sources of Corporate Funding
2024 - June [4] (a)
Swadha Ltd. is required to comply with the following conditions for issuing shares with differential rights [Rule 4 of the Companies (Share Capital and Debentures) Rules, 2014]
No company limited by shares can issue equity shares with differential rights as to dividend, voting or otherwise. Such company has to comply with the following conditions:
(a) **Authorization in Articles of Association:** The articles of association of the company authorizes the issue of shares with differential rights.
(b) **Passing of Ordinary Resolution at General Meeting:** The issue of shares is authorized by an ordinary resolution passed at a general meeting of the shareholders. Where the equity shares of a company are listed on a recognized stock exchange, the issue of such shares will be approved by the shareholders through postal ballot.
(c) **Limit for voting power not exceeding 74%:** The voting power in respect of shares with differential rights of the company shall not exceed seventy four percent of total voting power including voting power in respect of equity shares with differential rights issued at any point of time.
(d) **No defaults:** The company has not defaulted in the following aspects:
- the company has not defaulted in filing financial statements and annual returns for three financial years immediately preceding the financial year in which it is decided to issue such shares;

- the company has no subsisting default in the payment of a declared dividend to its shareholders or repayment of its matured deposits or redemption of its preference shares or debentures that have become due for redemption or payment of interest on such deposits or debentures or payment of dividend;
- the company has not defaulted in payment of the dividend on preference shares or repayment of any term loan from a public financial institution or State level financial institution or scheduled Bank that has become repayable or interest payable thereon or dues with respect to statutory payments relating to its employees to any authority or default in crediting the amount in Investor Education and Protection Fund to the Central Government.

However, a company may issue equity shares with differential rights upon expiry of five years from the end financial year in which such default was made good.

(e) The company has not been penalized by Court or Tribunal during the last three years of any offence under the RBI Act, 1934, the SEBI Act, 1992, the Securities Contracts Regulation Act, 1956, the Foreign Exchange Management Act,1999 or any other Special Act, under which such companies being regulated by sectoral regulators.

(f) The company will not convert its existing equity share capital with voting rights into equity share capital carrying differential voting rights and vice versa.

(g) The Register of Members maintained under section 88 shall contain all the relevant particulars of the shares so issued along with details .

(h) The holders of the equity shares with differential rights enjoys all other rights such as bonus shares, rights shares etc., which the holders of equity shares are entitled to, subject to the differential rights with which such shares have been issued.

In case Swadha Ltd. is a listed entity, additional requirements as per SEBI shall also apply.

Chapter - 8 : Raising of Funds from Equity and Procedural Aspects - Public Funding

2024 - June [3]

(a) **Where all Green Shoe Shares are bought back:** In this situation, funds in the Green Shoe Escrow Account (30,000 shares × ₹ 100 i.e ₹ 30,00,000) will be deployed by the stabilising agent towards buying up shares from the open market. Given that the prices prevalent in the market would be less than the issue price of ₹ 100, the stabilising agent would have sufficient funds lying at his disposal to complete this operation.

Having bought back all of the 30,000 shares, these shares would be temporarily held in a special depository account with the depository participant (Green Shoe Demat Account), and would then be returned to the lender shareholders, within a maximum period of two days after the stabilisation period.

(b) **Where none of the Green Shoe Shares are bought back:** This situation will arise in the event that the share prices have fallen below the Issue Price, but the stabilising agent is unable to find any sellers in the open market, or in an event where the share prices continue to trade above the listing price, and therefore there is no need for the stabilising agent to indulge in price stabilisation activities.

In either of the above-said situations, the stabilising agent is under a contractual obligation to return the 30,000 shares that had initially been borrowed from the lending shareholder(s). Towards meeting this obligation, the issuer company would allot 30,000 shares to the stabilising agent into the Green Shoe Demat Account (the consideration being the funds lying the Green Shoe Escrow Account), and these shares would then be returned by the stabilising agent to the lending shareholder(s), thereby squaring off.

