

K. J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES AND RESEARCH

PGDM – FINANCIAL SERVICES, Trimester III (Batch 2016 – 18)

Subject: Services in Financial Markets
(End Trimester Examination)

Maximum Marks: 50

Duration: 3 hours

Date: 29/03/17

Notes:

1. This paper consists of 8 questions arranged in two parts – **Part A** and **Part B**. All questions in **Part A** are compulsory (maximum marks as indicated).
2. Answer any 2 questions from **Part B (@ 9 each)**.
3. Wherever applicable, references may be made to the governing legislation.
4. Feel free to make relevant assumptions, wherever you feel necessary, but please disclose them clearly.
5. Write all calculated answers neatly, enclosed in boxes.

PART A

Question 1

India Shale Ltd (ISL) wishes to expand its operations of energy business and for this purpose, it has identified suitable plant and machinery items to be obtained and installed on a turn-key basis. Based on the proforma invoice received from the shortlisted supplier, the cost of the plant is Rs 30,00,00,000 with an expected useful life of 5 years and no salvage value. It follows WDV method of depreciation, and applies the rate of 25%. The company faces a tax rate of 33%. Finance managers of ISL are now exploring the most suitable financing option for procuring the plant. They have scouted around and obtained the following three quotes for the same. There are no hidden costs or charges.

The Trilemma

The plant and machinery can be procured in one of the following 3 ways :

- a) by way of leasing at a lease rental of Rs 9,10,00,000 p.a. (payable at the yearend)
[03]
- b) outright purchase with the help of borrowing @ 16% p.a. for a five year loan having EAIs, due and payable at the end of each year.
[03]
- c) On HP. The period of the contract is 5 years. The annual instalment is Rs 8,40,00,000 and applicable flat rate of 8% is applied. **[08]**

Evaluate the 3 Alternatives and give your recommendation on which method of procurement should be followed by ISL.

Question 2

[11]

A firm has borrowing relationship with Cantara Bank of India (CtBI) for its WC

requirements at an all in cost of 15% p.a. Its dynamic finance executive has met with Sitara Bank of India (StBI) and received a recourse factoring proposal as under: Discount and other charges payable upfront @ 13.5% p.a. 80% of factored receivables to be financed in advance. The firm sells at 2/15 net 30. It is found that about 40% of customers pay on the 15th day and take the discount and the balance pay after 40 days. BD are expected to be 3% of sales. Expected sales turnover is Rs 1000 mn. GM on sales is 20%. If the proposal is accepted, the sales executives can be released for business development and the firm can increase its sales by 10%, and thus save OH upto Rs 2 mn p.a. Evaluate whether the firm should accept the proposal.

Question 3

[07]

Write a detailed note on intermediation and disintermediation in the context of the Indian Financial System.

PART B

Question 4

What are Mutual Funds ? Write a note on the MF industry, outlining the structure / entities and mention their roles. Also describe in detail different types of MFs and their importance. What according you may be key elements of an NFO Document ?

Question 5

What is the status of housing industry within the economy? What are the steps taken by the government to enhance growth in the industry. Write a detailed note on the industry outlining the structure and describe any one key player in this segment.

Question 6

What do you understand by Credit Rating? Write a detailed note on the topic highlighting the process, the symbols and their relevance and how it helps the economy?

Question 7

What is the role of brokers in the economy? What is the need for their services? Write a note on the same together with relevant services that they provide.

Question 8

Write short notes on any two : Securitization; Venture Capital & Plastic Money, highlighting the underlying concepts and the most important features.

-----End of Paper-----