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**PRESIDENCY UNIVERSITY**

**Bengaluru**

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| **End - Term Examinations – JANUARY 2025** |
| Date: 07 -01-2025 Time: 09:30 am – 12:30 pm |

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| **School:** SOM(PG) | **Program:** MBA | |
| **Course Code :** MBA3006 | **Course Name :** Financial Markets and Services | |
| **Semester**: III | **Max Marks**: 100 | **Weightage**:50% |

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| **CO - Levels** | **CO1** | **CO2** | **CO3** | **CO4** | **CO5** |
| **Marks** |  |  | **62** | **38** |  |

**Instructions:**

1. *Read all questions carefully and answer accordingly.*
2. *Do not write anything on the question paper other than roll number.*

**Part A**

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| **Answer ALL the Questions. Each question carries 3marks. 3Mx10Q=30M** | | | | |
| **1** | How would you characterize the risk exposure for the following FI transactions:   1. Japanese acquires an Austrian bank to facilitate clearing operations. 2. ICICI Bank provides standby letter of credit guarantees for state municipal bonds issued in October 2024. 3. In September 2004, a third of Wachovia Securities’ brokers, sales assistants and other employees were blocked from logging on to their computers. As the week wore on the issue escalated with many frustrated brokers unable to view clients’ accounts, place trades or wire funds from their computers without using a backup system. | **3 Marks** | **Applying** | **CO3** |
| **2** | Karnataka Bank carries out the following activities. Classify the following business activities as “Fund-based” and “Non-fund based” activities with rationale:   1. Debt and capital restructuring 2. Factoring 3. Housing Finance | **3 Marks** | **Applying** | **CO3** |
| **3** | As an advisor in a Finance consulting firm, you are asked to explain the reasons for tremendous growth in the mutual funds industry in India. Give any 3 specific reasons attributing to this growth. | **3 Marks** | **Applying** | **CO3** |
| **4** | Featherlite Company has raised an invoice value for the order of Rs.500,000 placed on the basis that the product is delivered to the client on credit terms of 90 days. If the company wants Rs. 400,000 immediately, explain the process of obtaining the funds through Factoring. | **3 Marks** | **Applying** | **CO3** |
| **5** | What is an Asset Reconstruction Company (ARC) and what are its objectives? How do ARCs function in India? | **3 Marks** | **Analyzing** | **CO4** |
| **6** | An arrangement has been entered into between a Amaraj Ltd. and Government of India conveying the right to control the use of land by the Amaraj Ltd. for 99 years. After 99 years the land would go back to the Government of India in the original condition. In consideration the Government is asking for a consideration which is equal to the fair value of land at present. What kind of lease agreement will this be classified as and why? | **3 Marks** | **Analyzing** | **CO4** |
| **7** | Mr. Suraj joins as new intern with Kotak Mahindra Life Insurance Co. Ltd. As manager of the company, explain to him how the Bancassurance helps the Insurance Companies in achieving its objectives? | **3 Marks** | **Analyzing** | **CO4** |
| **8** | Explain three key differences between Financial Lease and Operating Lease. | **3 Marks** | **Analyzing** | **CO4** |
| **9** | What are the two types of Insurance companies? What are the four basic lines of business performed by life insurance companies? | **3 Marks** | **Analyzing** | **CO4** |
| **10** | A bank wants to charge a floating rate from its borrower since it expects the interest rate to be volatile in the near future. The present prime rate is 10%. The bank wants to charge a premium of 400 bps over the prime rate.   1. What will be the rate the bank will charge if it uses prime-plus method of pricing? 2. How will the pricing of the loan be affected when the prime rate moves up by 100 bps? and 3. How will the pricing of the loan be affected when the prime rate moves down by 100 bps? | **3 Marks** | **Analyzing** | **CO4** |

