

PGDM/IB 2014-16
Financial Services, Products & Markets
DM-311/IB312
Trimester – III, End-Term Examination: March 2016

Time allowed: 2 hrs. 30 min

Max Marks: 50

Roll No: _____

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**. In case of rough work please use answer sheet.

Sections	No. of Questions to attempt	Marks	Marks
A	3 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	50

Section A

A1. What are the 4 pillars of a Financial System? Explain each pillar and its importance.

A2. Explain the differences between Factoring & Forfaiting with examples

A3. An investor, who is 35 years old, has a high risk high return preference with long term view. He has an investible surplus of Rs.5 lakh. But he wants to invest in mutual fund schemes. His objective is also to save as much income tax as possible. You have to advise him which schemes he should invest in with justifications.

A4. Elaborate what are the 3 most major sources of funds of a commercial bank (except Capital and Reserves) and 3 most major areas of deployment of funds that actually happen as seen from the Balance Sheet of any bank. Why these happen to be the major items of the bank balance sheet?

A5. Define two types of risks and which one is covered by an insurance company. What do you mean by

- i) The loss must be fortuitous
- ii) Contract of uberrimae fidei

Section B

B1. Explain features of primary issue management. What are the safeguards for investor protection?

B2. (a) Describe briefly the valuation techniques Venture Capitalists adopt while deciding to financially assist the businesses.

- (b) What is the main test for awarding high or low credit rating to a security issue? Name Two (2) business factors and two (2) financial factors considered by the Rating agency to determine rating profile of a security issue.

(2X 5 marks)

B3. a. Write only one appropriate Indian or international real example (names) of companies involved in each of the following type of corporate restructuring in recent past:

Upstream Merger, Downstream Merger, Take over, Reverse Merger, Demerger

b) A bank has very high concentration of Auto loans of Rs. 5,000 crore in their portfolio of assets. They also have huge demand of funds from their A and above rated borrowers for additional funds at higher rate of return. They immediately want Rs. 2000 crores for this purpose. The bank has already used its their excess securities to raise loans from different quarters. What other method they can use to meet the above twin purpose. Briefly outline the process and parties involved.

Section C

This section has 2 cases each carrying 7.5 marks

C1. In the 1990's due to strict enforcement of SLR requirements banks were required to frequently trade in securities to meet SLR requirements. Repos on fortnightly basis gained in popularity (selling on spot and repurchasing on forward basis). This also saved banks from losing on capital depreciation due to rising interest rates. The speculation in repos on the basis of inside information on rate hikes also became rampant in violation of norms. Bank receipts (BRs) & Security General Ledger (SGL) forms for transfer of government securities were highly misused. (SGL was the system of accounting for securities in a manual ledger maintained with RBI). For example Bank of Karad with an equity base of less than Rs.1 crore issued BRs worth more than Rs.1000 crores. These transactions were mainly handled by a handful of brokers in the absence of online trading. In more than 40% of the cases the transactions were not documented but based on mere understanding.

Harshad Mehta was one such broker who used Bank's money held as intermediary in BR transactions to push up share prices of certain stocks. Mutual fund money also flowed into share market & continued to boom from July 1991 to April 1992. During this period the Sensex rose from 1168 to 4285. Then the scam came to light and the Sensex dropped to 3000.

Discuss the ethical issues involved in the scam and suggest measures to prevent recurrence.

7.5 marks

C2 Banking Asset Products:

Great Lakes Enterprises has applied for credit facilities from Modern Bank. They are manufacturers of biodegradable Cotton mixed Polyester bags to replace pure polythene bags in many states.

i. They want to get funds for purchase of additional machines costing Rs20 lakh for enhanced production due to great demand for the product.

ii. They require finance for working capital for cash purchase of polyester and cotton fibers, fine yarn and chemical dyes from the domestic market valued Rs.16 lakh every month. They shall sell the goods on cash.

iii. They have offered a charge on Kisan Vikas Patras valued Rs.3 lakh in name of partners as additional security to cover a credit facility of Rs. 5 lakh where they can draw cheques in excess of their money in current account required from time to time in addition to other working capital facilities.

iv. They also proposed to offer one fixed deposit for Rs.3 lakh in name of the firm for security against issue of bank Guarantee on their behalf for Rs. 10 lakh.

The bank has appraised their proposal and finds it acceptable.

Required :

You are required to complete the information in the table below regarding loan sanction terms and conditions the bank will insist as per usual lending practices. **7.5 marks**

Sr.	Type of credit facility	Amount of facility	Principal security	Type of Charge to be created on it	Collateral security	Type of Charge to be created on it	Margin from borrower %	LTV %
i								
ii								
iii								
iv								