

Internal Assessment Test - I

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| Sub: | Investment Banking and Financial Services | Code: | 16MBAFM 302 |
| Date: | 26/9/17 | Duration: | 90 mins |
| | | Max Marks: | 40 |
| | | Sem: | III |
| | | Branch: | MBA |

| | | OBE | |
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| | | CO | RBT |
| Part A - Answer Any Two Full Questions (16*02=32 Marks) | | | |
| 1 | (a) What is Investment Banking? | [02] | CO1 L1 |
| | (b) List the functions of investment bank, and differentiate Investment bank from commercial bank. | [06] | CO2 L1, L2 |
| | (c) Describe the services rendered by the investment banker. | [08] | CO1 L1 |
| 2 | (a) Define merchant banker. | [02] | CO2 L1 |
| | (b) Discuss underwriting and its types. | [06] | CO1 L2 |
| | (c) Describe any 5 services rendered by the merchant banker. | [08] | CO3 L2 |
| 3 | (a) Define depository. | [02] | CO3 L1 |
| | (b) List the objectives of depository and distinguish depository with bank | [06] | CO2 L1, L2 |
| | (c) Explain the depositories in India.. | [08] | CO1 L4 |
| Part B - Compulsory (01*08=08 marks) | | | |
| 4 | (a) Summaries the SEBI guidelines for Merchant Banker. | [04] | CO1 L2 |
| | (b) Explain the types of investment bankers. | [04] | CO3 L4 |

| Course Outcomes | | PO1 | PO2 | PO3 | PO4 | PO5 | PO6 | PO7 | PO8 | PO9 |
|-----------------|--|---------|-----|--------|-----|-----|-----|-----|-----|-----|
| CO1: | To provide an understanding of the functioning of investment banking | 1a, 1b, | 1c | 4a, 4b | | | | | | |
| CO2: | To understand the concept of merchant banking and their services in issue management | 2a,2 b | 2c | | | | | | | |
| CO3: | To explain the role of depositories | 3a, | | | | | | | | |
| CO4: | To familiarize the students with working of Housing finance and non banking finance companies | | | | | | | | | |
| CO5: | To understand the operations of factoring , venture capital and securitization of debt | | | | | | | | | |
| CO6: | To provide an in depth understanding of the financial services like c leasing and hire purchase. | | | | | | | | | |

| Cognitive level | KEYWORDS |
|-----------------|---|
| L1 | List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc. |
| L2 | summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend |
| L3 | Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover. |
| L4 | Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer. |
| L5 | Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize. |

PO1 - *Engineering knowledge*; PO2 - *Problem analysis*; PO3 - *Design/development of solutions*; PO4 - *Conduct investigations of complex problems*; PO5 - *Modern tool usage*; PO6 - *The Engineer and society*; PO7- *Environment and sustainability*; PO8 - *Ethics*; PO9 - *Individual and team work*; PO10 - *Communication*; PO11 - *Project management and finance*; PO12 - *Life-long learning*

1. **A) Investment Banking** is concerned with primary function of assisting capital market in the movement of financial resources from THOSE WHO HAVE (INVESTORS) AND THOSE WHO WANT THEM.

Investment banks are financial intermediaries in the business of providing (**2 marks**)

- ✓ investment
- ✓ and financial advisory services to **companies, governments and institutional investors**

b) Functions of investment bank and distinguish Investment bank from commercial bank(6 marks)

The following are the various functions of Investment Banking

Consultative, Transactions, Underwriting, Distributing, Advising, Making A Market

Difference

| | |
|--|--|
| Investment banking | Commercial bank |
| Investment banks do not collect deposits | Commercial banks mainly deal with the collection of deposits |
| Investment banks cannot engage in commercial activity | An Institution engaged in commercial banking can engage in Investment banking. |
| Investment banks assume the risk on behalf of its clients and investing public | Commercial banks have no such risk. |
| The clients of Investment banks are very high networth ones. In many cases the net worth run to several hundred crores. | The clients of commercial banks are individuals, firms and body corporates rarely of such high net worth |
| The objective of merchant banks is to offer advisory services and such other functions on behalf of corporates and business houses | The important objective of commercial banks is to mobilise savings of the people to the extent possible |

c) Services rendered by the merchant banker(8 marks)

1.Fund-raising Services: IPO, FPO, QIP, Right issue, Preferential allotments, FCCB, GDR

Advisory services: *Export and Project Finance, Mergers and Acquisitions (M & A),Promoter and Acquisition-financing Advisory, Private-equity Advisory, Infrastructure Advisory, Strategic Advisory Services, Debt Syndication and Structured Finance, Financial Restructuring and Turnaround Financing*

2a) **Merchant Banker - Definition:** According to SEBI Merchant banker .(2 marks)

It defines merchant banker as “ any person who is engaged in the business of issue management either by making arrangement regarding selling, buying or subscribing to **securities** as manager, consultant, advisor or rendering corporate advisory services in relation to such issue management

b) **Meaning:** Underwriting is a **guarantee** given by the underwriter to take up or whole or part of the issue of securities not subscribed by the public. It is a **marketing technique** whereby corporate enterprises are able to sell their securities to the public and thereby achieve success in the public issue. The service is utilized by corporates in order to procure the necessary funds. (**6 marks**)

