



Institute of Management
JK LakshmiPat University
Jaipur
END TERM EXAMINATION 2017
SET-1

Programme: MBA Sem-III
MM: 50 Marks

Sub.: Management of Financial Institution & Services
Time: 3 Hours
Subject code: FN03

Instructions: Attempt any three questions from Section A. Section B is compulsory.

Section A

Q1. State the different kinds of housing loans given by the banks and discuss what is RML and operational guideline for issuing RML.

Q2. What is Credit Rating? How credit rating agencies do rates the instruments? Discuss the SEBI guidelines for Credit Rating Agencies.

Q3. Write notes on any three.

- Functions of Secondary Market
- Bulk deal and Block deal
- Rolling Settlement
- Methodologies for calculating index

Q4.

A Mutual Fund made an issue of 10,00,000 units of ₹10 each on 01.01.2012. No entry load was charged. It made the following investments:

Particulars	₹
50,000 Equity Shares of ₹100 each @ ₹160	80,00,000
7% Government Securities	8,00,000
9% Debentures (Unlisted)	5,00,000
10% Debentures (Listed)	5,00,000
Total	98,00,000

During the year, dividends of ₹12,00,000 were received on equity shares. Interest on all types of debt securities was received as and when due. At the end of the year equity shares and 10% debentures are quoted at 175% and 90% respectively. Other investments are quoted at par.

Find out the Net Asset Value (NAV) per unit given that the operating expenses during the year amounted to ₹5,00,000. Also find out the NAV, if the Mutual Fund had distributed a dividend of ₹0.90 per unit during the year to the unit holders.

Q5.

Your company is considering to acquire an additional computer to supplement its time-share computer services to its clients. It has two options:

- (i) To purchase the computer for ₹ 22 lakhs.
- (ii) To lease the computer for three years from a leasing company for ₹ 5 lakhs as annual lease rent plus 10% of gross time-share service revenue. The agreement also requires an additional payment of ₹ 6 lakhs at the end of the third year. Lease rents are payable at the year-end, and the computer reverts to the lessor after the contract period.

The company estimates that the computer under review will be worth ₹ 10 lakhs at the end of third year.

Forecast Revenues are:

Year	1	2	3
Amount (₹ in lakhs)	22.5	25	27.5

Annual operating costs excluding depreciation/lease rent of computer are estimated at ₹ 9 lakhs with an additional ₹ 1 lakh for start up and training costs at the beginning of the first year. These costs are to be borne by the lessee. Your company will borrow at 16% interest to finance the acquisition of the computer. Repayments are to be made according to the following schedule:

Year end	1	2	3
Principal (₹'000)	500	850	850
Interest (₹'000)	352	272	136

The company uses straight line method (SLM) to depreciate its assets and pays 50% tax on its income. The management approaches you to advice. Which alternative would be recommended and why?

Note: The PV factor at 8% and 16% rates of discount are:

Year	1	2	3
8%	0.926	0.857	0.794
16%	0.862	0.743	0.641

Section B

Q6.

- A. Demonetization has been the most hotly debated topic since November 8, 2016 when Prime Minister Narendra Modi announced that the high-denomination notes then in circulation would cease to be legal tender. In a single stroke, nearly 86% of the currency in an economy powered by cash transactions, with 54% people without bank accounts, was wiped out. The move disrupted the lives of ordinary people, led to widespread hardship for the poor, major job losses and over a hundred deaths. Despite the huge distress and disruption, the general sentiment seemed to be in favour of the decision. Recently we have celebrated the first anniversary of demonetization and equally in favor by the central Government and against by the opposition parties led by the Congress Party.
In light of this, you are requested to put your individual views on demonetization, and its pros and cons to the Indian economy. (10 Marks)

- B. Arijit is 30, newly married and a successful actor in the Indian film industry. Right from his struggling days, Ajit always saved a part of his income and invested in safe instruments like fixed deposits. However, during the internet boom in the late 90's and early 2000, he successfully invested in equities. Ajit thought that he has made well investment decision, but when internet stock bubble burst in 2002, Ajit lost a majority of his investment. Ajit has always had a penchant for technology from his young age and thus he usually ended up buying tech stocks and funds. Currently, Ajit suffers from the snake-bite effect and thus he is not willing to participate in the equity market at all. Ajit, now misses the high returns that his portfolio had earned during the internet boom days. He has come to you to seek your suggestion to help his portfolio generate higher returns.

Q1. What do you think is Ajit's ability and willingness to take risk?

Q2. Will you recommend a stock only portfolio to Ajit or a mutual funds only portfolio for Ajit?

Q3. What kind of mutual funds will you recommend to Ajit?

Q4. Explain to Ajit how his new mutual fund portfolio achieves diversification. Why is this diversification important?