Roll No.

PRESIDENCY UNIVERSITY
BENGALURU

SCHOOL OF MANAGEMENT

MID TERM EXAMINATIONS

Semester: Odd Sem. 2019-20

Course Code: FIN 202

Course Name: FINANCIAL SERVICES AND MARKETS

Program & Sem: MBA & III

Date: 16.10.2019

Time: 9:30AM to 11:00AM

Max Marks: 40

Weightage: 20%

Instructions:

i. Calculator is allowed

Part A [Memory Recall Questions]

Answer all the Questions. Each Question carries two marks. **(3Q×2M=6M)**

1. What are the characteristics of financial services? (C.O.NO.1) [Knowledge]
2. Why financial services are different from other services? (C.O.NO.1) [Knowledge]
3. What is financial intermediation and what are the advantages of financial intermediation? (C.O.NO.2) [Knowledge]

Part B [Thought Provoking Questions]

Answer all the Questions. Each Question carries five marks. **(4Qx5M=20M)**

4. a. Why financial inclusion is necessary?
   b. Why is present Government focusing on financial inclusion?
   (C.O.NO.2) [Comprehension]
5. What is book building in primary market? Explain the process of book building. (C.O.NO.2) [Comprehension]
6. What instruments are available in money market? Explain each of them (C.O.NO.2) [Comprehension]
7. What are the reasons for which money market at India can not develop? Explain each of them. (C.O.NO.2) [Comprehension]

Part C [Problem Solving Questions]

Answer the Questions. **(2Q=14M)**

A person who runs a small business was hit by a series of events post the North Atlantic financial crisis of 2008. The crisis wiped out a large chunk of the overseas market, hitting his business badly. Next, a series of poor business decisions and external events prevented him from recovering in the next few years. Just as he was getting it back together, GST (goods and services tax) compliance and bribes for refunds dealt the next blow. Thinking that the end was around the next quarter for many years, he got into a debt trap with unpaid dues to banks, suppliers, family and friends. The only way out of this tight financial corner was to sell some land bought more than a decade ago, the price of which had gone up exponentially, with lakhs now worth crores. The sale will more than clear the debt and then leave some capital for restarting the business or just retiring. But one year later, he remains in the market looking to liquidate the land. This story is a text-book example of why real estate is such a clunky, and sometimes dangerous, asset to own, maintain and dispose, and why it is a poor asset for an emergency bail-out situation.

First, the speed of transaction can be really slow when it comes to selling land. When compared to financial assets or even gold, selling a patch of land or a flat is time consuming. If the market smells "distress", the price begins to crash—you are left holding your multi-bagger without an exit. A reasonable sale can take anything from a few months to a few years depending on how sticky the seller is to his selling price and how the buyers perceive the urgency to sell. The more urgent the need, the lower price you can expect. When you compare this difficult transaction to the ease of breaking a fixed deposit or selling stocks and funds, the process of selling real estate looks difficult. We forget to include the lack of liquidity and the time taken for the deal as the costs that real estate investments impose.

Second, land deals still have a cash component in India and that imposes all kinds of other costs. Post demonetization, many people got scared off cash deals in real estate and are now insisting on a full cheque payment. But the other part of the market that deals in cash has seen the cash component actually go up to higher than half the value of the deal. Imagine a multi-crore deal with more than half in currency notes. For people who have not dealt in cash, the trauma of thinking about what to do with the cash and how to convert it into white to pay off the dues is terrible.

Third, the problem of taxes. Long-term capital gains take away another one-fifth of the profit, after indexing for inflation, and this really bites if the value growth has been exponential in the investment. Most people at this stage try and avoid the tax, but then circle back to the black money sump and all the problems associated with cash. When the investment moves from real estate to real estate, cash is less of a problem, but if the real estate investment is your hedge against uncertainty and for future emergencies or to pay back bank loans—you will come up against the problem of turning cash to legit funds. That's a cost most people forget to add to the cost of investing in real estate.

Fourth, the land mafia can demand its price. Small and middle town India is still like Gangs of Wasseypur in many ways—specially when there are land deals in the air. Dealing with the land mafia is not what everybody can do and if the deal does not happen quickly without the news getting out in the open, the local land mafia tends to get involved. They usually want a certain amount per square foot sold for basically letting the deal go through without bloodshed. This then takes out another big chunk of the return.

Fifth, the costs of services associated with a land deal add up. A difficult real estate deal will need the use of accountants, lawyers and other professionals to sort through the issues and all of them get paid either by the hour or a flat fee that can run into lakhs. Most people forget to include these costs when they look at point-to-point returns.

Investing in land is a habit. It is a habit of the past when investment options were few. The real estate mindset we need to correct is the unwillingness to look at all the other parts of the investment equation other than just a point-to-point return. The costs we tend to ignore are those associated with entry and exit and the speed of the transaction. Then there is the fear of kabza or illegal encroachment to the property or the fear that a tenant will not vacate the property. Include the problem of cash in land deals and what it would cost to turn this cash into funds that can go back into the formal system. When we think of a few lakhs that morphed into a few crores from land deals, we simply don't think through the entire equation in the deal. There are some people who have a nose for real estate and the temperament to deal with issues around the asset, but most people don't have the skill, time or the temperament. My friend has sworn off this asset class for the future. It is going to be financial assets all the way.

