

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER- III EXAMINATION – WINTER 2019

Subject Code: 2830202

Date: 04-12-2019

Subject Name: Management of Financial Services

Time: 10:30 AM TO 1.30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1 [A] Attend the following MCQs:

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1. A treasury bill is issued by
 - a. Government
 - b. RBI
 - c. Commercial bank
 - d. Development bank
2. Money market deals with borrowing and lending of funds for
 - a. Short term
 - b. Medium Term
 - c. Long Term
 - d. All of the above
3. For managing receivables of Rs. 20 Lakhs and converting them in to cash, which option may be adopted
 - a. Forfeiting
 - b. Factoring
 - c. Securitization
 - d. None of the above
4. In which case ownership is immediately transferred in favor of user/purchaser
 - a. Lease
 - b. Hire purchases
 - c. Installment sale
 - d. None of the above
5. As per the SEBI guidelines, a merchant banker has to complete the whole process of issue of shares in
 - a. 60 days
 - b. 70 days
 - c. 80 days
 - d. None of the above
6. Highest return is available on investment in
 - a. Shares
 - b. Debentures
 - c. Bonds
 - d. Mutual Fund

[B] Define the following terms:

04

1. Depository
2. Explain Business Risk & Financial risk
3. Broker vs sub broker
4. Bill Discounting

[C] Write a note on Margin Trading.

04

Q.2 [A] Describe in detail the Venture Capital financing process in India

07

[B] Define “Mutual Fund” as per SEBI .Describe index funds and exchange Traded funds.

07

OR

[B] Explain Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) prescribed by RBI for all commercial banks as a part of financial service supervision. **07**

Q-3 [A] What is Hire –Purchase? How is it different from Installment Sale or Leasing? **07**

[B] Define Plastic Money. Discuss merits and demerits of Plastic Money. **07**

OR

Q.3 [A] Discuss international factoring and its types. **07**

- Q.4 [A] “Merchant Bankers are considered as sponsor of capital issues” –Justify this statement considering the role of merchant bankers in new issue management. 07
- [B] Write a short note on importance of Money Market. 07

OR

- Q-4 [A] Give an overview about the major credit rating agencies operating in India. 07
- [B] “SEBI plays an important role in the development of Stock Market.” Comment. 07

Q.5

Case Study

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Demonetization – Good or Bad?

On the night of November 8th, India witnessed a financial coup, the scale of which was unparalleled in the entire human history. Demonetization of 86% of floating currency in the market meant a huge transformation in the way businesses are being conducted in India. Push for 100% cashless transactions meant that age-old customs had to be destroyed, and new ways required to be learnt in order to conduct any type of business in the country.

The Good - Amul, the dairy cooperative jointly owned by 36 lakh milk producers in Gujarat has adapted cashless mode in a massive way. Since November 8th, 5.4 lakh farmers have opened their saving accounts in various banks. With this, almost 18 lakh milk producers are now getting their money directly into their bank account. As per RS Sodhi, MD of Amul, farmers are now saving a lot more, optimally planning their yearly financial goals, and with bank accounts, are able to get loans at a lesser interest rate. Before, loan sharks used to have a major influence in their financial world, as the farmers used to get stuck within their high-interest trap, and ended up spending more money. He said, “The response from farmers to open bank accounts has been immense. Earlier, they were spending money recklessly and had not developed the habit of saving. With their bank accounts now being operational and a withdrawal limit in place, milk farmers have seen an improvement in their savings too. Also, they can look forward to applying for loans once they built a supporting credit history. And, as per Amul’s own data, there has been absolutely no reduction in their sales, except few products of ice-cream. Sodhi said, “On the sales front, there was a short-term impact on discretion products such as ice-cream. But there is absolutely no impact on sales of milk, butter and curd”.

The Bad - Raymond, the 91 year old behemoth of textiles and garments has said that post-demonetization, they have experienced 30% reduction in sales. As per CEO Sanjay Behl, 90% of the textile market is based on cash, and the sudden demonetization drive has left the industry crippled, and gasping for breath. Interestingly, Behl also said that they are confident about stabilization of the market, as new currency is being introduced gradually, and people are opting for cashless mode of payments. However, the reality is that 30% of their products are not selling right now.

Questions:

1. The case narrates one example of each, the good effect and the bad effect of demonetization. Which side do you take and why? Justify your answer with necessary arguments.
2. How the government can ensure that the bad effects of the demonetization can be reduced? Review the situation as on today when demonetization completes one year.

Q.5

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Case Study
Non Performing Assets – A threat to Indian Banking System

The banking sectors are act as catalyst in achieving rapid economic development of a country. They act as an intermediary to mobilize the excess fund of surplus sectors to provide necessary finance to those sectors, which are needed to promote for the sound development of the economy. Like other business enterprise, the efficiency of a bank is evaluated based on profitability and quality of assets it possess. The asset quality is a prime concern and impacts various performance indicators, i.e., profitability, liquidity, intermediation costs, credibility, income generating capacity and overall functioning of banks. The sound financial position of a bank depends upon the recovery of loans or its level of Non-performing assets (NPAs).

The banking business has boomed since Independence, particularly after the LPG reforms. The sector is expected to be valued at Rs 288 lakh crore by 2020. Out of this 70 per cent of business is being done by PSU banks. An interesting fact is that SBI's market share out of total banking business is 22 per cent! Looking at the enormous size of the banking industry, the NPAs are a big cause of concern. Loans don't go bad right away. Most loans allow customers a certain grace period. Then they are marked overdue. After a certain number of days, the loan is classified as a nonperforming loan.

Banks usually classify as nonperforming assets any commercial loans which are more than 90 days overdue and any consumer loans which are more than 180 days overdue. For agricultural loans, if the interest and/or the installment or principal remains overdue for two harvest seasons; it is declared as NPAs. But, this period should not exceed two years. After two years any unpaid loan/installment will be classified as NPA.

Indian banks' gross non-performing assets (NPAs), or bad loans, stood at Rs 10.25 lakh crore as on 31 March 2018. On quarter, the pile has grown by Rs 1.39 lakh crore or 16 percent from Rs 8.86 lakh crore as on 31 December 2017. This chunk now accounts for 11.8 percent of the total loans given by the banking industry. For financial year 2018, the total bad loans of these banks rose by a whopping Rs 3.13 lakh crore.

Questions:

1. Why NPAs are a serious issue and what harm can it do to the financial health of any economy?
2. What are the reasons for the rising NPA levels in any economy? What could be the possible way out for any economy to tackle the problem of NPAs?
