2008

M B A

4th Semester Examination

MANAGEMENT OF FINANCIAL SERVICES

PAPER—F404

Full Marks : 100

Time : 3 Hours

The figures in the right-hand margin indicate full marks.

Candidates are required to give their answers in their own words as far as practicable.

Illustrate the answers wherever necessary.

Write the answers to Questions of each Half in separate books.

First Half

(Marks : 50)

1. Answer any *four* from the following questions : 5×4

(a) What are the functions of the financial system in an economy?

(b) Briefly classify Financial Intermediaries and mention their role in financial system.

(c) What are the economic rationales for lease financing?

(d) What are the different aspects that the finance manager should consider for financial evaluation of lease financing?

(e) What are the features of venture capital financing?

(f) Give a brief note on Indian venture capital scenario.

(Turn Over)

2. Answer any *two* from the following questions : 10×2

(a) Briefly describe the organizational set-up of Indian Financial System and explain how the market players interact with each other in this set-up.

(b) Briefly discuss the different stages that a venture capitalist has to go through in financing a newly set-up business.

(c) Hind Construction Limited has to decide whether to purchase or acquire on lease a mini car. The cost of the mini car is Rs. 12,69,650. It has a life of 5 years. The mini car can be obtained on lease by paying equal lease rentals annually. The leasing company desires a return of 10% on the gross value of the assets. Hind Construction Limited can also obtail 100% finance from its regular banking channel. The rate of interest will be 15% p.a. and the loan will be paid in five annual equal installments, inclusive of interest. The effective tax rate of the company is 40%. For the purpose of the taxation, it is to be assumed that the asset will be written off over a period of 5 years on the straight-line basis. Hind Construction Limited requires your advice about the method of acquiring the car. Assume that the payments are made on **annuity due** method that is, **payments** (annual loan installment and the lease rental as well) **start at the beginning of the period.**

You may use the following information.

$PVIFA_{9\%,\ 4}$ y = 3.240; $PVIFA_{9\%,\ 5}$ y = 3.890, $PVIFA1_{10\%,\ 4}$ y = 3.170, $PVIFA_{10\%,\ 5}$ y = 3.791, $PVIFA_{15\%,\ 4}$ y = 2.855, $PVIFA_{15\%,\ 5}$ y = 3.352.

You may also use the following discount factors :

Discount rate	*year 1*	*year 2*	*year 3*	*year 4*	*year 5*
10%	0.91	0.83	0.75	0.68	0.62
15%	0.87	0.76	0.66	0.57	0.49
9%	0.92	0.84	0.77	0.71	0.65

[*Internal Assessment : 10 marks*]

Second Half

(Marks : 50)

3. Answer any *four* questions from the following : 5×4

(a) Discuss the benefits and limitations of credit rating.

(b) What are main elements of the NHB guidelines for extending equity support to HFCs?

(c) Explain briefly the rating methodology used by the rating agencies for manufacturing and financial services companies.

(d) Compare factoring with bills discounting.

(e) What are the points of differences between Pass Through Certificates and Pay Through Security?

(f) Explain briefly the functions of merchant bankers.

4. Answer any *two* questions from the following : 10×2

(a) Explain the types and advantages of factoring.

(b) What is securitisation? Discuss briefly its main features. Name the various parties in a securitisation transaction and briefly explain their function.

(c) Precision Instruments is in the business of manufacturing clinical instruments in the Thane district of Maharashtra. The company offers its dealers a 3% discount on cash and carry transactions. Its credit terms are 2/10 net 45. The company has been plagued by a bad debt problem averaging 2% of the credit sales for the past several years. Dealers representing approximately 10% of the total sales opt for the cash and carry offer. On an average, 50% of the receivables are paid at the end of ten days, thus availing the 2% discound. The rest of the receivables are usually paid 50 days after sales.

The company has been financing 50% of its receivables from the Bank of India at a cost of 22% p.a. The remaining half is financed through own funds whose notional cost is estimated at 24% p.a. The cost associated with credit administration totals Rs. 8 lakhs.

Imfacs, a factoring company, has approached Precision Instruments with a factoring proposal. The details are given below :

Type of contract :	Non-recourse, Advance factoring
Interest on advances :	22.5% p.a. payable in advance
Factoring Commission :	3.5% of the face value of factored receivables.
Factor Reserve :	20% (percentage applied on receivables net of commission payable)
Average maturity : period	30 days

The credit administration costs can be totally avoided when the receivables are factored. Assuming that all the figures mentioned hold good for the year 2008-09 and if projected sales for the same year is Rs. 800 lakhs, would you recommend Precision Instruments to opt for the factoring arrangement? Your recommendation must be based on a cost-benefit analysis, assuming 360 days in a year and ignoring taxes.

[*Internal Assessment : 10 marks*]