8. What the problems in the case? (4M)
(C.O.NO.2) [Application]

9. Why an investor should not invest in real estate? (10M)
(C.O.NO.2) [Application]

SCHOOL OF MANAGEMENT

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

Semester: Odd Sem 2019-20

Course Code: FIN 202

Course Name:

Date:

Time:

Max Marks: 40

Weightage: 4

Extract of question distribution [outcome wise & level wise]

Q.NO.	C.O.NO (%age of CO)	Unit/Module Number/Unit /Module Title	Memory recall type [Marks allotted] Bloom's Levels	Thought provoking type [Marks allotted] Bloom's Levels	Problem Solving type [Marks allotted]	Total Marks
			K	C	A	
1	1	1	2			2
2	1	1	2			2
3	2	2	2			2
4	2	2		5		5
5	2	2		5		5
6	2	2		5		5
7	2	2		5		5
8	2	1&2			4	4
9	2	1&2			10	10
	Total Marks		6	20	14	40

K =Knowledge Level C = Comprehension Level, A = Application Level

Note: While setting all types of questions the general guideline is that about 60%

Of the questions must be such that even a below average students must be able to attempt, About 20% of the questions must be such that only above average students must be able to attempt and finally 20% of the questions must be such that only the bright students must be able to attempt.

I hereby certify that all the questions are set as per the above guidelines. [Name of faculty]

Reviewer's Comments:

Annexure- II: Format of Answer Scheme

SCHOOL OF --------------------

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

SOLUTION

Date:

Semester:

Course Code: FIN 202

Course Name:

Time:

Max Marks: 40

Weightage:

Part A (3 x 2 = 6)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
1	• **Intangibility** • **Derivatives: Financial services are derivatives of financial markets.** • **Link** • **Distribution of Risks** • **Assistance to Investors** • **Inseparability** • **Agent** • **Heterogeneity** • **Perishability**	2	5
2	• **Related to Money** • **Characteristics differs** • **Direct linkage with the economy** • **Different customer pattern** • **Different consumption pattern** • **Distinctive Channels of Distribution** • **Intermediary Institutions** • **Regulated by financial/monetary authorities**	2	5

	• Tailor-made products • Dealing staff needs specialization • Public image of the institution • Non-guaranteed • Complexity		
3	• Need: • The fundamental reason for the existence intermediaries in the modern economy is that the financial requirements of prospective lenders and borrowers are unlikely match. • Consideration for Lenders: • Expected Return • Risk of Default • Liquidity • Transaction Costs • Consideration for Borrowers • Amount of fund desired • Cost of Funds • Time when funds are required • Risk of inability of Lender's support • Transaction cost •	2	5

Part B

(4 x 5 = 20)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
4	• Financial inclusion is a process by which the financial products and services are made available to all classes of population at a reasonable price. • RBI has advised banks to make available to the public "No-frills basic bank accounts" with nil balance or no balance and give wide publicity through brochures and leaflets. • Introduction of Business Facilitator Scheme • Introduction of Business Correspondent Scheme • KYC norms have been relaxed by permitting banks to accept the certificates issued by business facilitators/ business correspondents, Block Development Officers, head of the Village Panchayat, Post Master of the concerned Post Office or any other public functionary known to the bank	5	10

5	• Company is appointing Book Runner Lead Manager (BRLM) • Company and BRLM is deciding the price of the share. BRML takes permission from stock market, Registrar of company and SEBI • Then BRLM is preparing Red handed prospectus but price is not being declared. • BRLM is making syndicate. Syndicate members can be merchant bankers, Qualified institutional buyers (QIBs) • Syndicate reports price range. (Suppose price range is 350-420). 350 is told the floor price and 420 is the cap price. Cap price can not be more than 20% of floor price. • BRLM again consult this with company and if company agrees then issue comes to the market. • BRLM has to give a full page advertisement in any English daily news paper. The advertisement will mention the opening and closing date of the issue. This will be minimum five working days. • Bids will be accepted and BRLM in consultation with company will decide the final price of the share based on bids received. • BRLM and company will decide the number of shares will be privately placed.	5	10
6	• Call Money: Call money is the shortest form of funds, generally overnight borrowing and lending. However the period can go up to 14 days notice money and short term deposits, the minimum period being two days. Bank and financial institutions use the class money for funding their liquidity crunch mainly on Fridays when they are supposed to maintain the stipulated statutory reserve requirements. A fall in stipulated reserve level will invite penalty imposed by the central bank (RBI) for each day of failure. • Commercial Bills: Commercial bills are short-term, negotiable, self liquidating financial instruments with comparatively low risk. The seller of goods draws these bills on the buyer for the value of the goods delivered. These bills of exchange and the seller's bank usually send the bill to the buyer's bank for delivery of the documents of title of goods like Lorry Receipts or Railway Receipt against acceptance of the bill by the buyer. The buyers bank accepts the signature of the	5	10

