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NEW SCHEME

Third Semester MBA Degree Examination, Dec.06/Jan. 07 **Business Administration**

Merchant Banking & Financial Services

Time: 3 hrs.]

[Max. Marks:100]

Note: I. Answer any FOUR questions from question $n\phi$. I to question no. 7.

- 2. Question no. 8 is compulsory.
- 3. Use of Time value to be permitted.

a. Define "Merchant Banker". 1

(03 Marks)

- b. Discuss the constituents in the Financial System. Differentiate between money and (07 Marks) capital markets.
- c. What are the concepts which help in judging the efficiency of the financial system? (10 Marks) Explain.

a. What is listing? 2

(03 51arks)

b. Discuss the responsibilities of a lead manager.

- (07 Marks)
- c. Explain the methods of raising funds from primary market.
- (10 Marks)

a. Differentiate between fee based and fund based services. 3

(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 (10 Marks) for Rights and Bonus.
- 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 (10 Marks) Treasury bills.
- 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:
 - Demat Trade i)

iv) Plastic Money

ii) T + 2 settlement

- v) Forfeiting.
- European and American Quote.
- a. What are Circuit Breakers? 6

(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 (10 Marks) segment the market and position the product.
- a. What is an Escrow Account?

(03 Marks)

b. What is underwriting? Is it required for a public issue? Explain SEBI guidelines for (07 Marks) under writing?

Contd... 2

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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%.

CASE STUDY - COMPULSORY. 8

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 (20 Marks) Ltd.

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Third Semester MBA Degree Examination Dec. 07 / Jan. 08 Merchant Banking and Financial Sen

Time: 3 hrs.

Note: I. Answer any FIVE full questions including Question No. 8, which is compulsory.

2. Use of PV Tables allowed. Stringas Institute of Technology

		2.001	Library, Mangalore	(03 Marks)
1	a.	What are the functions of a Financial Markets?		(07 Marks)
	b.	Illustrate the debt-securitization process.	wook building	(10 Marks)
	c.	Explain the process of pricing of public issue through b	ook ounding.	(03 Marks)
2	2	What are the factors affecting the credit rating of a firm	1?	(05.3141.83)

a. What are the factors affecting the credit ratir b. Explain the features, mechanism, participants and merits of Repo market. (UT Marks) (10 Marks)

c. Discuss the case for and against consumer finance.

(03 Marks) a. What are the benefits of GDRs? 3 (07 Marks)

b. Explain the advantages of Depository system.

c. Discuss merits and demerits of issue of shares i) By Prospectus and ii) By Placement. (10 Marks)

(03 Marks) a. What are the features of Financial Services? 4 (0" Marks) b. Explain the characteristics of money market instruments.

c. Discuss the pre-issue and post-issue functions of a merchant banker. (10 Marks)

(03 Marks) a. What is a leveraged lease? 5

b. Explain the code of conduct prescribed for a stock-broker. (07 Marks)

(10 Marks) c. Discuss the features of Indian money market.

(03 Marks) Who are the participants in money market? 6

b. Examine the benefits of Credit cards to i) Card holders, ii) Card issuers and iii) (07 Marks)

c. Discuss the components of a total package of factoring services. (10 Marks)

(03 Marks) a. Distinguish between Forfaiting vs Factoring.

(07 Marks) b. Explain the pre-requisites for and efficient money market.

c. Discuss the rating methodology generally followed by Credit rating agencies. (10 Marks)

CASE STUDY : (Compulsory) 8

Welsh Limited is faced with a decision to purchase or acquire on lease a mini car. The cost of the mini car is Rs. 1,26,965. It has a life of 5 years. The mini car can be obtained on leasby paying equal lease rentals annually. The leasing company desires a return of 10% on the gross value of the asset. Welsh Limited can also obtain 100% finance from its regular banking channel. The rate of interest will be 15% p.a and the loan will be paid in five annual equal installments, inclusive of interest. The effective tax rate of the company is 40%. For the purpose of taxation, it is to be assumed that the asset will be written off over a period of 5 years on straight line basis.

a. Advise Welsh Limited about the method of acquiring the car.

b. What should be the annual lease rental to be charged by the leasing company to match the loan option?

For your exercise, use the following discount factors:

(20 Marks)

Discount			Year	·s	
Rate	1	2	3	4	5
10%	0.91	0.83	0.75	0.68	0.62
15%	0.87	0.76	0.66	0.57	0.49
9%	0.92	0.84	0.77	0.71	0.65



Third Semester MBA Degree Examination, Dec 08 / Jan 09 **Merchant Banking and Financial Services**

Time: 3 hrs. Max. Marks:100

> Note: 1. Answer any FOUR full questions from Q.1 to Q.7, O.No.8 is compulsory.

