

PGDM & IB Batch 2017-19

Financial Services, Products and Markets

Subject Code: DM-311/IB-310

Trimester III, End Term Examination: March 2018

Time Allowed: 2 hrs 30 min

Roll No.: _____

Max Marks: 50

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Make assumptions wherever necessary and write them down at the beginning of the solution.

Section A: Answer any 3 out of 5 questions. Each question carries 5 marks.

- A1. Traditional investments are a thing of past. Alternative Investments are the new hero of the capital markets. Critically evaluate the above statement.
- A2. ABC Inc. purchased 200 units of a Mutual Fund at INR 45 per unit on 1st July, 2017. On 31st December 2017, when NAV was INR 42, it received INR 2.00 as dividend per unit and a capital gains distribution of INR 2.2 per unit which were reinvested at a discount of 20%. The NAV on 31st March 2018 was INR 39. Calculate the effective annual return for FY2017-18.
- A3. Highlight any five (5) differences between Life insurance and Non-life insurance contracts.
- A4. Differentiate between Public Equity and Private Equity in 50 words.
- A5. Explain the process of Securitization by way of a diagram clearly explaining the movement of funds.

Section B: Answer any 2 out of 3 questions. Each question carries 10 marks.

- B1. Explain in detail the factors considered by a credit rating agency in assessing the credit score of a country.
- B2. ABC is a student studying in a city different than that of her parents. She has critically fallen ill and is in need of money. Her parents are old and cannot get the cash delivered in-person. What are the options that her parents have to accomplish this task within 2 days?

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B3. Capital Markets is a wide term with a lot of sub-types within the meaning. What are the five (5) different rationales on which the capital markets can be categorised? Explain various types under each categorization.

Section C: The question contains two parts. Both the parts are compulsory to attend. Each part carries 7.5 marks.

Part 1: What are the different stages for which a company can raise money in its journey from inception up to public offering?

Part 2: Rico Auto is planning to diversify and add a new product line into pharma industry. The firm either can buy the required machinery or get it on lease. The machine can be purchased for Rs.10,00,000. It is expected to have a useful life of 3 years with salvage value of Rs.1,00,000. The Purchase can be financed by 18% loan repayable in 3 instalments, consisting equal amount of principal, starting a year from now. Alternatively, the machine can be taken on annual lease rentals of Rs. 2 Lacs, 4 Lacs and 6Lacs respectively for next three years, the first one being due immediately. For your exercise, you may assume the following:

- The company follows written down value method of depreciation (25%) but the income tax rules follow SLM.
- Effective tax rate for both the companies is 40% while statutory tax rate is 35%.
- Maintenance expenses estimated at Rs.10,000 per year are to be borne by the lessee.
- The security deposit of Rs. 3,000 is refundable at the end of lease period without interest.
- Management fees (non-refundable) payable at the inception of lease period is Rs. 5,000 which is to be treated as a revenue income.
- Cost of capital for the lessor to be taken at 13%.

Evaluate the lease proposal from Lessor's point of view.

*****End*****

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