(c) **Where some of the Green Shoe Shares are bought back, say 20,000 shares:** This situation could arise in an event where the share prices witness a drop in the initial stages of the price stabilization period, but recover towards the later stages, generally after such purchase.

In this situation, the stabilising agent has a responsibility to return 30,000 shares to the lending shareholder(s), whereas the stabilising activities have yielded only 20,000 shares.

Similar to the instance mentioned in Situation (b) above, the issuer company would allot the differential 10,000 shares into the Green Shoe Demat Account to cover up the shortfall, and the stabilising agent would discharge his obligation to the lending shareholder(s) by returning the 30,000 shares that had been borrowed from them.

In both the Situations (b) and (c), the issuer company would need to apply to the exchanges for obtaining listing/ trading permissions for the incremental shares allotted by them, pursuant to the Green Shoe mechanism.

Any surplus lying in the Green Shoe Escrow Account would then be transferred to the Investor Protection and Education Fund (IPEF) established by SEBI, as required under ICDR Regulations and the account shall be closed thereafter.

2024 - June [4] (c)

The term Initial Public Offering (IPO) means an offer of specified securities by an unlisted issuer to the public for subscription and which includes fresh issuance of shares by the company or includes an Offer for Sale (OFS) of specified securities to the public by any existing holder of such securities in an unlisted issuer. To qualify as an Initial public offer, the offer of securities must be by an unlisted issuer company and such an issue shall be made to the public and not to the existing shareholders of the unlisted issuer company or to selected group of investors.

Eligibility requirements for an Initial Public Offer [Regulation 6(1) of SEBI (ICDR) Regulations, 2018]

An issuer will be eligible to make an IPO only if:

(a) the issuer has net tangible assets of at least 3 Cores on a restated and consolidated basis, in each of the preceding three full years of (12 months each) of which not more than 50% is held in monetary assets;

However, if more than 50% of the net tangible assets are held in monetary assets, the issuer has utilized or made firm commitments to utilize such excess monetary assets in its business or project. This limit of 50% shall not apply in case of IPO is made entirely through an offer for sale.

(b) the issuer has an average operating profit of at least ₹ 15 Cores, calculated on a restated and consolidated basis, during the three preceding years with operating profit in each of the three preceding years;

(c) the issuer has a net worth of at least ₹ 1 crore in each of the preceding three full years, calculated on a restated and consolidated basis;

(d) in case the issuer has changed its name within the last one year, at least 50% of the revenue calculated on a restated and consolidated basis, for the preceding one full year has been earned by it from the activity indicated by the new name.

An issuer who has not met the above criteria can still make an IPO provided it offers 75% of its issue to QIBs and follows book building process for discovery of price.

Chapter - 10 : Infrastructure Investment Trusts

2024 - June [6] (b)

Regulation 26 of the SEBI (Infrastructure Investment Trust) Regulations, 2014 provides that the investment manager will maintain records pertaining to the activity of the InvIT, wherever applicable, including:

(a) all investments or divestments of the InvIT and documents supporting the same including rationale for such investments or divestments;

(b) agreements entered into by the InvIT or on behalf of the InvIT;

(c) documents relating to appointment of persons;

(d) insurance policies for infrastructure assets;

(e) investment management agreement;

(f) documents pertaining to issue and listing of units including placement memorandum, draft and final offer document, in-principle approval by designated stock exchanges, listing agreement with the designated stock exchanges, details of subscriptions, allotment of units, etc;

(g) distributions declared and made to the unit holders;
(h) disclosures and periodical reporting made to the trustee, SEBI, unit holders and the designated stock exchanges including annual reports, half yearly reports, etc.;
(i) valuation reports including methodology of valuation;
(j) books of accounts and financial statements;
(k) audit reports;
(l) reports relating to activities of the InvIT placed before the board of directors of the investment manager;
(m) unit holders' grievances and actions taken thereon including copies of correspondences made with the unit holder and SEBI, if any;
(n) any other material documents;

Chapter - 11 : Rasing of Funds - Private Funding

2024 - June [6] (a)

Chapter III-B on Special Situation Fund was inserted vide SEBI (Alternative Investment Funds) (Amendment) Regulations, 2022. Special Situation Fund means a Category 1 Alternative Investment Fund that invests in special situation assets in accordance with its investment objectives and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016. The provisions of this Chapter shall apply to special situation funds and schemes launched by such special situation funds.