**Part B**

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| **Answer ALL the Questions. Each question carries 10 marks. 10Mx4Q=40M** | | | | |
| **11** | A major private bank decides to implement dynamic interest rates for savings accounts, adjusting the rates based on prevailing market conditions. While this move is considered innovative and aligned with market trends, it raises concerns regarding customer satisfaction, retention, and the added complexity in the bank's operations. The management is keen to understand how this strategy will impact both customer behaviour and the bank’s bottom line.   1. How might the implementation of dynamic interest rates affect customer satisfaction and trust in the bank, particularly among long-term savings account holders. 2. In what ways could dynamic interest rates influence customer retention, especially when compared to traditional fixed-rate savings accounts offered by other banks. 3. What are the potential risks of customer churn, and how can the bank mitigate them through loyalty programs or other incentives? | **10 Marks** | **Analyzing** | **CO4** |
| **Or** | | | | |
| **12** | Following several high-profile financial fraud cases, regulatory bodies have implemented stricter risk management practices for financial services companies. These regulations now require firms to integrate comprehensive compliance mechanisms, including enhanced internal controls, auditing procedures, and monitoring systems, to prevent fraud and safeguard customer assets. While these measures are designed to reduce the risk of financial malpractices, they come with implications for the company’s operations and bottom line.   1. How might the implementation of stricter compliance and risk management practices affect the operational efficiency of financial services companies? 2. What are the potential costs associated with integrating robust compliance mechanisms, such as hiring specialized staff, investing in technology, or implementing new systems? 3. In the short term, and long term how might the introduction of stricter risk management regulations disrupt day-to-day operations and potentially reduce profitability or sustain profitability ? | **10 Marks** | **Analyzing** | **CO4** |

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| **13** | During a period of market downturn, an equity mutual fund scheme faces significant redemption requests from investors, who are seeking to exit the market due to fears of further losses. As a result, the fund manager is faced with the challenge of maintaining adequate liquidity to meet these redemption requests while minimizing disruption to the portfolio’s long-term strategy and performance. The fund manager must navigate the delicate balance between liquidity management and the preservation of the fund's core investment strategy.   1. How can the fund manager ensure that they have sufficient cash reserves or liquid assets without deviating from the overall portfolio strategy or incurring unnecessary losses? 2. How should a fund manager adjust their portfolio management approach to handle short-term redemption pressures while still focusing on the long-term investment objectives? 3. How can communication and transparency with investors help in managing redemption requests during market downturns and minimizing panic selling? | **10 Marks** | **Applying** | **CO3** |
| **or** | | | | |
| **14** | A major corporation, previously seen as a reliable performer, recently faced a bond rating downgrade due to concerns over its cash flows, rising debt, and financial stability. This led to a sharp decline in stock prices and higher borrowing costs, signaling increased financial risk. As a result, management must address investor concerns, restore confidence, and stabilize the company's finances. The downgrade also impacts the company’s future capital-raising ability, market reputation, and investor relations.   1. What is the role of credit rating agencies in the financial markets, and how do they assess and assign ratings to corporations? 2. How can a downgrade affect the company’s ability to access capital markets, especially if it is planning future debt issuances or seeking new financing? 3. What steps should the management take to address investor concerns following a credit rating downgrade? | **10 Marks** | **Applying** | **CO3** |

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| **15** | A rural entrepreneur, Ravi, is planning to start a small dairy farming business in his village. He needs funding to purchase cattle, build a small shed, and buy necessary equipment. While exploring financing options, he finds that traditional banks have lengthy approval processes and require extensive documentation that he struggles to provide. Ravi has heard about Non-Banking Financial Companies (NBFCs) as an alternative and is considering approaching one for his funding needs.   1. How NBFCs differ from traditional banks in terms of operations, approval processes, and accessibility for rural entrepreneurs. 2. The role of NBFCs in complementing traditional banking systems to bridge the credit gap for underserved populations. 3. How NBFCs promote financial inclusion, particularly in rural and semi-urban areas, through customized products and services. 4. The potential risks Ravi should consider when borrowing from an NBFC compared to a bank. | **10 Marks** | **Analyzing** | **CO4** |
| **or** | | | | |
| **16** | A rural entrepreneur, Meera, is planning to establish a small-scale organic farming business in her village. She needs funding to purchase seeds, fertilizers, and equipment but faces challenges with traditional banks due to complex procedures, high collateral requirements, and delays in loan approvals. Meera has heard about Non-Banking Financial Companies (NBFCs) as a potential alternative and is considering applying for a loan.   1. How do NBFCs promote financial inclusion in rural and semi-urban areas? 2. What types of financial products and services do NBFCs offer to cater specifically to the needs of small businesses and rural entrepreneurs? 3. In what ways do NBFCs complement the traditional banking system by filling gaps in financial access? | **10 Marks** | **Analyzing** | **CO4** |