		Q.No.8 is compuisory. 2. Use of Time value tables is permitted.	
1		What do you mean by dematerialization of shares? Explain the different steps involved in credit rating process. Briefly provide the structure of Merchant Banking in India.	(03 Marks) (07 Marks) (10 Marks)
2	a. b. c.	What do you mean by under writing? Discuss the responsibilities of Lead manager. Explain in detail different methods of raising capital in primary market in India.	(03 Marks) (07 Marks) (10 Marks)
3	a. b. c.	What do you mean by open ended mutual fund? Define and differentiate between factoring and forfeiting. What are the different money market instruments available in India? Explain the	(03 Marks) (07 Marks) ir features. (10 Marks)
4	a. b. c.	Differentiate between fee based and fund based services. Explain the steps to issue GDRs. Briefly discuss the performance of NSDL and CSDL.	(03 Marks) (07 Marks) (10 Marks)
5	a. b. c.	Explain Forex Markets. Discuss the Pre – Issues and Post – Issues functions of a merchant Banker. What do you mean by securitization of debt? Explain the different steps in detain securitization process.	(03 Marks) (07 Marks) ail involved (10 Marks)
6	a. b. c.	Explain any three Risks in Leasing. What are the recent trends in capital market? Name the different intermediaries in the Issue Management. Explain their role is	(03 Marks) (07 Marks) n detail. (10 Marks)
7	a.	What do you mean by warrants?	(03 Marks)

What do you mean by Bonus Issue? What are the SEBI guidelines on Bonus Issue?

(07 Marks)

Define and differentiate hire purchasing and leasing.

(10 Marks)

CASE STUDY: 8

ABC Limited is contemplating having an access to a machine for a period of 5 years. Discussions with various financial Institutions have shown that the company can have the use of machine for the stipulated period through leasing arrangement or the requisite amount can be borrowed at 14% to buy the machine. The firm is in the 50% tax bracket. In case of leasing, the firm would be required to pay an annual end of year rent of Rs. 1,20,000 for 5 years. All maintenance, insurance and other costs are to be borne by the Lessee.

In the case of purchase of the machine (which costs Rs. 3,43,300), the firm would have a 14%. 5 year loan to be paid in 5 equal installments, each installment becoming due at the end of each year. The machine would be depreciated on a straight line basis for tax purposes with no salvage value.

Advice the company regarding the opinion it should go for, assuming lease rentals are paid at the end of the year. (20 Marks)

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Third Semester MBA Degree Examination, June-July 2009 Merchant Banking and Financial Services

Time: 3 hrs.

Max. Marks:100

Note:1. Answer any FOUR questions from Q1 to Q7.

2. Question No.8 is compulsory.

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3. Time value tables and relative tables shall be provided on demand.

1	a. b. c.	What is underwriting? What are the various methods of floating new issues? Explain any two in detail. What are the SEBI guidelines on Rights issue?	(03 Marks) (07 Marks) (10 Marks)
2	a. b. c.	 What are the advantages of listing? i) Differentiate between normal public issue and book building process. ii) What are the benefits of reverse book building? Explain the services of merchant banker. Discuss in detail the scope of merchant India. 	(03 Marks) (07 Marks) banking in (10 Marks)
3	a. b. c.	Mention any six determinants of quality rating. Explain. Differentiate between Hire purchase system and Installment credit system. i) Explain the benefits of credit rating to rated companies. ii) What are the practical problems in credit rating?	(03 Marks) (07 Marks) (10 Marks)
4	a. b. c.	State any three advantages of bill discounting. i) What are the differences between factoring and discounting? ii) State and explain the advantages of factoring. Mention the different money market instruments available in India. Explain a detail.	(03 Marks) (07 Marks) any two in (10 Marks)
5	a. b. c.	What is leveraged lease? Differentiate between operating lease and financial lease. Explain the various pre-issue activities involved in raising funds from the capital	(03 Marks) (07 Marks) markets. (10 Marks)
6	a. b. c.	What are the advantages of forfeiting? Explain the challenges facing financial services sector. Discuss in detail the limitations of Indian capital market.	(03 Marks) (07 Marks) (10 Marks)
7	a. b. c.	 What are the important features of Consumer finance? i) Distinguish between Private Limited Company and Public Limited Comparii) ii) State any four differences between Hire Purchase and leasing. Mention three purposes served by securitization process. Explain the mechanisecuritization. 	(U/ 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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Third Semester MBA Degree Examination, Dec.09-Jan.10 Merchant Banking and Financial Services

Time: 3 hrs. Max. Marks:100

Note: 1. Answer any FOUR questions from Q.No. 1 to 7.

