



Institute of Management
JK Lakshmipat University
Jaipur

END TERM EXAMINATION-DEC 2019

PMBA – TERM V

MM: 30 Marks

Course: FINANCIAL MARKERT AND SERVICES

Time: 2 Hours

Subject code: FA2202

Each Question of 7.5 Marks Each. Answer (4 nos.) either all odd numbers Question or Even Numbers Question from given below.

1. Ajit is 30, newly married and 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 and mutual funds. Ajit thought that he was always well-diversified but when the internet stock bubble burst in 2002, Ajit lost a majority of his stock portfolio. A major mistake he made was that even though he was diversified, he invested only in tech-stocks. Ajit was 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 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 suggestions to help his portfolio generate higher returns.
 - a. What do you think is Ajit's ability and willingness to take risk?
 - b. Will you recommend a stock only portfolio to Ajit or a mutual fund only portfolio for Ajit?
 - c. If mutual fund, what kind of mutual funds will you recommend to Ajit?
 - d. Explain to Ajit how his new mutual fund portfolio achieves diversification. Why is this diversification important?
 - e. Recommend a potfolio mix for Ajit. Explain to Ajit why investments in equities improves the risk profile of the portfolio.
2. During navratras, Varun finalizes a deal to buy a new house. So, he visits a nearby branch of 'Subh Bank' top withdraw Rs. 10 lakhs from his account in order to pay the token money to the seller. In the bank he observes that a large number of customers are present to make cash with drawls, probably because it is an auspicious time to make purchases. After sometime, he overhears one of the bank staff members telling his colleague that, "Today 'Shubh Bank' is likely to fall short of cash and to make up for the deficit and maintain its cash reserve ratio it will have to approach another bank."

In context of the above case:

 - a. Identify the instrument that 'Shubh Bank' will use to meet its short term requirements of funds.

- b. State the feature of the instrument as identified in part (1) and role of regulatory bodies in issue of such instrument in India.
3. Saqib Ltd. is a large credit worthy company operating in the Kashmir Valley. It is an export oriented unit, dealing in exclusive embroidered shawls. The floods in the valley have created many problems for the company. Many craftsmen and workers have been dislocated and raw material has been destroyed. The firm is therefore, unable to get an uninterrupted supply of raw material, and the duration of the production cycle has also increased. To add to the problems of the organization, the suppliers of raw material who were earlier selling on credit are asking the company, for advance payment or cash payment on delivery. The company is facing a liquidity crisis. The CEO of the company feels that taking a bank loan is the only option with the company to meet its short term shortage of cash. As finance manager of the company name and explain the alternative to bank borrowing that the company can use to resolve the crisis.

Also state the guidelines for the issue of the instrument you have suggested for.

4. An Indian Company Mukta Ltd, has availed the services of two London based Interior Decorators and are required to pay GBP 50000 in 3 months. From the following information, advise the course of action to minimize rupees' outflow-

Foreign Exchange Rate (Rs./GBP)	BID	ASK
SPOT	81.60	81.90
3 Months Forward	82.70	83.00
Money Market Rate		
GBP	6%	9%
Rupees	8%	12%

5. On September 13, 2019 a trader buys one Nifty Index Futures contract at 1870. The initial margin requirement for the contract is Rs. 10,000 while the maintenance margin is 75% of initial margin. Lot size is 200. Its settlement prices for the next 8 trading days are as follows.

Date	Settlement price
September 13	1865
September 14	1858
15	1853
16	1847
17	1849
20	1855
21	1872
22	1879

On September, 23 the investor closes his position when futures prices was 1883.

Required-

- a. Prepare the margin account showing all the cash flows (assume no amount is withdrawn from the margin account)
 - b. Calculate Profit/Loss.
6. Compute the theoretical forward price of the following securities for 1 month, 3month and 6 months.

Securities of	A Ltd	BLtd
Sport Price	4550	360
Dividend expected	50	20
Dividend Receivable in	2 months	3 months
6 months future contact rate	4600	390

You may assume a risk free intrest rate of 9% P.a. What action should follow to benefit from future contacts.

7. A has invested in three mutual fund schemes as per details below.

	MF 1	MF 2	MF3
Date of Investment	01.12.2009	01.01.2010	01.03.2010
Amount of Investment	50000	100000	50000
NAV at Entry date	10.50	10	10
Dividend received upto 31.03.2013	970	1520	NIL
NAV as at 31.03.2013	10.40	10.10	9.80

What is the effective yield on per annum basis in respect of each of the three schemes to Mr. Vishal upto 31.03.2010?

8. Basic Information.
- a) Asset Related: Cost Rs. 120 Lacs, Tax Depreciation 40%, Useful life 4 years, RV after three years Rs. 25.92 lacs
 - b) Leasing: Full payout, Three-year lease, lease quote Rs. 434 per 1000, payment annually in arrears
 - c) Borrow and buy Three-year loan- Interest rate 15%, Quantum to be determined such that Rate is 40% and opportunity cost of capital is 11%.

Based on the above mentioned information and your analysis what do you think is the preferred option between leasing and buying.

