



Institute of Management
JK Lakshmipat University
Jaipur
END TERM EXAMINATION



MBA Sem- 3
MM: 50 Marks

Course: Management of Financial Institutions and Services

Time: 3 Hours

Subject code: MBA FM 03

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

Section A

Q1. "Domestic mutual funds have pumped in Rs. one-lakh crore in equities in 18 months. This is the longest spell of net mutual fund inflows into the stock market in at least 15 years." (Business Standard, December 2, 2015)

In the light of this news item, discuss the factors responsible for the resilient growth of mutual funds in India. Do you expect this growth to continue? Give reasons to support your answer.

(10 marks)

Q2. Briefly describe the rating methodology employed by credit rating agencies. Point out the major strengths and weaknesses of the methodology and discuss the significance of credit ratings for issuers and investors.

(10 marks)

Q3. Enumerate the factors that led to the emergence of development financial institutions in the post-independence era? Has there been any change in their position in the post-reforms period?

(10 marks)

Q4. What steps can be taken for effective management of non-performing assets (NPAs)? In this context, discuss how securitisation can help banks reduce their NPAs.

(10 marks)

Q5. Write short notes on

(a) Regulation of Non-banking Finance Companies

(05 marks)

(b) Book building mechanism for initial public offerings

(05 marks)

P.T.O.

Section B

Q6. Read the news report given below and answer the following questions:

- (a) Briefly outline the distinguishing features of the affordable housing finance segment. (05 marks)
- (b) What are the objectives of the 'Housing for All by 2022' mission? (05 marks)
- (c) Will lowering of risk weights for housing loans act as a favorable factor for housing finance sector? Give reasons to support your answer. (05 marks)
- (d) Infrastructure status has been a long-standing demand of the housing sector. Give arguments for and against granting infrastructure status to the housing sector. (05 marks)

Performance Review of Housing Finance Companies and Industry Outlook

While housing credit growth has been outperforming the systemic banking credit growth despite the difficult economic conditions, recent numbers suggest some moderation in the pace of growth with housing credit growth in the recent quarter being lower than the five year CAGR of 18% owing to a decline in primary housing sales volumes and stagnant property prices. ICRA expects some uptick in growth numbers in the remainder of the financial year, however the growth estimate for FY16 has been revised downwards to 16-18%, likely to be supported by disbursements on construction linked loans, growth in the small ticket affordable housing segment and demand from Tier II/III cities. Nevertheless, long term growth outlook for the sector remains favourable owing to the Government of India's focus on Housing for All by 2022, and favourable regulations, could push overall housing credit growth to 20-22% from FY17 onwards.

The lowering of risk weights (further from 50%) for housing loans, could translate into thin capital cushion to cover the unexpected losses. Lower risk weights on low ticket home loans could encourage lenders to lend more to the smaller ticket home loan segment, as it would help them in conserving capital. However, from a risk perspective, this may be negative as the target borrower's credit profile (especially in ticket sizes less than Rs 2 million) is weaker and more vulnerable (owing to limited cushion for exigencies and to absorb income shocks) as compared with the prime salaried home loan borrower. This is also reflected in the relatively higher Gross NPA% for lower ticket size (less than Rs. 0.5 million) home loans of public sector banks (4.4% as on March 31, 2014) vis-a-vis home loans with ticket sizes greater than Rs 2.5 million (0.62% as on March 31, 2014). As for variability in asset quality indicators, Gross NPA% changed by 110 bps in low income category over one year, the change was only 39 bps for home loans greater than Rs 2.5 million during the same period. Larger variability may warrant higher capital requirements for this segment from prudent risk management perspective.

(Source: ICRA Report on Indian Mortgage Finance Market, October 2015)