Types of underwriting:

Types of underwriters:

Firm underwriting, Sub underwriting, Joint underwriting, Syndicate underwriting

c) **The services of merchant Bankers are described in detailed in the following sections(8 marks)**

- Corporate counselling
- Project counselling
- Loan syndication
- Issue management
- Underwriting of public issue
- Managers, consultants or advisers to the issue
- Portfolio management
- Advisory services relating to mergers and take overs
- Off shore finances
- Non resident Investment

3a) **The term depository** is defined as “a central location for keeping securities on deposit”. It is also defined as “a facility for holding securities, either in certificated or uncertificated form to enable book entry transfer of securities”.(**2 marks**)

It is understood from the above two definitions that the depository is a place where securities are stored, recorded in the books on behalf of the investors.

Therefore, a depository can be defined as, “an institution which transfers the ownership of securities in electronic mode on behalf of its members”.

b) OBJECTIVES of Depositories(6 marks)

Reduce the time for transfer of securities.

Avoid the risk of settlement of securities.

Enhance **liquidity** and efficiency.

Reduce cost of transaction for the investor.

Create a **system** for the **central handling** of all securities.

Promote the **country's competitiveness** by complying with **global standards**.

Provide **service infrastructure** in a capital market.

Difference between depository and bank

| Banks | Depository |
|--|--|
| . Hold funds in accounts on behalf of customers | Hold securities in accounts on behalf of investors |
| Safe keeping of money | Safe keeping of securities |
| Transfer of funds between accounts on the instructions of account holders | Transfer of securities between accounts on the instruction of investors |
| Physical handling of funds is avoided | Physical handling of securities is avoided |
| Provides safe and custody of funds | Provides safety and custody of securities |

c) Depositories in India (8 marks)

The depository model adopted in India provides for a competitive multi-depository system. There can be various entities providing depository services. Such system is known as Multi-Depository System.

At present two Depositories are registered with SEBI



NATIONAL SECURITIES DEPOSITORIES LIMITED

NSDL is the first and largest depository in India, and established in August 1996

It has 288 depository Participants (as on Feb 2017)

CENTRAL DEPOSITORY SERVICES (INDIA) LIMITED(CDSL)

This is the second depository in India.

This was formed and registered in 1999.

It has 563 DPs as on Feb 2017

4 a) SEBI guidelines for merchant bankers: (4 marks)

Merchant banking has been statutorily brought within the framework of the Securities and Exchange Board (SEBI) of India under SEBI merchant Banking regulations , 1992.

In terms of the guidelines issued during April 1990, **all merchant bankers will require authorisation by SEBI to carry out business.**

The criteria for authorisation include:

Professional qualification in finance, law or business management;

Infrastructure like adequate office space, equipment and manpower

Employment of two persons who have the experience to conduct the business of merchant bankers.

Capital adequacy

Past track record , experience, general reputation and fairness in all transactions.

2. SEBI issued further guidelines classifying the merchant bankers into 4 categories based on the nature and range of activities and their responsibilities to SEBI investors and issuers of securities. The following activities of merchant bankers are as follows:

Category I : the first category of merchant bankers who carry on any activity of issue management which consists of:

preparation of prospectus,
and other information relating to the issue,
determining capital structure,
tie up of financiers and
final allotment and

3. An initial authorisation fee, an annual fee and renewal fee may be collected by SEBI.

4. All issues must be managed by atleast one authorised banker, functioning as the sole manager or the lead manager.

Ordinarily not more than two merchant bankers should be associated as lead managers. But , if the issue size is over Rs 100 crores and above, the number of lead managers may go up to 4. The **specific responsibilities** of each lead manager must be **submitted to SEBI** prior to the issue

5. The lead merchant banker holding a certificate under **category I** shall accept a minimum underwriting obligation of **5% of the total underwriting commission or Rs 25 Lakhs whichever is less.**

6. Each merchant banker is required to furnish to the **SEBI half yearly unaudited financial results** when required by it with a view to **monitor the adequacy of the merchant banker.**

SEBI has prescribed a **code of conduct** to the merchant bankers.

The merchant banker must perform his duties with **highest standards of integrity** and fairness in all his dealings.

He will **render at all times high standards** of service, exercise due diligence, ensure **proper care and exercise** independent professional judgement.

The merchant banker and **his personnel will act in an ethical manner** in all his dealings with the investors, clients and fellow bankers.

b) Types of Investment Banks (4 marks)

Types of Investment Banks

Full service global investment banks

Regional investment banks

Boutique firms

1. Full-service global-investment banks which operate on a global basis and provide a complete set of services to their clients. These are large investment firms that serve large corporates, usually multinational corporations.

Regional-investment banks concentrated in a particular region with specialised geographic knowledge and a variety of product offerings. These firms are also known as 'speciality investment banks.'

Boutique Investment Banking:

Boutique firms are small investment banks organised at a local level and specialise in a particular industry or product. They are independent firms whose focus is on advisory services such as M&A. Because of their expertise, they are better advisors in particular deals. They provide personalised services to their clients and try to be more of partners rather than merely being advisors