Investment in special situation funds

(1) Each scheme of a special situation fund will have a corpus as may be specified by the SEBI.
(2) The special situation fund will accept from an investor, an investment of such value as may be specified by the SEBI.
(3) The special situation fund will not accept investments from any other Alternative Investment Fund other than a special situation fund.

Investment by special situation funds

(1) Special situation funds will invest only in special situation assets and may act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016. However, the special situation fund shall not invest in the following:

i. its associates; or
ii. the units of any other Alternative Investment Fund other than the units of a special situation fund; or
iii. units of special situation funds managed or sponsored by its manager, sponsor or associates of its manager or sponsor.

(2) Any investment by a special situation fund in the stressed loan acquired under clause 58 of the Master Direction - Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 as amended from time to time shall be subject to lock-in period as may be specified by the SEBI. In this context, SEBI vide its Circular No. SEBI/HO/IMD-I/DF6/P/CIR/2022/009 dated January 27, 2022 has specified the following:
   (a) Each scheme of SSF shall have a corpus of at least ₹ 100 crore.
   (b) SSF shall accept an investment of value not less than ₹ 10 crore from an investor. In case of an accredited investor, the SSF shall accept an investment of value not less than ₹ 5 crore. Further, in case of investors who are employees or directors of the SSF or employees or directors of the manager of the SSF, the minimum value of investment shall be 25 lakh rupees.
   (c) SSF intending to act as a resolution applicant under the Insolvency and Bankruptcy Code, 2016 shall ensure compliance with the eligibility requirement provided thereunder.

2024 - June [6A] (Or) (b)

Regulation 19A(2) of the SEBI (Alternative Investment Funds) Regulation, 2012 defines the 'Angel Investor' which means any person who proposes to invest in an angel fund and satisfies one of the following conditions:

i. an individual investor who has net tangible assets of at least two crore rupees excluding value of his principal residence, and who:
   (a) has early stage investment experience, or
   (b) has experience as a serial entrepreneur, or
   (c) is a senior management professional with at least ten years of experience.

ii. abody corporate with a net worth of at least ten crore rupees; or

iii. an Alternative Investment Fund registered under SEBI (AIF) Regulations or a Venture Capital Fund registered under the SEBI (Venture Capital Funds) Regulations, 1996.

Chapter - 12 : Raising of Funds - Non Fund Based

2024 - June [6A] (Or) (a)

Pre-Issue Formalities

Checklist for Prior In-principle approval under Regulation 28(1) of the SEBI (Listing Obligations and Disclosure Requirements), Regulations, 2015 for ESPS/ESOS/SARS/GEBS/RBS is as follows:

(1) Certified copy of Stock Option/Stock Purchase Scheme/Stock Appreciation Rights Scheme/General Employee Benefits Scheme/ Retirement Benefit Schemes, certified by the Company Secretary.

(2) Certified copy of statement to be filed with the Stock Exchange as required under Regulation 10(b) of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(3) Certified true copy of the notice of AGM/EGM for approving the Scheme/for amending the Scheme/for approving grants under Regulation 6 of the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021, certified by the Company Secretary.

(4) Certified true copy of special resolution along with the explanatory statement passed by the shareholders of the Company approving/ amending the Scheme.

(5) Certificate of Secretarial Auditors on compliance with SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(6) Certificate of Merchant Banker on compliance with SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(7) List of Promoters as defined under the SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021.

(8) Details of employee (wherever applicable):
  (a) Who have been granted options/issued shares in excess of 5% of option/shares issued in one year.
  (b) Who have been granted options/issued shares equal to or exceeding 1% of issued capital during any one year.
(9) Copy of latest Annual Report.
(10) Specimen copy of Share certificate (where shares are issued in physical form).
(11) Confirmation from the Company.
(12) Undertakings as required by SEBI.
(13) Reconciliation statement.
(14) Certified true copy of irrevocable trust deed.
(15) Certified true copy of Disclosure document (applicable only for ESOS and SARS).
(16) Processing fees.