	buyer on this bill and sign on the document. The coaccepted bill is call the commercial bill and send to the buyer. If buyer needs immediately money send to the buyer's bank and discount the bills. Buyers bank rediscount the bill again with RBI according to the Bill discount market 1952. • Commercial Paper: Used by highly rated corporate entitites uses this for diversify their short term borrowings. Financial insitutions can use this for their short term borrowings. A corporate is eligible for issuing CPs only if it has Minimum tangible net worth 4 crores Enjoys a working capital limit from a bank It is a standard asset by a bank CP should have minimum credit rating P-2 by CRISIL Minimum maturity period is 7 days and maximum is one year. CP can be issued in denomination 5 lakhs and multiple there of. • Certificate of Deposit • Money Market Mutual Funds		
7	(i) Most of the commercial transactions are made in terms of cash. (ii) Cash credit is the main form of borrowing from the banks. Cash credit is given by the banks against the security of commodities. No bills are involved in this type of credit, (iii) The practice of advancing loans by the sellers also limits the use of bills, (iv) There is lack of uniformity in drawing bills (hundies) in different parts of the country, (v) Heavy stamp duty discourages the use of exchange bills.	5	10

	(vi) Absence of acceptance houses is another factor responsible for the underdevelopment of bill market in India. (vii) In their desire to ensure greater liquidity and public confidence, the Indian banks prefer to invest their funds in first class government securities than in exchange bills, (viii) The Reserve Bank of India also prefers to extend rediscounting facility to the commercial banks against approved securities. **Undeveloped Nature of Indian Money Market:** An insight into the various defects and inadequacies of the Indian money market reveals that as compared to the advanced international money markets like the London Money Market, the New York Money Market, etc., Indian money market is still an undeveloped money market. It is "a money market of a sort where banks and other financial institutions lend or borrow funds for short periods.		

Part C (1 x 14 = 14)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
9	A person who runs a small business was hit by a series of events post the North Atlantic financial crisis of 2008. The crisis wiped out a large chunk of the overseas market, hitting his business badly. Next, a series of poor business decisions and external events prevented him from recovering in the next few years. Just as he was getting it back together, GST (goods and services tax) compliance and bribes for refunds dealt the next blow. Thinking that the end was around the next quarter for many years, he got into a debt trap with unpaid dues to banks, suppliers, family and	4	15

	friends. The only way out of this tight financial corner was to sell some land bought more than a decade ago, the price of which had gone up exponentially, with lakhs now worth crores. The sale will more than clear the debt and then leave some capital for restarting the business or just retiring. But one year later, he remains in the market looking to liquidate the land. This story is a text-book example of why real estate is such a clunky, and sometimes dangerous, asset to own, maintain and dispose, and why it is a poor asset for an emergency bail-out situation.		
10	First, the speed of transaction can be really slow when it comes to selling land. When compared to financial assets or even gold, selling a patch of land or a flat is time consuming. If the market smells "distress", the price begins to crash—you are left holding your multi-bagger without an exit. A reasonable sale can take anything from a few months to a few years depending on how sticky the seller is to his selling price and how the buyers perceive the urgency to sell. The more urgent the need, the lower price you can expect. When you compare this difficult transaction to the ease of breaking a fixed deposit or selling stocks and funds, the process of selling real estate looks difficult. We forget to include the lack of liquidity and the time taken for the deal as the costs that real estate investments impose. Second, land deals still have a cash component in India and that imposes all kinds of other costs. Post demonetization, many people got scared off cash deals in real estate and are now insisting on a full cheque payment. But the other part of the market that deals in cash has seen the cash component actually go up to higher than half the value of the deal. Imagine a multi-crore deal with more than half in currency notes. For people who have not dealt in cash, the trauma of thinking about what to do with the cash and how to convert it into white to pay off the dues is terrible.	10	20

	Third, the problem of taxes. Long-term capital gains take away another one-fifth of the profit, after indexing for inflation, and this really bites if the value growth has been exponential in the investment. Most people at this stage try and avoid the tax, but then circle back to the black money sump and all the problems associated with cash. When the investment moves from real estate to real estate, cash is less of a problem, but if the real estate investment is your hedge against uncertainty and for future emergencies or to pay back bank loans—you will come up against the problem of turning cash to legit funds. That's a cost most people forget to add to the cost of investing in real estate. Fourth, the land mafia can demand its price. Small and middle town India is still like Gangs of Wasseypur in many ways—specially when there are land deals in the air. Dealing with the land mafia is not what everybody can do and if the deal does not happen quickly without the news getting out in the open, the local land mafia tends to get involved. They usually want a certain amount per square foot sold for basically letting the deal go through without bloodshed. This then takes out another big chunk of the return. Fifth, the costs of services associated with a land deal add up. A difficult real estate deal will need the use of accountants, lawyers and other professionals to sort through the issues and all of them get paid either by the hour or a flat fee that can run into lakhs. Most people forget to include these costs when they look at point-to-point returns. Investing in land is a habit. It is a habit of the past when investment options were few. The real estate mindset we need to correct is the unwillingness to look at all the other parts of the investment equation other than just a point-to-point return. The costs we		

	tend to ignore are those associated with entry and exit and the speed of the transaction. Then there is the fear of kabza or illegal encroachment to the property or the fear that a tenant will not vacate the property. Include the problem of cash in land deals and what it would cost to turn this cash into funds that can go back into the formal system. When we think of a few lakhs that morphed into a few crores from land deals, we simply don't think through the entire equation in the deal. There are some people who have a nose for real estate and the temperament to deal with issues around the asset, but most people don't have the skill, time or the temperament. My friend has sworn off this asset class for the future. It is going to be financial assets all the way.		

