SVKM's NMIMS University
SCHOOL OF DISTANCE LEARNING

COURSE : ADBFM | **DATE :June 3, 2008**
SUBJECT : Investment Decision in Banking | **TIME :3.00 p.m. to 6.00 pm**
MAX. MARKS: 100

Instructions:

1) **The question paper consists of three parts A, B & C**
2) **Answer the questions in each part as directed.**
3) **Figures in brackets in the margin indicate full marks.**

Part A
Basic Concepts

Answer any Five of the following questions **(5 x 10 = 50 Marks)**

1. Distinguish between Shares and Debentures. State and explain the different kinds of debentures which can be offered by a Company.

2. What are the major types of Risk for banks for their Foreign Exchange dealings? What are the steps which are taken by banks for managing Mismatch Risk?

3. Describe the different kinds of Debt Instruments prevalent in Indian Debt Markets. Describe their key terms and characteristics.

4. What do understand by Ready Forward Transactions? Why should the banks undertake Ready Forward Transactions? What are the securities eligible for Ready Forward Transactions?

5. Define Derivatives. What could be the underlying variables of Derivatives? Explain the fundamental differences between Futures and Options.

6. Define the concept of Securitization. Who are the players involved in the process of securitization? Explain the following types of Securitization Deals:
   Mortgage Backed Securities
   Asset Backed Securities
   Pass Through Certificate

7. Briefly explain the criteria employed for project financing under the following parameters :
   Market Appraisal
   Technical Appraisal
   Financial Appraisal
   Managerial Appraisal.

8. Define Leasing and Hire Purchase. What are the differences between the two types of transactions?

Part B : Problems and Situational Analysis

Answer any two of the following questions **(2 x 15 = 30 marks)**

9. a) What do understand by Exchange Rate in foreign currency dealings? Explain the methods of quoting exchange rate.
   b) The Exchange Rate in Mumbai Interbank Market and London Market are as follows :

   Interbank market Mumbai
   US $ 1 = Rs. 41.2550-41.2650

   London Market
   US $ 1 = FRF 6.0500-6.0550
   Calculate the direct rate between FRF and INR

10. a) State and explain Index Futures? What are the risks of trading in Index Future?
    b) July 1, 1999 : You sell Infosys of Rs. 10 lakhs
    The expiry date of Nifty July futures is July 30, 1999.
    Nifty spot is at Rs. 1,83.20 and Nifty futures are trading at Rs. 1,200.
    The beta of Infosys is 1.2

    Hence, you need a long position of 1.2 * 10 lakhs = 12 lakhs on the index futures, that is, 12 Market lots.

    July 30, 1999: Nifty rises by 10.7 percent due to stable political outlook.
    On July 30, 1999 Nifty spot/ Nifty June futures closed at Rs. 1,310.15

    Question : If you unwound both positions work out your loss/ gain on Infosys / Nifty.

11. M/S System & Technology has furnished the following details relating to Working Capital Requirements from a Bank:

Current Assets Holding – Projected	Rs In Lacs
Inventory	45
Debtors	15
Receivables	10
Cash	10
Others	8
Total	**88**

Questions:

a. Assess the MPBF using the second method of Tandon Committee (Current Liabilities other than bank borrowings are Rs 30 lacs).
b. What will be the MPBF if the borrower brings Rs. 28 lacs as his Margin?

12. Sales of an SSI unit are projected at Rs.400 lacs for the current year. As per Nayak Committee Method, how much working capital the unit it can get from a bank? If the firm brings only Rs.30 lacs as its margin, how much limit it can get?

Part C : Case Analysis

13. **Read the following case carefully.**

The wave of global consolidation process blurred the distinction between the commercial banks, investment banks and insurance companies creating more conglomerates like Citigroup, the first company in the Us to combine an insurer with a commercial bank, an investment bank and a securities brokerage firm. The banking system is in the midst of a technological revolution with banks offering anywhere banking, 24/7 and also attempting to become a one stop financial shop offering all financial solutions.

"The banking industry worldwide is not undergoing a process of fundamental change that will reshape the way in which global financial services are provided. Not all banks will survive. New technology, globalization, non-bank competition, deregulation and the opening up of previously protected markets are combining to force banks to re-examine one of the most basic aspects of their business - the flow and management of information."

Universal banking has been in the air for long. ICICI has used every forum to acquaint people with the concept and likely benefits of universal banking for a DFI like itself. Interest in universal banking surged in India following governing board level approval for ICICI's plan to merge itself with ICICI Bank in October 2001. Simply put, a universal bank is supermarket for financial products. Under one roof, corporate can get loans and avail of other handy services, while individuals can bank and borrow. To convert itself into a universal bank, an entity has to negotiate several regulatory requirements. Therefore, universal banks in the Indian context have been in the form of group offering a variety of services under an umbrella brand such as ICICI or HDFC. Even finance companies such as Sundaram Finance use the goodwill associated with their brand, and the years of information and insight, to offer a number of services under an umbrella brand. After years of lobbying, ICICI took the step to convert itself into a universal bank.

The financial institutions have an option to transform into a bank provided the prudential norms as applicable to banks are fully satisfied. Though it was recognized long back that universal banking is desirable from the point of view of efficiency of resource use, there was need for caution while moving towards such a system by banks and financial institutions. Major areas were status of financial sector reforms, the state of preparedness of concerned institutions, the evolution of regulatory regime and the viable transition path for the institutions desirous of becoming universal banks.

Questions :

Answr the following questions : **(4 x 5= 20 marks)**

i. What are the forces that are going to transform the commercial banking industry across the globe?

ii. Discuss the threats and opportunities for banks.

iii. Define universal banking. How is it different from narrow banking?

iv. Discuss the constraints for adoption of universal banking in India.

END OF QUESTION PAPER