PGDM / PGDM (IB), 2020-22
Financial Services, Products and Markets
DM-313/IB-313
Trimester – III, End-Term Examination: April 2021

Time allowed: 2 Hrs 30 Min
Max Marks: 50

Roll No: ____________

Instruction: Students are required to write Roll No on every page of the answer sheet. All other instructions on the question paper should be followed meticulously.

Sec A: Total 30 Marks: There is an internal choice in each of the questions. All questions are 10 marks each.

Q1. **(CILO 1)**

1.1 Given below are the details of a loan taken by an SME.

- Loan Tenure: 1Jan2020 to 31st December 2029
- The principal value of the Loan: Rs. 500 Lacs
- Rate of Interest: 11%p.a. to be paid quarterly, while the principal is due on maturity
- The first payment was made on 30th September 2020, after which regularity has been maintained
- Moratorium Period: 1st April 2020 to 30th June 2020

Calculate the interest that will be reversed for the borrower with the recent SC ruling on the moratorium period.

OR

1.2 Mutual funds are for beginners. Portfolio Management Services is for big boys! Critically evaluate the above statement using as many facts and figures from the Indian BFSI industry.

Q2. **(CILO 2)**

2.1 Sovereign credit downgrading of India has raised quite a few eyebrows. Discuss three-argument points in favour and three against that negative action by the international rating agencies.

OR

2.2 Credit Rating process is based on multiple factors with a variety of firm-specific, industry-specific and macroeconomic factors, most of which are out of the control of the firm. Critically argue the above by highlighting atleast five factors under each of the above three categories.

Q3. **(CILO 3)**

3.1 How can Securitisation solve the challenges of the Indian Real Estate Sector? Discuss in detail.

OR

3.2 XYZ Ltd. is in the business of manufacturing steel utensils. The firm is planning to diversify and add a new product line. The firm either can buy the required machinery or get it on Lease.

The machine can be purchased for Rs.15,00,000. It is expected to have a useful life of 5 years with a salvage value of Rs.1,00,000 after the expiry of 5 years. The Purchase can be financed by a 20% loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year-end lease rentals of Rs.4,50,000 for five years. For your exercise, you may assume the following:

(i) The machine will constitute a separate block for depreciation purposes. The company follows the written down value method of depreciation, the rate of depreciation being 25%.

(ii) Tax rate is 35%, and the cost of capital is 18%.

(iii) Lease rents are to be paid at the end of the year.

(iv) Maintenance expenses estimated at Rs.30,000 per year are to be borne by the lessee.

You are required to advise the lessee whether taking the machine on Lease is sound financial management?

Sec B: Total 20 Marks: Compulsory **(CILO 1, 3)**

Following are the terms on which money has been raised for a special fund for startup focussed on the pharma sector.

Hurdle rate	10%	**Class A (Big Investors)**	
Investment Period	4	Fund raise ($ Bn)	100
Tax rate (Flat)	24%	Catch up	80% partial
Total fund raise ($ Bn)	150	Carried Interest	20%
Management Fees	1.75% p.a.	**Class B (Smaller Investors)**	
Balance Funds contributed by IM		Fund raise ($ Bn)	30
		Catch up	70% partial
		Carried Interest	30%

If the fund ended up securing an IRR of 35% p.a., answer the following questions:

1. How much is the IRR for each of the external investors? **(10M)**
2. How much is the IRR for the IM? **(10M)**