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SCHOOL OF MANAGEMENT

END TERM FINAL EXAMINATION

Semester: Odd Semester: 2019 - 20	**Date**: 26 December 2019
Course Code: FIN 202	**Time**: 1:00 PM to 4:00 PM
Course Name: FINANCIAL SERVICES AND MARKETS	**Max Marks**: 80
Program & Sem: MBA & III	**Weightage**: 40%

Instructions:

(i) Read the all questions carefully and answer accordingly.
(ii) Student May use calculator.

Part A [Memory Recall Questions]

Answer all the Questions. Each Question carries 5 marks. (6Qx5M=30M)

1. What are the major services of Merchant Banks? (C.O.No.2) [Knowledge]
2. What are non-banking financial institutions? How are they different from Banking institutions in India? (C.O.No.1) [Knowledge]
3. Elaborate functions and mechanism of factoring services in credit creation. (C.O.No.3) [Comprehension]
4. Elucidate the structure of Mutual Fund Company in India. (C.O.No.3) [Knowledge]
5. What are the major instruments trading in Indian money market? Explain the concept of Repurchase agreement. (C.O.No.4) [Knowledge]
6. Discuss the government initiatives towards achievement of complete financial Inclusion in country. (C.O.No.4) [Comprehension]

Part B [Thought Provoking Questions]

Answer both the Questions. Each Question carries 10 marks. (2Qx10M=20M)

7. What do you understand by banking business? Explicate the importance of sources and applications of fund in successful operation of a commercial bank. (C.O.No.4) [Comprehension]

8. Write short notes on the following (C.O.No.2) [Knowledge]

a) Securitization of Debts [4M]

b) Role of stock exchanges in growth of economy [3M]

c) Key benefits of investing in Mutual Fund [3M]

Part C [Problem Solving Questions]

Answer all the Questions. Each Question carries 15 marks. (2Qx15M=30M)

Alibaba 2014 IPO Case Study

On Friday, September 19, 2014, the Alibaba Group Holding Limited (Alibaba), China's largest e-commerce company, came up with largest ever Initial Public Offer (IPO) in human history and started trading on the New York Stock Exchange (NYSE). Alibaba raised US$25 billion though the IPO. This IPO surpassed the Agricultural Bank of China's IPO of 2010, which till then had been the largest and had raised US$22.1 billion. On September 19, 2014, Alibaba's shares started trading under the ticker name 'BABA'. The first trade executed at US$92.70 per share, well above the IPO price of US$68. Within a few minutes of opening-trade, the share price had gone up to US$99 per share. By the end the day, the share price closed at US$93.89, which was 38% up from the offer price. At the end of October 2014, the company's shares were being traded at 45.41 Price to Equity (P/E) multiples, which was significantly higher than the P/E of S&P500 (Standard & Poor's 500) which was 19.33 for the same period

After Alibaba's IPO, the top three largest IPOs in the world belonged to mainland Chinese companies. In an interview to CNBC , Jack Ma (Ma), founder of Alibaba, said, "Today (on issue day) what we got is not money. What we got is the trust from the people.

In 2014, Alibaba was the largest online and mobile e-commerce company in the world in terms of Gross Merchandise Volume (GMV), which increased from Rmb 1.08 trillion in FY13 to Rmb1.68 trillion, a growth of about 56%. In 2014, Alibaba had more than an 80% market share in China's online shopping market and mobile e-commerce market. This was all the more noteworthy given the fact that Alibaba's humble beginnings.

Alibaba was founded in March 1999 by 18 people, including Ma, Joseph Tsai,, with a collective fund of US $60,000 . The company was started at Ma's apartment in Hangzhou in the Zhejiang provision of China. On why Alibaba was chosen as the name, Ma said, "The name (Alibaba), taken from the Arabian Nights, was chosen because it's universally well known and is easy to spell." In the same year, Alibaba launched Alibaba.com, a business-to-business (B2B) English language marketplace for small exporters, mainly in mainland China, to sell goods to foreign buyers.

In January 2000, Alibaba got an investment of US$20 million from a group led by SoftBank Corp. (SoftBank). On this investment, Ma said, "The partnership with Softbank will give us a powerful platform to expand the depth and breadth of our business and deliver further value to participants in global trade." In May 2000, Alibaba brought in John Wu, creator of the Yahoo! Search engine, and appointed him as its Chief Technology Officer. In 2003, company started the marketplace Taobao.com, a consumer-to-consumer (C2C) market place which later became the largest shopping destination in China.

Alibaba has been phenomenally successful both in terms of both helping online retailing find its legs in

China and becoming extremely profitable while doing so. In 2013, the company generated almost $4 Billion in operating profit on revenues of approximately $ 8 Billion and its rapid evolution from small start up to profitable behemoth are traced in the graph.(fig-2)

To get a measure of Alibaba's Market share online, take a look at the breakdown of the biggest players in the B2C as major competitors for the company.(fig-1)

Objective of IPO :

Alibaba had planned to use the net proceeds from the issue for general corporate purposes, to create a war-chest for acquisitions and for new product launches to compete with its home country competitors such as Tencent, JD.com , and Baidu Inc. . The company also planned to expand outside its home country, especially in the U.S. Alibaba intended to invest any pending net proceedings in short-term interest bearing debt instruments or bank deposits.

