

MBA 4th Semester Examination, 2024

MBA

PAPER — MBA-406 (A)(New)

Full Marks : 100

Time : 3 hours

The figures in the right hand margin indicate marks

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

PAPER — MBA-406A

(Financial Markets and Services)

- A. Answer any *eight* questions from the following : 5 × 8
1. Compare the money market with the capital market in terms of their purposes, instruments, maturities and risk profiles. How do these markets complement each other in the financial system ? 3 + 2

2. Analyze the role of stock exchanges in the development of a country's economy.
3. Distinguish between primary market and secondary market. What roles do they play in the process of capital formation and investment ? 3 + 2
4. Discuss the different styles of investment nurturing.
5. Discuss the various stages of Venture Capital Financing.
6. Distinguish between Factoring and Bill discounting.
7. Discuss the important factors that influence credit rating.

8. What do you mean by Recourse Factoring ?
How does it differ from the Non-Recourse Factoring ?

9. Briefly discuss the role of credit rating in the industrial development of a country.

10. Discuss the different techniques nurturing.

11. Discuss the features of financial lease.

12. Write short notes on :

(i) Leverage Mutual Fund and

(ii) Indexed Fund.

B. Answer any *four* questions from the following : 10 × 4

13. Discuss the functions of the Reserve Bank of India (RBI) in stabilizing the financial system of a country. 10

14. (i) Describe the rights and privileges that preference shareholders typically enjoy.
- (ii) What do you mean by convertibles ?
How does it differ from warrant ?
4 + (3 + 3)
15. Briefly discuss the need of factoring services with special reference to India. What are the basic differences between factoring services and forfeiting services ?
5 + 5
16. Briefly explain the methodology adopted by credit rating agencies in India. 10
17. What are the benefits associated with mutual funds investment ? What is Net Asset Value (NAV) in the context of mutual funds and why is it important for investors ?
5 + (2 + 3)

18. (i) Briefly discuss the primary functions of the Securities and Exchange Board of India (SEBI).

(ii) Write a short note on 'Underwriting activity' as an important function of a Merchant Banker.

5 + 5

[Internal Assessment – 20 Marks]

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PAPER — MBA-406B

(Strategic Financial Management)

- A. Answer any *eight* questions from the following : 5 × 8
1. Briefly state the functions of strategic financial management. 5
 2. On 31st March, 2023 the Balance Sheet of ABC Ltd. disclosed the following position :

<i>Liabilities</i>	₹	<i>Assets</i>	₹
40,000 Equity shares of Rs. 100 each fully paid	4,00,000	Goodwill	40,000
General Reserve	90,000	Other Fixed Assets	5,00,000
Profit and Loss Account	20,000	Current Assets	2,00,000
10% Debenture	1,00,000		
Current Liabilities	1,30,000		
Total	7,40,000		7,40,000

On 31st March, 2023 the goodwill of the company was valued at Rs. 50,000 while other fixed assets were valued at Rs. 3,50,000. The net profit earned by the company amounted to Rs. 51,600 for 2020-21, Rs. 52,000 for 2021-22 and Rs. 51650 for 2022-23. Every year an amount equal to 20% of the profit earned transferred to general reserve. A return of 10% on the investment is considered fair in the industry.

Compute the value of company's share by the yield method.

2 + 3

3. What do you mean by Certainty Equivalent Coefficient ? X. Co. Ltd. evaluates two mutually exclusive Projects P1 and P2. You are required to present your valuable opinion to management for decision making purposes bearing in mind that the management has made the following optimistic, most likely and pessimistic estimates of the annual cash-flow related with each of these projects.

Particulars	Project P1 ₹	Project P2 ₹
Initial cash outlay	20,000	20,000
Cash flow estimates(p.a) :		
Pessimistic	3,000	—
Most likely	4,000	4,000
Optimistic	5,000	8,000
Required Rate of		
Return (Cost of Capital)	10%	10%
Economic life	15 years	15 years

4. Write short notes on :

$$2\frac{1}{2} + 2\frac{1}{2}$$

- (i) Strategic Alliances ; and
(ii) Franchising.

5. A firm wants to acquire a new plant which requires a cash outlay of Rs. 10,000. The useful life of the plant is 2 years but there will be no salvage value. The cash flow and their related probabilities for the two years presented below.

Year I	Cash Flow (₹)	Probability
(i)	4,000	0.3
(ii)	5,500	0.4
(iii)	7,500	0.3

Year II	Cash Flow (₹)	Probability	Cash Flow (₹)	Probability	Cash Flow (₹)	Probability
(i)	2,000	0.2	6,500	0.3	8,000	0.1
(ii)	5,000	0.6	7,500	0.4	10,000	0.8
(iii)	7,500	0.2	8,000	0.3	12,000	0.1

Cost of capital is 10%. Plot the above data in the form of a decision tree and advise whether the project should be accepted or rejected.

5

6. Briefly explain the impact of GDRs on Indian Capital Market.

5

7. Explain the following :

$$2\frac{1}{2} + 2\frac{1}{2}$$

(i) Nostro and Vostro Accounts ; and

(ii) Leading and Lagging.

