

JK LAKSHMIPAT UNIVERSITY, JAIPUR
INSTITUTE OF MANAGEMENT
RE-TEST EXAMINATION (ODD SEM. 2021)
BBA-I Semester (B&F)

Time: 1.5 Hours
MM: 40 Marks

Course: Introduction to Financial Services & Fintech
Course Code: FA1106

Instructions: All Questions are compulsory and application oriented. Use appropriate language which reflects critical thinking in taking decision making related to applicability of theoretical concepts.

Section A

- Q.1 a. From the following which instrument can be used only by commercial banks? 5
1. Commercial Paper 2. Call Money Instruments 3. CD 4. Inter-bank Participation certificate
- b. An existing company wants to raise additional capital. Which one will be right option to obtain required funds?
1. Capital issues 2. Secondary issues 3. IPO 4. SEO
- c. Board of management of an existing company wants to evaluate performance of its traded security. Data of which market will be scrutinized for this purpose?
1. New Issue Market 2. SEO 3. Secondary Market 4. OTC Market
- d. To keep investors interest safe and ensure genuine companies only be available for investment which criteria is applied by SEBI?
1. Book building 2. Origination 3. Appointment of Merchant Bankers 4. Listing
- e. Merchant Bankers and stock brokers generally purchase securities at negotiated price and offer them at higher prices to intended parties. Such practice is known as:
1. Offer for sale 2. Right issue 3. Bought Out deals 4. Book building

Section B

- Q.2 Financial system intermediates between the flow of funds belonging savers and channelize 10
towards deficit economic units. Under this essence elaborate the role/function of financial system in an economy.
- Q.3 Pool Fincare is operating in Indian financial services industry. Post LPG era, it wants to 10
widen its areas as it is working as advisors only as merchant bankers presently. Up to what extent, it can extend its services and what would be the various roles. If it chosen to operate at the peak level, explain any four services that least level of merchant bankers can't perform? What are the various challenges in Indian BFSI sector which poses hurdle for merchant banking industry grow?
- Q.4 During January 2008, the maiden public issue of Reliance Power Limited, India, was 10
oversubscribed 73 times and garnered an astronomical \$190 billion. It created many world records. It was the largest subscription of any IPO (initial public offering) anywhere in the

history of global capital markets with a record five million applicants. It became 10 top listed companies in India with the largest number of shareholders in any listed company in the world. The high growth Reliance Group companies are known for producing stock-market gains from the moment they are listed. No issue since its inception in the year 1965 had failed to date in the stock market. So the highly oversubscribed issue was keenly awaited to open on February 11, 2008 in the twin stock exchanges National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) of Mumbai, India. But for the first time in history of Indian stock markets the Reliance magic did not work. For a few moments on the opening day, Reliance Power raised 19% to 538 rupees (\$10.94) from the IPO price of 450 rupees (\$9.15). After the initial rise of four minutes the dream vanished and RPL dived to 355 rupees (\$7.23) per share never to re-turn even close to the issue price. By the close of the day, it was down 17% at 372.50 (\$7.57) rupees, Four billion of its market capitalization wiped out and with it, billions of rupees of investors' wealth.

The several reasons were ascribed to the Reliance Power Debacle:

- i. Reliance power was new company, had almost no assets and cash flows.
- ii. Indian investor considers IPO as a means of making quick money. Reliance power share were sold out immediately on opening of the issue. This may be a reason of drastic failure of reliance power.
- iii. The IPO was not helped by global market mood as US subprime crises happened at the same year and time.
- iv. Reliance share was linked to aggressive pricing of the IPO. It was overvalued when compared with peer companies in India. For example IPO price was 450 against the price of NTPC (The government power company) at Rs. 250.

Industry experts believe that in spite of all kinds of analysis the investor cannot safeguard his investment as exemplified in this case. Few failures of mega IPOs like Reliance Power have an adverse impact on the primary market of the country.

Questions:

- a) Apart from using Initial Public Offer (IPO) what other methods Reliance Power could use to raise new capital? Explain each one in brief with mentioning merits and demerits. 8
- b) Do you think sponsors and leading merchant banker involved with new issue of Reliance Power well performed their task of origination? Support your answer with logical facts and figures with explaining meaning of origination. 2
- c) If, in this case Reliance Power had an agreement with Underwriters; explain what could be the methods of underwriting. What you think about the responsibility of underwriters in this case? 5