Valuation of IPO:

According to the prospectus, Alibaba had set the price through negotiations between the company and representatives of the underwriters. Alibaba also considered historical performance, market conditions, future earnings projections, business prospects, management quality, and market valuation of other companies in the same businesses.

Alibaba's VIE structure was a concern for investors as under the VIE structure, any investor who bought stock in IPO did not actually own Alibaba. They owned a share in a holding company registered in the Cayman Islands with a claim on some of Alibaba's profits but with no direct ownership stake. As investors did not own Alibaba directly, they had no voting rights. However, the investors would get a share in Alibaba's profits.

The actual price of IPO has been derived by use of Net Asset valuation and free future cash flow from operation for the company, detailed as below. (fig 3)

Fig 1: Major players in the field

B2C		C2C	
JIngDOng	**18.16%**	**Paipai**	**5.56%**
Tencent B2C	**5.68%**	**Eachnet**	**1.85%**
Suning	**4.30%**		
Amazon China	**2.72%**		
Dangdang	**2.12%**		
Others	**17.94%**		

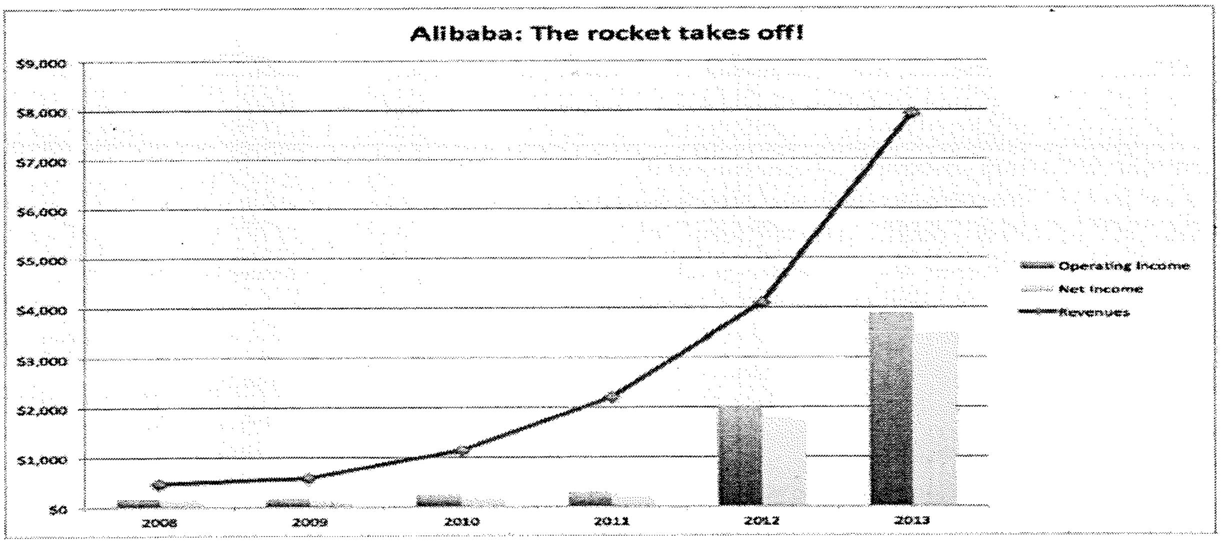
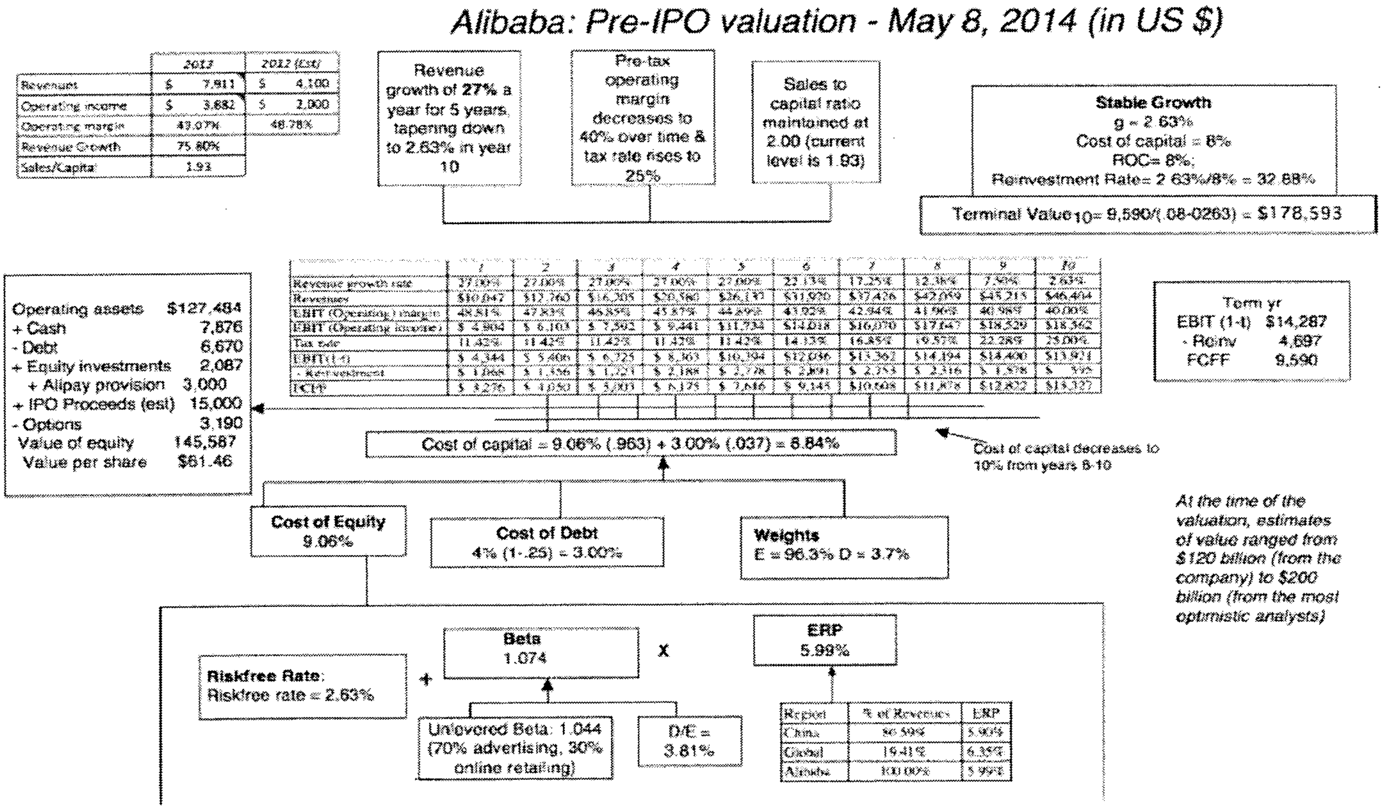