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| **17** | During a client meeting at the financial consultancy firm where Rajesh Kumar is working, a discussion arises about the importance of risk management in the financial services industry. A client, who is the CEO of a mid-sized financial institution, is particularly concerned about recent instances of fraud, market volatility, and credit defaults in the sector. They want to understand why risk management is considered a cornerstone of financial services and how it can protect their business and clients.   * + - 1. What are the primary risks faced by financial institutions, such as credit risk, market risk, operational risk, and reputational risk?       2. Can you provide examples of financial crises or fraud cases that were caused by poor risk management practices?       3. Why do regulators emphasize risk management as a key compliance requirement for financial institutions? | **10 Marks** | **Applying** | **CO3** |
| **Or** | | | | |
| **18** | A manufacturing company is concerned about potential financial risks such as raw material price volatility and currency exchange rate fluctuations, which could impact their profitability. They approach Ramesh, the Manager of a Financial Consulting Firm, to understand how the derivatives market can help them mitigate these risks.  Ramesh is tasked with explaining the types of derivative instruments available, such as futures, options, and swaps.  How these can be strategically used to hedge against price and currency risks while ensuring financial stability. | **10 Marks** | **Applying** | **CO3** |

**Part C**

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| **Answer all the Questions. Each Question carries 15 marks. 15Mx2Q=30M** | | | | |
| **19** | Paytm case study: The dramatic downfall of a fintech pioneer.  The rise of Paytm: Paytm was launched in 2010 by Vijay Shekhar Sharma as a mobile-first digital payment platform. Initially, it aimed to facilitate prepaid mobile and DTH (direct-to-home) recharges. The acronym for the business is “Pay Through Mobile.”. Over time, Paytm expanded its services significantly. By 2013, paytm introduced debit card and postpaid mobile payments. A significant breakthrough came in 2014 when the company launched its wallet system. This move attracted major services like Indian Railway and Uber to accept Paytm payments. The user base grew rapidly. The launch of the Paytm wallet was a game-changer, making digital payments widely accessible. In 2016, India’s demonetization of ₹ 500 and ₹ 1,000 notes provided an unexpected boost.. Paytm’s reach extended to small merchants who adopted its QR code system. This allowed easy digital payments, linking directly to their bank accounts. The simplicity and convenience made it popular among businesses of all sizes. With over 100 million app downloads by 2017, Paytm became the first payment app to accomplish this feat. The company continued to expand its offerings, including movie and flight tickets, gold purchases, insurance, and remittances. Investors were enthusiastic. Alibaba’s Ant Group, Masayoshi Son’s Softbank, and Warren Buffett’s Berkshire Hathaway invested, pushing Paytm’s valuation to over $ 16 billion by 2019.  Paytm’s IPO: In November 2021, Paytm launched its Initial Public Offering (IPO), through its parent company One97 Communications, aiming to raise ₹18,300 crore. As far as IPOs go, this was the biggest in Indian history after Life Insurance Corporation. The stock was offered at ₹ 2,150 per share. On its debut, the stock closed down over 28% from its issue price. This immediate drop wiped out significant investor wealth and raised concerns about the company’s valuation. The IPO marked a major turning point for Paytm. It was intended to showcase the company’s strength and market potential. Instead, it highlighted underlying issues that worried investors. The stock price continued to fall, and by March 2022, it had lost more than 75% of its value from the IPO price. This steep decline was alarming for shareholders and market analysts alike. Investors were dismayed by the sharp drop. The aggressive pricing of the IPO was a significant factor. Paytm’s valuation appeared overly optimistic, leading to scepticism.  Key factors for downfall: Regulatory non-compliance issues Paytm faced significant regulatory challenges starting in 2018. The RBI flagged the company for multiple violations, including non-compliance with KYC norms. In June 2018, the RBI halted the opening of new accounts due to compliance issues. By 2021, the bank was fined  Rs. 1 crore for submitting false information In October 2023, another fine of  Rs. 5.39 crore was imposed.  Strategic missteps: Paytm’s strategy to diversify into various financial services, such as credit, insurance, wealth management, and FASTag, did not yield the expected results.  Market competition: The company was up against fierce competition from other online payment services like PhonePe and Google Pay. These competitors offered similar services, often with fewer regulatory hurdles and more straightforward business models. This increased competition further eroded Paytm’s market share and profitability.  