

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 3 – EXAMINATION – SUMMER 2019

Subject Code: 2830202

Date: 09/05/2019

Subject Name: Management of Financial Services

Time: 02:30 PM To 05:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

6

Q.1 (a)

Find the odd one out

- | | | |
|----|---------------------------|----------------------|
| 1. | A. Commercial paper | B. Share certificate |
| 2. | C. Certificate of deposit | D. Treasury bill |

Which of the following is a fee based service

- | | | |
|----|-----------------------------|-----------------|
| 2. | A. Hire purchase | B. Leasing |
| 3. | C. Capital issue management | D. Underwriting |

The basic regulatory authority for mutual funds and stock markets lies with the

- | | | |
|----|--------------------------|---|
| 3. | A. Stock Exchanges | B. Government of India |
| 4. | C. Reserve Bank of India | D. Securities and Exchange Board of India |

Credit rating indicates _____ of a company

- | | | |
|----|--------------------------|-----------------------|
| 4. | A. Financial status | B. Overall efficiency |
| 5. | C. Management efficiency | D. All of the above |

_____ is the venture capital assistance at the stage where the project started to fetch profit but not reached in its full efficiency

- | | | |
|----|---------------------|----------------------|
| 5. | A. Start-up capital | B. Mezzanine capital |
| 6. | C. Bridge capital | D. Seed capital |

_____ is an offer document used in public issue made under book building method

- | | | |
|----|------------------------------------|------------------------|
| 6. | A. Red herring prospectus | B. Abridged prospectus |
| 7. | C. Statement in lieu of prospectus | D. Shelf prospectus |

Q.1

(b) Explain the following terms:

1. Rights issue
2. Underwriters
3. Letter of credit
4. AMC

04

Q.1

(C) Define Merchant Banking and enumerate the services offered by merchant bankers in India?

04

(b) Differentiate between factoring and forfeiting and evaluate the reason for slow growth of factoring in India **07**

Q.3	(a) Critically examine the structure and performance of the Indian financial system. Explain the organizational framework of the financial services delivery mechanism in India.	07
	(b) Explain the money market instruments available in India.	07

Q.3	(a)	“Stock Exchanges are the barometers of the economy.” Critically examine the functioning of the stock exchanges in India.	07
	(b)	Explain the role of RBI in regulating and supervising NBFCs. How far the supervision of RBI was effective?	07

Q.4	(a) Define a Depository Participant and explain the duties and responsibilities of DPs.	07
	(b) What is Portfolio Management? Explain the obligations and responsibilities of Portfolio manager.	07

Q.4	(a) Explain in detail the concept of Mortgage Backed Securitization.	07
	(b) Give an overview of foreign exchange market in India. Explain the participants of foreign exchange markets.	07

The Indian banking sector is facing a crisis on an unprecedented scale. The problem becomes peculiar when more facts are brought to light. Indian banking sector can be divided into two categories. There are private sector banks, and there are public sector banks. The private sector banks seem to be performing well. However, public sector banks have become a menace. The non-performing assets in these banks are rising at an alarming rate. As a result, **the Indian government has announced a \$19 billion recapitalization plan. This plan is meant to give the banks some breathing space while they get their finances in order.** However, recapitalizing banks does not seem to be working. The recent fiasco at the Punjab National Bank has revealed that the problems facing Indian banking are structural in nature. They cannot be solved using cosmetic measures.

2

Some of the possible benefits that will accrue as a result of privatization of banks as well as some of the possible hindrances.

Imposing Morality on Finance

Indian banking sector was earlier in private hands. However, during the 1970's, the Indian government was of the opinion that banks favor the rich and that the poor must also be given access to cheap credit. With this view, several banks were nationalized. It is a huge irony that the banks which were nationalized based on pro-poor agenda are today facing mounting losses because they have loaned out huge sums of money to the rich without proper diligence.

The present-day Prime Minister of India, Mr. Narendra Modi firmly believes that the job of the government is to govern. He also believes that the government has no business meddling in any other business. That does not seem to have prompted him to privatize the twenty-one public sector banks which are under the control of the government today. These banks account for over 70% of all credit creation in India. Also, since these banks do not ration their credit as per the market mechanism, the government meddling leads to gross mal-investments. In simple words, this means that poor projects with questionable rates of return are funded by these banks because the system is run by political connections and corruption.

Benefits of Privatization

Bank privatization is likely to provide a lot of different benefits. Some of the most obvious ones are listed below:

1. Increased Efficiency:

The private sector banks in India are already much more advanced than the public sector banks. Even though the nationalized banks have a large depositor base, they are always playing a game of catch up. This situation is likely to worsen over the years. This is because foreign investments are now being allowed in private sector banks as well. Hence, foreign banks are likely to acquire stakes in some of these banks. They will also introduce some of the operational efficiency that foreign banks are known for, in Indian banks. On the other hand, private sector banks are reeling with loan frauds and so on. The fact of the matter is that these banks are simply not competitive.

2. Compliance and Risk Mitigation:

Experts in the banking sector are bewildered at the inefficiency displayed at Punjab National Bank. How is it that with the connivance of a few junior level bank officials, a businessman was able to defraud the bank of \$1.8 billion? This sort of incident is never reported at banks like Citibank and J.P. Morgan even though they operate in several nations and have more complex operations. Privatization of banks will ensure that they benefit from compliance norms and risk mitigation processes followed at these banks.