Fig 2: operating profit on revenues



	2013	2012 (Est)
Revenues	$ 7,911	$ 4,100
Operating income	$ 3,682	$ 2,000
Operating margin	43.07%	48.78%
Revenue Growth	75.80%	
Sales/Capital	1.93	

	1	2	3	4	5	6	7	8	9	10
Revenue growth rate	27.00%	27.00%	27.00%	27.00%	27.00%	22.13%	17.25%	12.38%	7.50%	2.63%
Revenues	$10,047	$12,760	$16,305	$20,580	$26,137	$31,920	$37,426	$42,059	$45,215	$46,404
EBIT (Operating) margin	48.81%	47.83%	46.85%	45.87%	44.89%	43.92%	42.94%	41.96%	40.98%	40.00%
EBIT (Operating income)	$ 4,904	$ 6,103	$ 7,592	$ 9,441	$11,734	$14,018	$16,070	$17,647	$18,529	$18,562
Tax rate	11.42%	11.42%	11.42%	11.42%	11.42%	14.13%	16.85%	19.57%	22.28%	25.00%
EBIT(1-t)	$ 4,344	$ 5,406	$ 6,725	$ 8,363	$10,394	$12,036	$13,362	$14,194	$14,400	$13,921
- Reinvestment	$ 1,068	$ 1,356	$ 1,723	$ 2,188	$ 2,778	$ 2,891	$ 2,753	$ 2,316	$ 1,578	$ 595
FCFF	$ 3,276	$ 4,050	$ 5,003	$ 6,175	$ 7,616	$ 9,145	$10,608	$11,878	$12,822	$13,327

Region	% of Revenues	ERP
China	80.59%	5.90%
Global	19.41%	6.35%
Alibaba	100.00%	5.99%

Fig 3: Valuation of IPO

9. Analyze the all aspects for the reasons for the success of Alibaba's IPO. (Some suggested aspects, but not limited to, may be shareholding pattern, SWOT analysis, competitors analysis, IPO pricing) [15M]

10. a) Emphasize the importance of an Initial Public Offer in the long-term financing of a growing firm. [10M]

    b) There has been significant volatility in the price of Alibaba's shares during the past year. How would you explain this volatility? [5M]

(C.O.No.3) [Application]

SCHOOL OF MANAGEMENT

GAIN MORE KNOWLEDGE
REACH GREATER HEIGHTS

END TERM FINAL EXAMINATION

Extract of question distribution [outcome wise & level wise]

Q.NO.	C.O.NO (% age of CO)	Unit/Module Number/Unit /Module Title	Memory recall type [Marks allotted] Bloom's Levels	Thought provoking type [Marks allotted] Bloom's Levels	Problem Solving type [Marks allotted]	Total Marks
			K	C	A	
1	2	4	5			5
2	1	3	5			5
3	3	4		5		5
4	3	4	5			5
5	4	2	5			5
6	4	1		5		5
7	4	3		10		10
8	2	2/3/4	10			10
9	3	2/1			15	15
10	3	2/1			15	15
	Total Marks		30	20	30	80

K =Knowledge Level C = Comprehension Level, A = Application Level

Note: While setting all types of questions the general guideline is that about 60%

Of the questions must be such that even a below average students must be able to attempt, About 20% of the questions must be such that only above average students must be able to attempt and finally 20% of the questions must be such that only the bright students must be able to attempt.

I hereby certify that all the questions are set as per the above guidelines.