Technological and operational lapses: PPBL also struggled with technological and operational issues. The RBI identified lapses in cybersecurity and IT infrastructure, which posed significant risks to customer data and transaction security.  Political and economic climate: The broader political and economic environment also played a role. Regulatory crackdowns on financial institutions, particularly those with ties to Chinese investors, created additional pressure.  Paytm share news:Paytm shares experienced significant volatility, dropping 9% on February 6 to a record low of ₹ 395.50 before rebounding 19%. The RBI’s regulatory actions severely impacted the parent company, One97 Communications Ltd., causing a 36% decline from January 31 to February 2, 2024. This resulted in a ₹ 17,378.41 crore market cap loss. When we look at Paytm’s share price history, continuous declines saw shares hit a 10% lower circuit on February 5, 80% below the IPO price. Major investors like Softbank, Ant Group, and Berkshire exited their stakes, reflecting waning investor confidence amidst ongoing regulatory challenges. As of June 12,  Paytm share price stands at ₹ 401.50. Over the past year, the Paytm share has had a negative return of 56%.And Paytm’s share gave a 74.28% negative return over five years.   1. Discuss the regulatory, operational challenges faced by Paytm. Suggest measures to overcome these problems and regain the trust of tis stakeholders. 2. Identify various risks to which Paytm was exposed and suggest remedies for the same as ERM Manager. | **15 Marks** | **Applying** | **CO3** |
| **20** | Zomato IPO  Zomato, the Indian food delivery giant, and a favorite app for many of us has filed to go public, with a three-day Initial Public Offering (IPO) scheduled for July 14 to raise approximately ₹ 9,375. They will be the first high-profile tech startup in India to go public. And it deserves our attention. Zomato as a brand has been very popular amongst the younger audience, so it’s not surprising if you were among those who contributed to the incredible record of 4,100 orders per minute (OPM) on New Year’s Eve. With the pandemic situation, Zomato has gained popularity among senior citizens as well as middle-aged people.  A Background Run:  Deepinder Goyal and Pankaj Chaddah founded this well-known Gurgaon-based startup 12 years ago. It began as an online restaurant directory called ‘Foodiebay.’ After successfully operating in major Indian cities, this on-demand food delivery app expanded its operations internationally in 2014. Zomato received over 403 million orders with a gross order value of ₹ 112,209 million during the fiscal year 2020, up from ₹ 30.6 million in 2019 and ₹ 13,341.4 million in 2018.  With 1.4 million restaurants listed and 3 million average monthly orders, Zomato is already shaping the future of online food delivery. Zomato brings you everything from the smallest eateries to the most upscale restaurants. It’s fantastic! So here’s the next question.  Zomato’s revenue is not solely derived from food delivery; it has multiple revenue streams, indicating that its business model is diverse. Zomato charges restaurants a commission based on the number of orders they receive. While users pay a delivery fee, Zomato makes money by charging restaurants a commission on each delivery, split between the delivery partner and the company.  Apart from food orders, it also charges restaurants who pay to have their events or offers promoted and their overall banner, resulting in increased visibility and conversions from Zomato users. You know, similar to Google. Restaurant advertising and marketing accounts for a sizable portion of total revenue, accounting for 72 percent of total revenue. It charges users an entry fee to attend Zomaland, where, in addition to food, they can see live musical performances and other acts. It also provides consulting services, such as advice on the demand for new eateries in a specific area. Consulting and food delivery services contribute 3% and 2%, respectively.  Zomato’s IPO valuation  Zomato reported a ₹ 490 crore loss and a negative operating cash flow of more than ₹ 1,000 crore. That is not reassuring. Revenue was down 23 percent to $ 283 million for the fiscal year that ended in March of this year, and losses were down 66 percent to $ 110 million, compared to the same period last year. This year has been hugely challenging for Zomato.  In the three months since filing its prospectus with SEBI, Zomato has increased its offer size by ₹ 1,500 crore and its value by Rs 15,000 crore.  According to the 420 - page DRHP (Draft Red Herring Prospectus), document Submitted to SEBI.   * The total size of the IPO — ₹ 9,375 crore. * The primary issue has a face value of ₹ 9,000 crore. * The secondary issue is worth ₹ 375 crore, according to early investor Info Edge. * The price range for the offer is ₹ 72-76 per equity share.   The QIB portion will be 75% of the net offer, the retail portion will be 10% of the net offer, and the non-institutional portion will be no more than 15% of the net offer.   1. Explain the reasons for oversubscription of shares. 2. As an investor how you would analyze and evaluate the company’s future earnings and performance | **15 Marks** | **Understanding** | **CO3** |