Problems Associated With Privatization

At the current moment, it does seem like privatization is the only viable solution. However, that is not the case. There are several problems associated with privatization.

No Buyers:

The Indian banking sector has received some very bad PR in the recent past. The entire world knows that the loan book of these banks is less than optimum. It is also an open secret that had these banks not been backed by the government, most of them would have been bankrupt by now. The balance sheets of these banks show positive equity only because they are in possession of some of the priciest real estate that the government owns. It is obvious that the government would not like to sell its real estate. Hence, the only thing that they would be selling is a banking license with a dysfunctional portfolio. Most analysts in the banking sector are of the opinion that the government would be lucky to find even a single buyer given the state of affairs at these banks.

Worker Unions:

Also, these government banks have a huge payroll. Their employees are considered government employees and cannot be easily sacked. The moment they hear about privatization, it is likely that they will panic. This is likely to start protests and political fights all over the nation. Managing the workforce will be one of the biggest challenges that the Indian government will face if they decide to privatize these ailing banks.

Q.1 Suggest the measures the government should take to save public money from getting swindled due to corrupt practices.

Q.2 Give your opinion in smooth functioning of the banking system in India and prevention of mounting NPAs.

OR

Q.5

The Problem with Farm Loan Waivers

14

The farmers of the affluent Indian state of Maharashtra are once again protesting. The reason behind their protests is that they want their farm loans to be waived off. Farm loan waivers are not at all new to India. The past Prime Minister, Dr. Manmohan Singh won a second term because he waived off loans worth Rs. 72,000 crores. More recently farm loans have been waived off in states like Uttar Pradesh and Tamil Nadu.

Since farm loans have been waived off in the past, farmers are trying to pressurize present governments to give in to their demands. However, the situation has become so grave that RBI governor Urjit Patel had to intervene in the matter. He has asked all political parties to resist the temptation to waive off loans using public money for electoral gains.

Let's have a closer look at these farm loan waiver schemes and how they affect the economy.

Political Benefits

Farm loan waivers have been linked to political benefits for a long time now. The reason is that farming community forms the majority of the vote bank in India. About 70% of the population depends on agriculture for their subsistence. As a result, if this community is unhappy with a government, they are likely to lose the election. This is what happened to the BJP led government in 1999 wherein they failed to get the farmers on their side. The other political party, i.e., Indian National Congress has used farm loan waivers and schemes such as rural employment guarantee scheme to their benefit. However, these schemes cause massive losses to the exchequer. Hence, it is imperative that the banks, as well as the governments, stop waiving off loans if the nation has to stay solvent.

Moral Hazard

The biggest issue with loan waivers is that it promotes irresponsible behavior. Consider the case of two farmers. One farmer has been diligent with his/her money and has made all repayments on time. On the other hand, the second farmer has not made any repayments on time. However, due to political pressure, the second farmer is also able to discharge his debt without making any payment. Obviously, this would leave a bad taste in the mouth of the first farmer. The next time, the first farmer will also start obtaining loans and willfully defaulting on them. Later, these farmers can also use the political clout of the farming community to escape without paying the debt.

This is exactly what is happening right now in India. Many farmers are obtaining farm loans and using them for non-agricultural purposes. When they are unable to pay off the loan, they start using political organizations to get their loans waived. If this behavior is encouraged, very soon 100% of the farm loans will be in default.

Fiscal Deficit

Obviously, banks cannot lose money on their loans. If they have made loans, then they have to recover the money somehow. Hence, if the farmers are not able to pay back the loans, the government has to step in and make the payments. The problem is that the government itself does not have the money to pay the loans. The government makes the payment by borrowing money from financiers. This money adds to the national debt and has to be paid back with interest. Many economists are concerned that farm loan waivers will have an adverse effect on the already fragile fiscal deficit situation in India. The problem with farm loan waivers is that it puts more pressure on the tax payers in India. Less than 3% of India's population pays taxes. If popular measures like farm loan waivers are enacted more often, these taxpayers may try to exit the country to avoid paying off other people's loans.

Developing Infrastructure

The problem with farm loan waivers is not the amount of money which is spent. Instead, the manner in which this money is spent is incorrect. If the waivers given by all governments are combined, the amount of money spent will exceed the amount of money spent in building agricultural infrastructure. This is inefficient utilization of resources.

Had the money been spent on infrastructure instead, the need for farm loan waivers would have been drastically reduced in the future. At the present moment, the state has already lost a lot of money. However, the problem has still not been fixed. Farm loan waiver is simply a populist move meant to garner more votes. From an economic point of view, it is a complete disaster.

Crop Insurance

Crop insurance is an effective way of preventing farmer insolvencies due to poor monsoons. This model is successfully working in many parts of the world where the economy is dependent on agriculture. If the government wants to help the farmers, it can subsidize the payment of insurance premiums and encourage enrollment into this scheme. At the present moment, many farmers are taking farm loans for non-agricultural purposes. Later, they blame the weather and the poor yield to apply political pressure and to get the loans waived off.

To sum it up, farm loan waivers are not good for the economy. They benefit one section of the economy at the expense of everyone else. Such schemes are likely to promote more delinquency since people will start believing that they can get away with non-payment of loans.

Q.1 Adjudge the stand of Government and farmers in the issue of loan waiving.

Q.2 Explain what stern steps should be taken before providing loan to the public.

Q.3 State how non payment of loans are affecting our economy.