

**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) Annuity table, scientific calculator allowed.

**SECTION—A**

1. (a) Classify the various financial intermediaries functioning in the Indian financial system and trace out development of financial system in India. 14

**OR**

- (b) Briefly explain the major constituents of financial services market and what is the need for regulating the financial services sector in India. 14

**SECTION—B**

2. (a) Explain the mechanism of credit card operation. 7
- (b) Mr. Aum wants to invest his savings into mutual fund. There are many types of mutual fund schemes available. Mr. Aum is facing difficulty in the selection of mutual fund which gives higher return with having less risk. As a financial market expert advice Mr. Aum which factors should be considered while choosing a mutual fund ? Justify your answer. 7

**OR**

- (c) What are the activities connected with 'issue management and underwriting' of merchant bankers ? 7
- (d) Credit rating aims at providing an opinion on the relative credit risk (or default risk) associated with an instrument. This calls for estimating the cash generation capacity of the issuer, through primary cash flow operations, vis-a-vis its requirements for servicing obligations over the tenure of the instrument. While doing so, an assessment is also made of the secondary cash flow available through the sale of marketable securities. In the context above case determine the major factors should be considered by the credit rating agency to give ranking to the company. 7
3. (a) Outline the steps in Discounting and Purchasing of bills. 7
- (b) The turnover of Ajay Ltd. is Rs. 60 lakhs 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. Ajay 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 ? 7

**OR**

- (c) Critically analyse the role of forfeiting as a source of financing. 7
- (d) Venture capital finance is an instrument that works hands in hands technological development stimulating creativity and innovation and nurturing entrepreneurship. Thus, efforts are required by the Government, financial institutions, private sector, and other agencies to create environment for the growth of venture capital in India. Give various suggestions to develop venture capital market in India. 7

**SECTION—C**

4. (a) Explain the various types of risk involved in financial services. 7
- (b) Describe the procedure for online trading and bring out its merits. 7

**OR**

- (c) Discuss in detail the concept of convertible bond with the help of suitable example. 7
- (d) Describe the procedure for registration of Stock brokers and bring out the code of conduct for stock brokers in India. 7

**SECTION—D**

5. The leasing of an equipment having a purchase price of Rs. 35,00,000 is being considered by a firm. The equipment, having an estimated economic life of 5 years, is expected to generate annual lease rentals of the order of Rs. 12,00,000 to the leasing company. Depreciation @ 25% is to be allowed as specified by income tax rules.

Evaluate the desirability of the lease option to the firm, assuming that the firm's marginal corporate tax rate is 50% and that the after-tax borrowing rate is 8%.

Note : (i) PV tables at 8% reveal the following :

Year	: 1	2	3	4	5
PVF	: 0.926	0.857	0.794	0.735	0.681

- (ii) Depreciation is charged @ WDV method. 14