

NEW SCHEME

Third Semester MBA Degree Examination, Dec.06/Jan. 07
Business Administration
Merchant Banking & Financial Services

Time: 3 hrs.]

[Max. Marks:100

Note: 1. Answer any FOUR questions from question no. 1 to question no. 7.

2. Question no. 8 is compulsory.

3. Use of Time value to be permitted.

- 1 a. Define "Merchant Banker". (03 Marks)
b. Discuss the constituents in the Financial System. Differentiate between money and capital markets. (07 Marks)
c. What are the concepts which help in judging the efficiency of the financial system? Explain. (10 Marks)
- 2 a. What is listing? (03 Marks)
b. Discuss the responsibilities of a lead manager. (07 Marks)
c. Explain the methods of raising funds from primary market. (10 Marks)
- 3 a. Differentiate between fee based and fund based services. (03 Marks)
b. What is Credit Rating? How does it help investors? (07 Marks)
c. Why does the company issue Rights and Bonus shares? Discuss the SEBI guidelines for Rights and Bonus. (10 Marks)
- 4 a. What is the basis for Issue Price? (03 Marks)
b. What is ECBs? Explain the steps and guidelines. (07 Marks)
c. What are Gilt - edged securities? Explain the features of 91 days and 364 days Treasury bills. (10 Marks)
- 5 a. What is Factoring? Differentiate between Recourse and Non Recourse Factoring.
b. Discuss the meaning and features of securitization of debt.
c. Write short notes on :
i) Demat Trade iv) Plastic Money
ii) T + 2 settlement v) Forfeiting.
iii) European and American Quote.
- 6 a. What are Circuit Breakers? (03 Marks)
b. Explain the steps to issue GDRs. (07 Marks)
c. Illustrate the marketing mix for financial services, with an example. How do you segment the market and position the product. (10 Marks)
- 7 a. What is an Escrow Account? (03 Marks)
b. What is underwriting? Is it required for a public issue? Explain SEBI guidelines for under writing? (07 Marks)

Contd... 2

- c. ABB Ltd., is considering the possibility of purchasing a multipurpose machine for Rs 10 lakhs. The machine has an expected life of 5 years. The machine generates Rs. 6 lakhs per year before depreciations and tax. The management wishes to dispose the machine at the end of 5 years which will fetch Rs. 1 lakh. The depreciation allowable for the machine is 25% on written down value and the company's tax rate is 50%

The Company approaches a NBFC for a 5 year lease for financing the asset which quoted a rate of Rs. 28 per thousand per month.

Evaluate the purchase option and the lease proposal. Suggest the best option to the company.

The cost of capital of the company is 12% and for the lease option the discount rate is 16%. (10 Marks)

8 CASE STUDY – COMPULSORY.

Finetech Ltd., manufactures process system for food processing, pharma, diary and chemical industries. One of the major strength of the company is project management. The company has well equipped R and D centre, pilot plant facilities, a modern laboratory and a technology centre. Recently the manager of the technology centre has requisitioned for the computerized sophisticated equipment for conducting important tests. The equipment will have a useful life of 3 years. The cost of the equipment is Rs. 1 crore. The scrap value of the equipment at the end of useful life will be zero. The finance manager of the company has suggested to buy the machinery on hire purchase.

Techno Finance is ready to give the machinery on hire purchase with 5 yearly payments of Rs. 33,43,800/- with an interest of 20% on the outstanding amount at the beginning of the year. The applicable depreciation is 15% (WDV). Fine tech uses a cost of capital of 16% pa to evaluate investments of this type.

One more proposal is available from SS leasing and Investment company to give the equipment on a 5 year lease with an annual lease rentals as same as hire purchase installment i.e. Rs. 33,43,800/-. The tax rate applicable to the company is 50%.

Analyze the cost of hire purchase and leasing and suggest the best option to Finetech Ltd. (20 Marks)



8 Case Study:

Romex Industries manufactures rollers. Its details are as follows:

Cost of equipment Rs.700000

Down payment is 25% of cost price.

Number of installments payable at the end of each year is 5.

Flat rate of interest is 14% p.a

Appropriate discount rate is 18%

Annual lease rentals Rs.100000 with a lease period of 7 years.

Tax rate 50%.

Depreciation to be charged on SLM, the salvage being Rs.50000 at the end of 5 years.

The company is examining two financing alternatives HP and leasing. Determine the annual amount of interest under ERI and SLM methods. Show the disclosure in the financial statements of the hirer for all the years of the finance and capital charge, presuming that the company prefers HP financing.

Suggest suitable choice of financing to be adopted by the firm.

(20 Marks)

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8 CASE STUDY :

ABC Ltd. has a plan to diversify. Towards this end, it decides to buy a certain machinery. The company could either buy the machinery or have it on lease basis.

This machinery can be purchased for Rs.15 lakh. It is expected that the machinery will have a useful life of five years with a salvage value of Rs.1 lakh after the expiry of five years.

The purchase can be financed by a loan at 20% p.a. repayable in five equal installments (inclusive of interest) becoming due at the end of each year.

Alternatively the machinery can be taken on yearly lease rental of Rs.4,50,000/- for five years. Advise the company as to the best option between these two.

You may assume the following :

- i) The machinery will constitute a separate block for accounting purpose.
- ii) The company follows depreciation on W.D.V basis being 25%.
- iii) Tax rate is 35%.
- iv) Lease rentals are to be paid at the end of the year.
- v) Maintenance expenses estimated at Rs.3 lakh are to be borne by the lessee.

(20 Marks)

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