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**Third Semester MBA Degree Examination, June/July 2013**  
**Merchant Banking and Financial Services**

Time: 3 hrs.

Max. Marks:100

**Note: 1. Answer any FOUR full questions from Q.No.1 to 7.**  
**2. Q.No. 8 is compulsory.**  
**3. Use of time value table is permitted.**

- 1 a. What do you mean by Banking? (03 Marks)  
b. What are the essentials of an insurance contract? Explain briefly. (07 Marks)  
c. Explain the role of RBI as a regulator. (10 Marks)
- 2 a. Define 'Merchant Banker'. (03 Marks)  
b. Distinguish between operating lease and financial lease. (07 Marks)  
c. Explain the Pre-Issue activities to be supervised by a merchant banker. (10 Marks)
- 3 a. What do you mean by open ended mutual fund? (03 Marks)  
b. Write in detail the different types of Banks in India. (07 Marks)  
c. Define securitization and discuss its modus operandi. (10 Marks)
- 4 a. What do you mean by financial services? (03 Marks)  
b. What do you mean by factoring? Explain the different types of factoring. (07 Marks)  
c. Write a note on various instruments used in the money market. Explain. (10 Marks)
- 5 a. Differentiate between repo and reverse repo. (03 Marks)  
b. Briefly explain the methodology followed by CRISIL in rating credit instruments. (07 Marks)  
c. Define a mutual fund and describe the various schemes that can be offered by it. (10 Marks)
- 6 a. What do you mean by consumer finance? (03 Marks)  
b. Define a depository system and explain the advantages of depository system. (07 Marks)  
c. Describe the various methods which are used in the floatation of securities in the new issue market. (10 Marks)
- 7 a. What do you understand by "green shoe option"? (03 Marks)  
b. Briefly explain the features of SEBI (Depository and Participant) Regulation Act. (07 Marks)  
c. Discuss the various functions performed by merchant bankers. (10 Marks)

**8 CASE STUDY: (Compulsory)**

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

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

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

Alternatively the machinery can be taken on yearly lease rental of ₹4,50,000/- for 5 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 ₹3 lakh are to be borne by the leasee.

(20 Marks)

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