Course Name	Supply Chain Management	Course Code	OP211
Max. Time	Two Hours	Max. Marks	40

1. (a) A distributor has heard that one of the major manufacturers from which it buys is considering going direct to the consumer. What can the distributor do about this? What advantages can it offer the manufacturer that the manufacturer is unlikely to be able to reproduce? [4]
- (b) Consider a supermarket deciding on the size of its replenishment order from P&G. what costs should it take into account when making this decision? What type of inventories supermarket have for fulfilling demand in any environment. [4]
- (c) As is Known, Hewlett-Packard (HP) is one of the world's leading products of inkjet and laser printers which are sold worldwide. While the basic mechanism of the printers sold overseas are the same as American versions, subassemblies such as power supplies, must be customized for local markets and customers. HP's original strategy was to configure printer for local requirement at local factory itself, i.e., the printers with correct power supplies, plugs, and manuals would be produced at the factory, and then sorted and shipped overseas as final products. The result was that HP needed to carry large safety stocks of all printer configurations. In order to reduce inventories and improve service level by distribution centers (DCs) to retail customers, HP decided to localize the printers EX-DC than at the factories. With local customization done at DC's end, the replenishment lead-time for locally configured printers is dramatically reduced. It also showed that DC level localization for HP printers would lead to an around 18% reduction in inventories with no reduction with no reduction in service level. HP advocated that design for localization be a part of manufacturing and distribution strategy. Similarly, semiconductors are produced in generic form and customized through programming only after firm orders are received. Firms such as HP are now becoming increasingly aware of the risk-pooling and lead time reduction benefits from postponement and local customization. **How postponement strategy works in HP? Explain.** [4]
2. Some statements are given below. Justify or criticize these statements. [8]
 - a) "Supply chains gain waste and non-value added activities for many reasons, both internal to the company and external to the company."
 - b) "It is the uncertainty in lead time that is more important for managing an effective supply chain rather than the uncertainty of demand"
3. TCIL, a third- party logistics firm provides warehousing and other logistics service to other companies. The general manager at TCIL should decide the amount of space to lease for upcoming **three year period**. The current demand is 150,000 units per year. It has required 1000 Sq. ft. of warehouse space for every 1,000 units of demand. TCIL receives of Rs 20 for each unit of demand. The general manager must decide whether to sign flexible lease or obtain warehousing space on the spot market each year. The manager decides to use uncertainty for both demand and spot price. The marketing department gives following information for next three years. The discount factor is 10%. [10]

Year	2019	2020	2021	2022
Expected Demand	150,000	165,000	140000	150000
Expected Space price per Sq. ft (Rs.)	15	15.4	16	16.2

Select one option for company base on profit

Option 1: If General Manager sign lease which is between 150000 Sq. Ft. at Rs. 15.00 per square feet.

Option 2: Spot market price with NPV of Profit: Rs. 2119144

4. Case Study: ZARA: APPAREL MANUFACTURING AND RETAIL

Zara is a chain of fashion stores owned by Inditex, Spain's largest apparel manufacturer and retailer. In 2004, Inditex reported sales of 13 billion euros from more than 2,200 retail outlets in 56 countries. The company opened a new store for each day in 2004. In an industry in which customer demand is fickle, Zara has grown rapidly with a strategy to be highly responsive to changing trends with affordable prices. Whereas design-to-sales cycle times in the apparel industry have traditionally averaged more than six months, Zara has achieved cycle times of five to six weeks. This speed allows Zara to introduce new designs every week and to change 75 percent of its merchandise display every three to four weeks. Thus, Zara's products on display match customer preferences much more closely than the competition. The result is that Zara sells most of its products at full price and has about half the markdowns in its stores compared to the competition.

Zara manufactures its apparel using a combination of flexible and quick sources in Europe (mostly Portugal and Spain) and low-cost sources in Asia. This contrasts with most apparel manufacturers, who have moved most of their manufacturing to Asia. About 40 percent of the manufacturing capacity is owned by Inditex, with the rest outsourced. Products with highly uncertain demand are sourced out of Europe, whereas products that are more predictable are sourced from it Asian locations. More than 40 percent of its finished-goods purchases and most of its in-house production occur after the sales season starts. This compares with less than 20 percent production after the start of a sales season for a typical retailer. This responsiveness and the postponement of decisions until alter trends are known allow Zara to reduce inventories and forecast error. Zara has also invested heavily in information technology to ensure that the latest sales data are available to drive replenishment and production decisions.

"Until 2002, Zara centralized all its European distribution and some of its global distribution through a single DC in Spain. It also had some smaller satellite DCs in Latin American countries. Shipments from the DCs to stores were made twice a week. This allowed store inventory to closely match customer demand. As Zara has grown, it has built another DC in Spain.

The following questions raise supply chain issues that are central to Zara's strategy and success:

- What advantage does Zara gain against the competition by having a very responsive supply chain? Why has Inditex chosen to have both in-house manufacturing and outsourced manufacturing? [5]
- What kind of distribution system requires maintaining this responsiveness in Zara? [5]