8. B. Ltd. is a highly successful company and wishes to expand by acquiring other companies. It expected high growth in earnings and dividends is reflected in its P/E ratio of 17. The Board of Directors of B Ltd. has been advised that if it were to take over firms with a lower P/E ratio

than its own, using a share-for-share exchange, then it could increase its reported earnings per share. C Ltd. has been suggested as a possible target for a take-over, which has a P/E ratio of 10 and 1,00,000 shares in issue with a share price of ₹ 15. B Ltd. has 5,00,000 shares in issue with a share price of ₹ 12. Calculate the change in earnings per share of B Ltd. if it acquires the whole of C Ltd. by issuing shares at its market price of ₹ 12. Assume the price of B Ltd. shares remains constant.

5

9. Briefly explain the concept of Pitch Presentation in context of Start-up Business.

5

10. Briefly state the conditions when reverse merger takes place.

5

11. Trust Ltd. is deciding whether to payout ₹ 4,80,000 in excess cash in the form of an extra dividend or go for a share repurchase. Current earnings are ₹ 2.40 per share and the stock sells for ₹ 24. The balance sheet (market value) currently is as follows :

Balance Sheet

(₹ '000)			
Equity	2,400	Assets other	
		than cash	2,560
Debt	640	Cash	480
	3,040		3,040

Evaluate the two alternatives in terms of the effect on the price per share of the stock, the EPS and the P/E ratio. Which alternative do you recommend? Give reasons.

5

12. Explain the following :

$$2\frac{1}{2} + 2\frac{1}{2}$$

(i) Management Buyout ; and

(ii) Equity Carveout.

B. Answer any *four* questions from the following :

10 × 4

13. Balance sheet of Duranto Ltd. as on 31st March, 2016.

<i>Liabilities</i>	₹ (in akhs)	<i>Assets</i>	₹ (in lakhs)
Equity share capital :		Land & Building	100
Fully paid up shares of		Plant and Machinery	130
Rs. 100 each	200	Patent and Trade marks	20
General Reserve	40	Stock	48
Profit and Loss Account	32	Sundry Debtors	88
Sundry Creditors	128	Bank Balance	52
Provisions for		Preliminary Expenses	22
Income tax	60		
	460		460

The expert valuer valued the land and building at Rs. 240 lakhs, goodwill at Rs. 160 lakh and Plant and Machinery at Rs. 120 lakhs. Out of the total debtors, it is found that debtors for Rs. 8 lakhs are bad. The profits of the company have been as follows :

For the year 2013-14 Rs. 92 lakhs, For the year 2014-15 Rs. 88 lakhs, For the year 2015-16 Rs. 96 lakhs.

The company follows the practice of transferring 25% of profits to general reserve. Similar type of Companies earn at 10% of the value of their shares. Similar type of companies earn at 10% of the value of their shares. Plant and machinery and land and building have been depreciated at 15% and 10% respectively, Ascertain the value of shares of the company under : (i) Intrinsic value method, (ii) Yield value method and (iii) Fair value method.

14. Discuss the Defensive Measures in Hostile Takeover Bids. 10

15. The following is the Balance-sheet of XYZ Ltd. as on March 31st, 2013.

<i>Liabilities</i>	₹	<i>Assets</i>	₹
6 lakh Equity Share of ₹ 100/ each	600	Land & Building	200
2 lakh 14% Preference shares of ₹ 100/ each	200	Plant and Machinery	300
13% Debentures	200	Furniture & Fixtures	50
Debenture Interest accrued and Payable	26	Inventory	150
Loan from Bank	74	Sundry Debtors	70
Trade Creditors	300	Cash at Bank	130
		Preliminary Expenses	10
		Cost of Issue Debentures	5
		Profit & Loss A/c	485
	1400		1400

The Company did not perform well and has suffered sizable losses during the last few years.

However, it is now felt that the company can be nursed back to health by proper financial restructuring and consequently the following scheme of reconstruction has been devised :

- (i) Equity shares are to be reduced to ₹ 25/- per share, fully paid up ;
- (ii) Preference shares are to be reduced (with Dividend rate of 10%) to equal number of shares of ₹ 50 each, fully paid up.
- (iii) Debenture holders have agreed to forego interest accrued to them. Beside this, they have agreed to accept new debentures carrying a coupon rate of 90%.
- (iv) Trade creditors have agreed to forgo 25 per cent of their existing claim ; for the balance sum they have agreed to convert their claims into equity shares of ₹ 25/- each.

- (v) In order to make payment for bank loan and augment the working capital, the company issues 6 lakh equity shares at ₹25/- each ; the entire sum is required to be paid on application. The existing shareholders have agreed to subscribe to the new issue.
- (vi) While Land and Building is to be revalued at ₹250 lakh, Plant & Machinery is to be written down to ₹104 lakh. A provision amounting to ₹5 lakh is to be made for bad and doubtful debts.

You are required to show the impact of financial restructuring/reconstruction. Also, prepare the new balance sheet assuming the scheme of reconstruction is implemented in letter and spirit. 10

16. What is covered interest arbitrage ?

A forex trader wants to earn arbitrage gain. He receives the following data and quotes from forex and money market : 10

Spot rate of US\$ ₹43.30/\$

Annualized interest rate for

six months-US\$ 4%

6 months forward rate of US\$ ₹43.70/\$

Annualized interest rate for

six months-Rupee 8%

What are the transactions the trader will execute to receive arbitrage gain if he is willing to borrow ₹43.30 million or US\$1 million, assuming that no transaction cost or taxes exist ?

10

17. What do you mean by Leveraged Buyout (LBO) ? Mention the steps in LBO analysis.

How LBOs create value ? 3 + 4 + 3

18. Explain some of the innovative source for funding a start-up.

10

[Internal Assessment – 20 Marks]