M.B.A. Semester–IV Examination

MANAGEMENT OF FINANCIAL SERVICES

Paper–MBA/4104/CGF

Time : Three Hours] [Maximum Marks : 70

Note :—(1) Attempt all questions.

(2) Figures to the right indicate marks.

(3) Use of factor table and scientific calculator is allowed.

SECTION–A

1. (a) Discuss the various innovative products introduced in recent times in the Indian financial service sector to meet the dynamically changing needs of the economy. Justify your comment. 14

OR

(b) Discuss the role and functions of Regulatory framework of financial services in India. 14

SECTION–B

2. (a) What are the various types of risk associated with financial services ? 7

(b) Who do you blame for the recent scam of leading nationalised bank ? Justify your answer with the help of risk associated with credit management practices of Indian Banks. 7

OR

(c) Explain the framework of the book-building method of issue of capital. 7

(d) You are a finance manager of a private limited company. The management of the company ask you to prepare a plan regarding future expansion of capital of the company. Suggest the process of issuing the capital with the different alternatives available in Indian financial services market. 7

3. (a) Discuss the key drivers for the growth of housing finance in India. 7

(b) Surya Motors is considering lease of new machine. The lease tenure is 10 years for Rs. 40,000 per year. If lease proposal is accepted it will add the revenue of Rs.85,000 per year and will result in increase in operating cost of Rs. 30,000 per year. The company is in 48% tax bracket and company requires 15% return on Investment.

Determine whether the leasing proposal of new machine will provide the required return. 7

OR

(c) National Housing Bank is an apex housing finance Institution in India. Discuss the role and functions of NHB. 7

(d) Bharat Steel Ltd. is in the business of manufacturing steel utensils. The firm is planning to diversify and add a new product line. The firm either can buy the required machinery or get it on lease.

The machine can be purchased for Rs. 15,00,000. It is expected to have a useful life of 5 years with salvage value of Rs. 1,00,000 after the expiry of 5 years. The purchase can be financed by 20% loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year-end lease rentals of Rs. 4,50,000 for 5 years.

Advise the company, which option it should choose, if :

(i) The machine will constitute a separate block for depreciation purposes; the company follows the written down value method of depreciation at 25%.

(ii) Tax rate is 35% and cost of capital is 18%.

(iii) Lease rents are to be paid at the end of the year.

(iv) Maintenance expenses estimated at Rs. 30,000 per year are to be borne by the lessee. 7

SECTION–C

4. (a) What is significance of credit rating with respect to an investor ? 7

(b) "Mutual fund is a pool of money collected for a common objective"— discuss. 7

OR

(c) What is plastic money ? Explain the disadvantages of plastic money. 7

(d) Discuss the concept of Merchant Banking. Explain its role in IPO launching process. 7

SECTION–D

5. The turnover of Rajanikant Ltd. is Rs. 60 lakh of which 80% is on credit. Debtors are allowed one month to clear off the dues. A factor is willing to advance 90% of the bills raised on credit for a fee of 2% a month plus a commission of 4% on the total amount of debts. Rajanikant Ltd. as a result of this arrangement is likely to save Rs. 21,600 annually in management costs and avoid bad debts at 1% on the credit sales. A bank has come forward to make an advance equal to 90% of the debts at an annual interest rate of 18%. However, its processing fee will be at 2% on the debts. Would you accept factoring or the offer from the bank ? 14