2. Question No. 8 is Compulsory.

3. Show working notes wherever necessary.

		3. Show working notes wherever necessary.							
1	b.	What is gilt – edged securities? Discuss the scope for merchant banking activity in India.							
	c.	Discuss SEBI guidelines for merchant banker.	(10 Marks)						
2	a.	Name the financial service market participants.	(03 Marks)						
	b.	What are the different money market instruments available in India?	(07 Marks)						
	c.	What are the characteristics and objectives of financial services?	(10 Marks)						
3	a.	What is public issue and rights issue?	(03 Marks)						
	b.	What are the different pre – issue activities involved in raising capital through public	issue? (07 Marks)						
	0	Write a note on latest developments on Indian financial market.	(10 Marks)						
4	c.		(03 Marks)						
4	a. h	Define credit rating. Discuss credit rating process.	(07 Marks)						
		What are the different types of leasing?	(10 Marks)						
5	a.	What is securitization of debt?	(03 Marks)						
3	а. b.	Discuss the growth factors contributing towards the credit rating system.	(07 Marks)						
		c. Explain the methodology followed by ICRA in rating the credit instruments.							
6		rite short notes on:							
	a.	Factoring. b. Consumer financing. c. Forfeiting. d. Credit cards.	(20 Marks)						
7	a.	What are the services offered by a factor?	(03 Marks)						
	b.	Discuss the latest developments in Indian mutual funds industry and outline the cau	ses for their						
		poor performance.	(07 Marks)						
	c.	The Hypothetical Finance Ltd (HFL) has structured a hire – purchase deal for the H	hypothetical						
		Industries Ltd (HIL) at a (flat) rate of interest of 13 percent. The payment would be equal monthly instalments in arrears. The HIL is required to make a cash down pay	yment of 20						
		percent.	l'						
		Assume that after paying the 24 th instalment, the HIL wishes to repay the outstanding amount and purchase the equipment. What is the interest rebate per Rs. 1000 of investment cost, according to the ERI / IRR method? (10 Marks)							

8 Case Study: (Compulsory)

a. Write a note on Role of SPV in securitization.

(05 Marks)

b. Hypothetical Limited is contemplating having an access to a machine for a period of 5 years. Discussions with various financial institutions have shown that the company can have the use of machine for the stipulated period through leasing arrangement, or the requisite amount can be borrowed at 14 percent to buy the machine. The firm is in the 50 percent tax bracket.

In case of leasing, the firm would be required to pay an annual end – of – year rent of Rs 1,20,000 for 5 years. All maintenance, insurance and other costs are to be borne by the lessee. In the case of purchase of the machine (which costs Rs 3,43,300), the firm would have a 14 percent, 5 – year loan, to be paid in 5 equal instalments, each instalment becoming due at the end of each year. The machine would be depreciated on a straight line basis for tax purposes, with no salvage value.

Advise the company regarding the option it should go for, assuming lease rentals are paid at the end of the year. (15 Marks)



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Third Semester MBA Degree Examination, Dec.09/Jan.10

Merchant Banking and Financial Services

Time: 3 hrs. Max. Marks:100

		iviax. Ivi	arks.100
		Note: 1. Answer any FOUR full questions from the Q.No.1 to 7. 2. Question No. 8 is compulsory.	
1	a.	Write a note on lessor and lessee relationship between a banker and a custome example.	(03 Marks)
	b.	What are the components of money market? Distinguish between commercial certificate of deposit.	(07 Marks)
	c.	Explain bill discounting mechanism. What is the distinction between bill disco factoring?	unting and (10 Marks)
2	a.	What is the difference between life and non-life insurance? Give examples of doing non-life insurance business in India.	companies (03 Marks)
	b.	Write a detailed note on book building process. How is book building different fr placement?	•
	c.	Narrate specific SEBI guidelines touching upon issue management.	(10 Marks)
3	a.	What do you understand by "green shoe option"?	(03 Marks)
	b.	What are the guiding principles of insurance? Give specific examples wherever	(07 Marks)
	c.	What is securitization of debt? Who are the parties involved? Explain its process.	(10 Marks)
4	a.	Write a brief note on regulatory frame work, applicable to credit rating agencies in	n India. (03 Marks)
	b.	Write a note on credit card. How is it different from debit card?	(07 Marks)
	c.	What is the consumer behaviour pertaining to financial services? How do ba	
		technology driven financial products?	(10 Marks)
5	a.	What is the distinction between repo and reverse repo?	(03 Marks)
	b.	Write a note on CRISIL. What is the code of conduct applicable to credit rating ag	(07 Marks)
	c.	Write a detailed note on pre-issue and post issue activities to be supervised by banker. What is due diligence certificate?	

- 6 How is market segmentation different from market penetration? (03 Marks)
 - Who are the parties involved in the depository system? What are the benefits from b. depository services? (07 Marks)
 - Write on meaning and characteristics of hire purchase. Highlight the important clauses in a hire purchase agreement. (10 Marks)
- 7 Write a brief note on reverse mortgage. (03 Marks)
 - Elaborate on contract of leasing. How is financial lease different from operating lease? (07 Marks)
 - What is the difference between whole life policy and endowment policy? Explain briefly various life insurance policies. (10 Marks)

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. Advice 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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