Faculty Signature:

Dr. Santosh-Kumar

Reviewer Commend:

Format of Answer Scheme

SCHOOL OF MANAGEMENT

SOLUTION

Semester: Odd Semester: 2019 - 20
Course Code: FIN 202
Course Name: Financial Services and Markets
Program & Sem: MBA & III

Date: 26 Dec 2019
Time: 1:00 Pm to 4:00 Pm
Max Marks: 80
Weightage: 40 %

Part A (6Q x 5M = 30Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
1	The growing need of corporate sector following services offered by MB • **Promotional Activities(Corporate Counselling)–** • **Project Counseling-** • **Portfolio Management** – • **Credit Syndication (Loan Syndication)-** • **Working capital Finance**: • Assessment of working capital requirement • Preparing the application for the sanction of appropriate credit facilities • Providing assistance in negotiations with the banks. • Advising on issue of debenture for augmenting long term requirement of working capital. • **Mergers and acquisitions**: • **Issue Management(Pre issue management)** : The pre-issue management involves the following: Printing prospectus , Pricing of issues , Marketing the issue , Underwriting , Listing of securities in stock exchange • **Post Issue Management**: Post issue management includes the following: Collection of application forms, Screening the applications , Deciding allotment procedure , Mailing of letter of allotment , Issue of share certificates , Refund of application money to non-allotters.	5	10
2	A Non-Banking Financial Company (NBFC) is a company registered under the Companies Act, 1956 engaged in the business of loans and advances, acquisition of shares/ stocks/ bonds/ debentures/ securities issued by Government or local authority or other marketable securities of a like nature, leasing, hire-purchase, insurance business, chit business but does not include any institution whose principal business is that of agriculture activity, industrial activity, purchase or sale of any goods (other than securities) or providing any services and sale/purchase/construction of immovable property. A non-banking institution which is a company and has principal business of receiving deposits under any scheme or arrangement in one lump sum or in	2+3	10

installments by way of contributions or in any other manner, is also a non-banking financial company (Residuary non-banking company).

Particulars	Banks	NBFCs
Scope of business	Scope of business for banks is limited by sec 6 (1) of the BR Act	There is no bar on NBFCs carrying activities other than financial activities
Licensing requirements	Licensing requirements are quite stringent. Transfer of shareholding also controlled by RBI	It is quite easy to form an NBFC. Acquisition of NBFCs is procedurally regulated and are subject to approval
Major limitations on business	No non-banking activities can be carried	Cannot provide checking facilities
Major privileges	Can exercise powers of recovery under SARFAESI and DRT law	None, except 196 NBFC, specified by Central Government, have powers under SARFAESI or DRT law
Foreign investment	Upto 74% allowed to private sector banks	Upto 100% allowed (only 18 activities)
Regulations	BR Act and RBI Act lay down stringent controls over banks	Controls over NBFCs are relatively lesser stringent
SLR/CRR requirements	Banks are covered by SLR/ CRR requirements	NBFC-Ds have to maintain a certain ratio of deposits in specified securities; no such requirement for non deposit taking companies

3 The role of factor step in to realize the sales/collect receivables. The mechanism of factoring is summed up as **5** **8**

- An agreement is entered into between the selling firm and the firm. The agreement provides the basis and the scope understanding reached between the two for rendering factor service.
- The sales documents should contain the instructions to make payment directly to the factor who is assigned the job of collection of receivables.
- When the payment is received by the factor, the account of the firm is credited by the factor after deducting its fees, charges, interest etc. as agreed.

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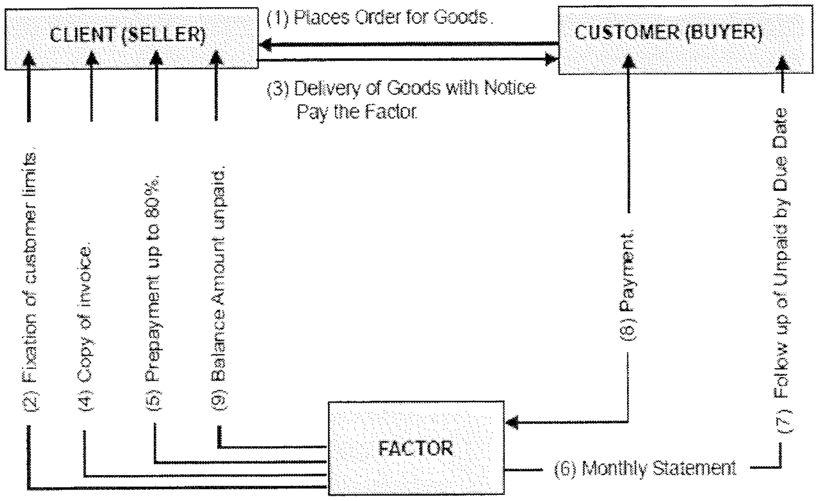
- The factor may provide advance finance to the selling firm conditions of the agreement so require.