Chapter - 13 : An Overview on Listing and Insurance of Securities in International Financial Services Centre

2024 - June [6A] (Or) (c)

The eligibility criteria for an issuer to make an initial public offer in terms of IFSCA (Issuance and Listing of Securities) Regulations, 2021 is given as under:

1. An issuer shall be eligible to make an initial public offer only if:
   i. the issuer has an operating revenue of at least USD 20 million in the preceding financial year; or
   ii. the issuer has an average pre-tax profit, based on consolidated audited accounts, of at least USD 1 million during the preceding three financial years, or any other eligibility criteria that may be specified by the Authority;
   iii. Further, the issuer shall have commenced business at least three years prior to the date of filing of prospectus.

2. If an issuer has issued SR equity shares or dual class shares to any shareholder, the said issuer shall be allowed to do an initial public offer of ordinary shares for listing on the recognized stock exchange(s) subject to compliance with the following:
   (a) The issue of SR equity shares had been authorized by a special resolution passed at a general meeting of the shareholders of the issuer;
   (b) The SR equity shares have been held for a period of atleast 6 months prior to the filing of the red herring prospectus;
   (c) The SR equity shares shall have voting rights in the ratio of a minimum of 2:1 upto a maximum of 10:1 compared to ordinary shares and such ratio shall be in whole numbers only;
   (d) The SR equity shares shall have the same face value as the ordinary shares; and
   (e) The SR equity shares shall be equivalent to ordinary equity shares in all respects, except for having superior voting rights

Offer size

The issue shall be of size not less than USD 15 million.

Minimum subscription

For the offer to be successful, the minimum subscription received in the issue will be at least 75% of the issue size and the minimum number of subscribers will be 200.

Chapter - 14 : Raising of Funds from Debt and Procedural Aspects

2024 - June [5] (a)

Current Assets	=	Raw Material + W.I.P + Finished Goods + Debtors + Cash/Bank
Current Assets	=	₹ 150 Lakh + ₹ 100 Lakh + ₹ 50 Lakh + ₹ 125 Lakh + ₹ 55 Lakh
	=	₹ 480 lakh
Current Liabilities	=	Public Deposits (Short-term) + Trade Creditors + Bills Payable
	=	₹ 100 Lakh + ₹ 80 Lakh + ₹ 100 Lakh = ₹ 280 lakh

Maximum Permissible Banks Finance (MPBF) under Tandon Committee Norms

Method I

Maximum Permissible Bank Finance (MPBF)

= 75% of (Current Assets - Current Liabilities other than bank borrowings)

= 75% of (₹ 480 Lakh - ₹ 280 Lakh)

= ₹ 150 lakh

Method II

Maximum Permissible Bank Finance (MPBF)

= (75% of Current Assets) - Current Liabilities

= (75 % of ₹ 480 Lakh) - ₹ 280 Lakh

= ₹ 80 lakh

Method III

Maximum Permissible Bank Finance (MPBF)

= 75% of (Current Assets - Core Current Assets) - Current Liabilities

= 75 % of (₹ 480 Lakh - ₹ 30 Lakh) - ₹ 280 Lakh

= ₹ 57.5 lakh

2024 - June [5] (b)

(i) **Calculation of Net Operating Cycle period of Ganpati Ltd.**

Raw Material storage period (R) = $\dfrac{\text{Average stock of raw material}}{\text{Average Cost of Raw Material Consumption per day}}$

$= \dfrac{₹50{,}000}{₹6{,}00{,}000} \times 360$

= 30 days

WIP inventory holding period (W) = $\dfrac{\text{Average WIP inventory}}{\text{Average Cost of Production per day}}$

$= \dfrac{₹30{,}000}{₹5{,}00{,}000} \times 360$

= 21.60 OR 22 days

Finished Goods inventory holding period (F)

