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4213

Your Roll No

MBA (FT)

A

Paper F-3105— MANAGEMENT OF FINANCIAL SERVICES

Time : 3 hours

Maximum Marks : 70

(Write your Roll No. on the top immediately on receipt of this question paper.)

Attempt any five questions. All questions carry equal marks.

1. It is observed that flaws with securitization are most apparent when examining loans to very risky borrowers where information asymmetries are most severe. Elucidate with examples in the context of the present crisis. How would you structure a securitization deal? Give an example to illustrate your answer.
2. Do you think S&P and Moody's and Fitch should issue an advisory opinion discouraging risk managers from depending solely on their opinions and ratings as the foundations for risk model inputs. Is it mandatory for the rating agencies to follow international norms? Can the rating agencies demand information as a matter of right? In this context also discuss the Altman's model of bankruptcy.
3. ABC Company wishes to acquire a Rs100,000 press, which has a useful life of 8 years. At the end of this time, its scrap value will be Rs 20,000. The asset falls into the 5-year property class for cost recovery purposes. The company can use either lease or debt financing. Lease payments of Rs14,000 at the beginning of each of the 8 years would be required. If debt financed, the interest rate would be 10 percent and debt payments would be due at the beginning of each of the 8 years. The company is in a 15 percent tax bracket. Which method of financing has the lower present value of cash outflows?

Turn over

4. The following data are pertinent for companies A and B:

	Company A	Company B
Present earnings (in millions)	Rs 20	Rs 4
Shares (in millions)	10	1
Price/earnings ratio	18x	10x

- If the two companies were to merge and the exchange ratio were 1 share of company A for each share of company B, what would be the initial impact on earnings per share of the two companies? What is the market-value exchange ratio? Is a merger likely to take place?
 - If the exchange ratio were 2 shares of company A for each share of company B, what would happen with respect to part a?
 - If the exchange ratio were 1.5 shares of company A for each share of company B, what would happen?
 - What exchange ratio would you suggest?
5. a) How does a bank determine its Gap? Interpret a negative and a positive Gap. Briefly discuss some limitations of measuring a bank's gap.
- b) How can bank integrate their asset liability management?
- c) What is the value of the Gap ratio to interest rate risk managers and regulators?
- d) The balance sheet of a financial institution has rate-sensitive assets of Rs 40 million and rate-sensitive liabilities of Rs 70 million. Calculate the income gap for the Financial Institution if interest rates rise from 4.5 % to 5.1%. What is the expected change in income?

6. a) Distinguish between merchant banking and investment banking.
Elucidate with examples.

b) 'Merchant bankers are the backbone of the modern banking practices.'
In this context discuss the functions of merchant bankers.