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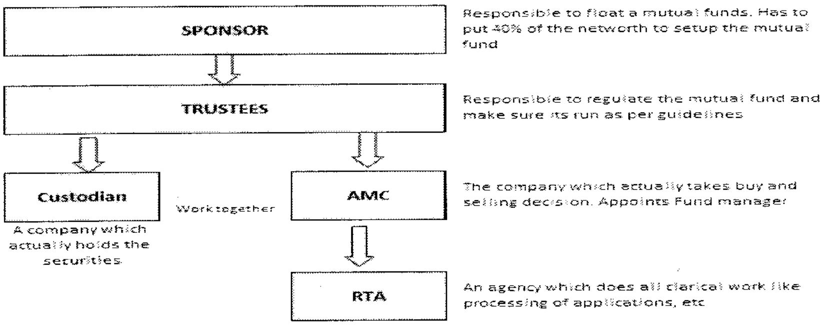

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- Call Money Market
- Commercial bills market or discount market
- Acceptance market
- Treasury bill market
- Commercial papers.
- Certificate of deposit
- Inter-bank participation certificates.
- Repo instrument
- Banker's Acceptance
- Repurchase agreement
- Money Market mutual fund

Repurchase agreements (Repo) are arrangements involving transaction between two parties that agree to sell and repurchase the same security. Under repurchase agreement, the seller sells the specified securities to the buyer with an agreement to repurchase the same at a mutually decided future date and price. Such kind of transaction between parties approved by RBI and in securities (Treasury Bills, Central/State Govt. securities) as approved by RBI.
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Financial inclusion means making the **financial services** available to everyone at affordable costs. Under this, the **services** should be available for disadvantaged people and low-income groups. Thus, the main objective is to serve the basic banking **services** to the unreserved people in the country .Financial inclusion is globally considered as a critical indicator of development and well-being of society. The real thrust on financial inclusion (FI) came in 2005 when the Reserve Bank of India (RBI) highlighted its significance in its annual policy statement of 2005-06.
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	There are some initiatives taken by the financial regulators, government, and banking officials in India. They are: • No frills account • BSBDA – Basic savings bank deposit account • LBS – Lead banking scheme • PMJDY – Pradhan Mantri Jan Dhan Yojana • Business correspondent system		

Part B (2Q x 10M =20 Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
7	As per section 5(b) of Banking Regulation Act, 1949 The term banking is defined as —accepting, for the purpose of lending or investment of deposits of money from the public, repayable on demand or otherwise, and withdrawals by cheque, draft, order or otherwise" **Sources of Fund** ***Deposit accounts:*** • Transaction Deposits • Savings Deposits • Time Deposits • Money Market Deposit Accounts ***Borrowed Funds:*** • Borrowing from the Federal Reserve Banks(from central banks) • Federal Funds purchased (borrowing) • Repurchase agreements • Eurodollar Borrowings ***Long-term Sources of Funds:*** • Bonds issued by the Bank • Bank Capital • Cash • Bank loans • Investment securities **Application of Funds by Banks** ***Cash:*** Banks are required to hold some cash as reserves, since they must abide by reserve requirements enforced by the Federal Reserve ***Loan :*** working capital loan term loans (long term fixed) Secured loan Unsecured loan bullet loan Equal Installment loan Mortgage Loan (real estate loan) Lease loan Line of credit (formal and informal) Revolving credit loan Consumer Loans Consortium loan Loan against Security	10	25
8.a)	• Securitization is the process in which certain types of assets are pooled so that they can be repackaged into interest-bearing	4	8

	securities. The interest and principal payments from the assets are passed through to the purchasers of the securities. • **Securitization** is the financial practice of pooling various types of contractual debt obligations or other non-debt assets which generate receivables, and selling their related cash flows to investors as new **Securities**, generally in form of Bond described as Securitized debt. • Securitization is a structured financial transactions, which is different from the normal asset class.		
b)	**Stock exchanges** provide an organized market for transactions in shares and other securities. Purpose of SE. • Liquidity • Tradability • **Mobilization of Savings** • **Capital Formation** • **Speed up Economic Growth and Development** • **Proper Regulation of Funds** • **Service Provision (retail and industry)**	3	8
c)	• **Professional Management**: Mutual funds provide the benefit of professional management as people's money is managed by experienced fund managers. • **Economies of scale**: The way mutual funds are structured gives it a natural advantage. The "pooled" money from a number of investors ensures that mutual funds enjoy economies of scale; it is cheaper compared to investing directly in the capital markets which involves higher charges. • **Diversification**: Mutual funds provide investors with the benefit of diversification across different companies and sectors. • **Liquidity:** Open ended mutual funds provide easy liquidity and investors can buy or sell units anytime, at the prevailing NAV based prices. • **Flexibility:**. An investor can opt for a Systematic Investment Plan (SIP), Systematic Withdrawal Plan (SWP), Systematic Transfer Plan (STP)etc , as per his cash flow need. • **Transparency:** The mutual fund industry in India works on a very transparent basis, and various kind of information is available to their investors through fact sheets, offer documents, annual reports etc. • **Well Regulated**: Indian Mutual Fund industry is well regulated by the Securities and Exchange Board of India (SEBI).	3	8

Part C (2Q x 15M = 30Marks)

Q No	Solution	Scheme of Marking	Max. Time required for each Question
9	As per case data, aspects for the success of Alibaba's IPO, but not limited to, may be shareholding pattern, SWOT analysis, competitors analysis, IPO pricing	15	25
10a) **10b)**	As per detail of case data	10+5	30