

NATIONAL LAW UNIVERSITY, DELHI

LL.M., Semester-II (Batch of 2021)

End Semester Examinations, April-2022

Paper: Law and Practice of Finance

Time: 3 Hours

Total Marks: 50

Instructions:

1. All questions are compulsory.
2. No clarification shall be sought on the question paper.
3. Question 1 is of 16 marks, Question 2 is of 10 marks and Question 3 and 4 are of 12 marks each (Total marks 50). All parts of a question are of equal marks.

NOTE: ALL BOOKS AND NOTES ARE ALLOWED, BUT CAN'T BE SHARED BY THE EXAMINEES

- 1) Determine, with reasons, whether a valid security interest is created in the following cases, and if invalid whether invalid on a part or in its entirety: **(300 words each)**
 - a) Anumati had bought gold jewelry for her prospective daughter in law and had kept the jewelry in her bank locker along with her own personal jewelry, with the promise that the jewelry would be paid for in 10 days. Unfortunately, due to crash in the prices of the stocks owned by her husband, she is unable to fulfil the promise and seeks to create a constructive pledge on the bought jewelry in favour of the jeweler by attornment (representing that she holds on his behalf) till the bank locker of her son is opened after the weekend holidays.
 - b) Sampurna Health Solutions Private Ltd. seeks loan from Karnataka Bank Ltd. for a hospital being built by it. The bank agrees to give the loan provided that along with mortgage on the hospital land and building, the promoter, who holds three fourth of the shares in it, gives a personal guarantee and as a security for the guarantee pledges his shares in the company. The promoter pledges the shares, but one month after the pledge, the company issues bonus shares in the ratio of one is to one and also comes up with rights issue in the ratio of two shares to one share. Karnataka Bank Ltd. moves an application in the court seeking a declaration that the pledge is on the new shares issued to the promoter.
 - c) Sampurna Health Solutions Private Ltd. enters into an agreement with Pavitra Diagnostics Ltd. wherein the latter installed a CAT Scan and MRI equipment in the hospital and would be providing the hospital patients the diagnostic facilities at a fixed rate for a term of 7 years while employing its own personnel. The terms of the agreement provided that in the event of default by Pavitra Diagnostics Ltd., the hospital could take possession of the equipment for providing the services and the costs incurred in providing the services for the remaining term and maintenance of the equipment would be recovered from the fee due to Pavitra Diagnostics Ltd. and if unsatisfied from it, from sale of the equipment.
 - d) Sampurna Health Solutions Private Ltd. wants to retain the loyalty of consultant doctors on its panel. Pursuant to this objective the company retains a portion of the consultancy fees charged and the business generated for the hospital by the consultant doctors in a separate account with the amount collected in a financial year being paid to the concerned doctor after three years if he was still in the hospital's panel of consultants or to the concerned doctor's successors if he/she was on the panel at the time of death, but forfeited if the doctor terminates his/her engagement or the company terminates it.

- 2) Determine the priorities of the different parties in the following case: **(1000 words)**
- Lalitalal & Sons Ltd. are vendors of fashion garments. Other than having a showroom on rent in Jaipur, they are a highly rated vendor on the web marketplace named Flipkart. As per the arrangement between them and Flipkart, the latter takes care of the packaging, delivery and collection of payment from customers in return for a fixed fees of 15% of the sales price in the event of no return of sold goods by the customers. If the goods are returned then in addition to reversal of entry, the vendor would be paying a fee of Rs. 100 per return adjusted in the amount payable to the vendor. The accounts of Lalitalal and Sons Ltd. and Flipkart are adjusted on the first day of each successive month for the just expired month. Lalitalal & Sons Ltd. create a fixed charge in favour of SBI on the receivables and the bank account maintained with it by the company. Though the charge is fixed, oversight by the SBI is rare and the company operates the bank account without the prior sanction of SBI most of the times. Lalitalal & Sons Ltd. enters into an arrangement with Ajanta Fashions, whose garments are highly priced, per which the title of the garments remain with Ajanta Fashions till their price is paid to it by the company which can sell it as its agent and retain the proceeds as an agent of Ajanta Fashions with an understanding that if the property of Ajanta Fashions is mixed with other property so as to make it difficult to distinguish, the title of Ajanta Fashions extends to the mixture. Lalitalal & Sons Ltd. defaults on its loan to SBI which seeks to adjust the dues against the amount due in the account. Ajanta Fashions seeks to collect its dues by seeking an injunction against SBI and Flipkart to turn over the moneys to it.
- 3) A real estate company has exhausted its borrowing limits and the promoters and board of the company are aware that the shareholders are in no mood to grant an increase in the borrowing limits. The board decides to securitize the rental yields for the next ten years from the malls owned by it. Advise the board on the structure of the securitization, the potential risks to the investors and the credit enhancement techniques which would be appropriate to this securitization. **(2000 words)**
- 4) A landlord, with a large tract of agricultural land near a highway, wants to build a warehouse on it and use it to provide logistical services to a well-known e-commerce service provider. He approaches a bank for loan which in turn contacts you to advise it on the potential risks and the ways the risk can be mitigated. **(2000 words)**