$= \dfrac{\text{Average stock of finished Goods}}{\text{Average Cost of Goods sold per day}}$

$= \frac{₹40,000}{₹8,00,000} \times 360$

= 18 days

Receivables (Debtors) collection period (D) = 45 days

Credit Period allowed by creditors (C) = 30 days

Net Operating Cycle = R + W + F + D – C

= 30 + 22 + 18 + 45 - 30 = 85 days

(ii) Number of operating cycles in a year = $\frac{\text{Number of days in a year}}{\text{Operating cycle period}}$

= 360/85 days

= 4.23 times

2024 - June [5] (c)

Galaxy Ltd.

(Amount in ₹ Crore)

Annual Raw Material Consumption for FY 2024-25	A	₹ 480	
Estimated purchase under Letter of Credit (LC) for FY 2024-25 (90 %)	B	₹ 432	
		Calculation of Inland Letter of Credit (ILC)	**Calculation of Foreign Letter of Credit (FLC)**
Annual Raw Material Procurement through ILC/FLC	C	₹ 302.40	₹ 129.60
Monthly Consumption (C/12)	D	₹ 25.20	₹ 10.80
Lead Time (Time from order placement to shipment)	E	1.5 months	2.5 months
Transit Time	F	1.5 months	2.5 months

Credit (Usance) Period Available (in months)	G	2 months	5 months
Total Period (in months)	H=E+F+G	5 months	10 months
LC limit Required for F.Y. 2024-25	I = D x H	₹ 126	₹ 108

Chapter - 16 : Foreign Funding Instruments, Law and Procedures

2024 - June [6] (c)

Roadshows represent meetings of issuers, analysts, intermediaries and potential investors.Details about the company are presented in the roadshows and such details usually include the following information about the company making the issue:

1. History
2. Organisational structure
3. Principal objects
4. Business lines
5. Position of the company in Indian and International Market
6. Past performance of the company
7. Future plans of the company
8. Competition - domestic as well as foreign
9. Financial results and operating performance
10. Valuation of shares
11. Review of Indian stock market and economic situations.

Hence, at road shows, series of information presentations are organised in selected cities around the world with analysts and potential institutional investors. It is, in fact, a conference by the issuer with the prospective investors.

During road shows, the investors give indication of their willingness to buy a particular quantity at particular terms. Their willingness is booked as orders by the marketing force of lead manager and co-lead manager. This process is known as book building.

A road show generally arranged by the lead manager by sending invitation to all prospective investors.

Chapter - 17 : Role of Intermediaries in Fund Raising
2024 - June [4] (b)
Exemptions from registration under Investment Advisers Regulations
The following entities have been exemptions from registration under the SEBI (Investment Adviser) Regulations, 2013:
(a) Any person who gives general comments in good faith in regard to trends in the financial or securities market or the economic situation where such comments do not specify any particular securities or investment product;
(b) Entities that are providing advice/incidental advice to their primary activity and are regulated by the respective regulator/self-regulatory body /institute. These include:
   i. Insurance agent or insurance broker;
   ii. Any pension advisor;
   iii. Any distributor of mutual funds;
   iv. Any advocate, solicitor or law firm;
   v. Any member of Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Cost and Works Accountants of India, Actuarial Society of India or any other professional body;
   vi. Any stock broker, portfolio manager or merchant banker registered under respective SEBI Regulations, who provides any investment advice to its clients incidental to their primary activity:
   However, such intermediaries shall comply with the general obligation(s) and responsibilities as specified in Chapter III of Investment Adviser regulations.
   vii. Any fund manager of a mutual fund, alternative investment fund or any other intermediary, by whatever name called.

(c) Any person who provides investment advice exclusively to clients based out of India (except Non-Resident Indian or Person of Indian Origin).

(d) Any principal officer, persons associated with advice and partner of a registered investment adviser. However, such principal officer, persons associated with advice and partner shall comply with regulation 7 of these regulations;

(e) Any other person as may be specified by SEBI.

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FOR NOTES