CMR INSTITUTE OF TECHNOLOGY

Scheme Of Evaluation
VTU Examination

		Code:
	Sem: III	**Branch:**
3 hours	Max Marks: 100	

Question	Description	Marks
1a	The three objectives of monetary policy are controlling inflation, managing employment levels, and maintaining long term interest rates. The Fed implements monetary policy through open market operations, reserve requirements, discount rates, the federal funds rate, and inflation targeting.	3
1b	Internet Banking, also known as net-banking or online banking, is an electronic payment system that enables the customer of a bank or a financial institution to make financial or non-financial transactions online via the internet. ... It is not just convenient but also a secure method of banking. Internet Banking National Electronic Fund Transfer (NEFT) National Electronic Funds Transfer (NEFT) is a nation-wide payment system facilitating one-to-one funds transfer. . Real Time Gross Settlement (RTGS) ... Electronic Clearing System (ECS) ... Immediate Payment Service (IMPS) ...	7

1c	a) **Corporate counseling**- Corporate counseling covers counseling in the form of **project counseling, capital restructuring, project management, public issue management, loan syndication, working capital, fixed deposit, lease financing, acceptance credit etc.** The scope of corporate counseling is limited to **giving suggestions and opinions to the client and help taking actions to solve their problems.** It is provided to a corporate unit with a view to ensure better performance, maintain steady growth and create better image among investors. b) **Capital structuring-** Here the Capital Structure is worked out i.e**., the capital required, raising of the capital, debt-equity ratio, issue of shares and debentures, working capital, fixed capital requirements** etc. c) **Working capital -** The Companies are given Working Capital finance, **depending upon their earning capacities in relation to the interest rate prevailing in the market.** **d. Project Counseling-** Project counseling is a part of corporate counseling and relates to project finance. It broadly covers **the study of the project, offering advisory assistance on the viability and procedural steps for its implementation.** – Identification of potential investment avenues. – A general view of the project ideas or project profiles. – Advising on procedural aspects of project implementation. – Reviewing the technical feasibility of the project. – Assisting in the selection of **TCO's (Technical Consultancy Organizations) for preparing project reports.**	10

- Assisting in the preparation of project report.
- Assisting in **obtaining approvals, licenses, grants, foreign collaboration** etc., from government.
- Capital structuring.
- Arranging and negotiating foreign collaborations, amalgamations, mergers and takeovers.
- Assisting clients in preparing applications for financial assistance to various national and state level institutions banks etc.
- Providing assistance to entrepreneurs coming to India in seeking approvals from the Government of India.

e. Portfolio Management-It refers to the effective management of Securities i.e., **the merchant banker helps the investor in matters pertaining to investment decisions.** Taxation and inflation are taken into account while advising on investment in different securities. The merchant banker also undertakes the function of **buying and selling of securities on behalf of their client companies.** Investments are done in such a way that it ensures maximum returns and minimum risks.

f. Issue Management -Management of issues refers to effective marketing of corporate securities viz., equity shares, preference shares and debentures or bonds by offering them to public. **Merchant banks act as intermediary whose main job is to transfer capital from those who own it to those who need it**. The issue function may be broadly divided in to pre issue and post issue management**.**

a. Issue through prospectus, offer for sale and private placement.

b. Marketing and underwriting

c. Pricing of issues

g. Credit Syndication - Credit Syndication refers to **obtaining of loans from single development finance institution or a syndicate or consortium.** Merchant Banks help corporate clients to raise syndicated loans from commercials banks. Merchant banks helps in identifying which financial institution **should be approached** for term loans. The merchant bankers follow

	certain steps before assisting the clients approach the appropriate financial institutions. a. Merchant banker first makes an **appraisal of the project** to satisfy that it is viable. b. He ensures that the project **adheres to the guidelines** for financing industrial projects. c. It helps in **designing capital structure, determining the promoter's contribution** and arriving at a figure of approximate amount of term loan to be raised. d. After verifications of the project, the Merchant Banker **arranges for a preliminary meeting with financial institution.** e. If the financial institution agrees to consider the proposal, the **application is filled and submitted along with other documents.**	
2a	Depository Participant ('DP') is the agent or the registered stockbroker of a depository. ... An agreement between the DP and the depository regulates their relationship. Depositories Act, 1996 defines a DP as a person registered under Section 12 of the Securities Exchange Board of India ('SEBI') Act, 1992.	3
2b	In a lease, ownership lies with the lessor. The lessee has the right to use the equipment and does not have the option to purchase. Whereas in hire purchase, the hirer has the option to purchase. The hirer becomes the owner of the asset/equipment immediately after the last installment is paid.	7
2c	Credit rating process is the process in which a credit rating agency (preferably third party) takes details of a bond, stock, security or a company and analyses it so as to rate them so that everyone else can use those ratings to use them as investments. . Credit Rating Agency enters into an agreement with the client whose securities are to be rated : – Rights and liabilities of the parties are defined – Fees charged is specified	10

- Tenure for periodic review of the rating is specified
- The client shall disclose the credit rating received for its listed securities and disclosed the same in its offer document whether or not it is accepted by him
- Ensure confidentiality of all the information disseminated by the client
- The rating agency shall exercise due diligence to ensure that the rating assigned is fair and appropriate .

2. Rating agencies on the basis of several premises assign the credit rating and communicate to the client/ issuer.
3. The issuer can make one request for review of the rating based on fresh facts and clarifications.

4. Then the final rating is assigned and the same is published along with the definition of the concerned rating along with the symbol.

5. A copy of the rating is filed with the Board along with any modifications and additions made thereafter

6. The rating agency will also publish the rationale behind the rating assigned and the justification to the premises considered, favorable assessment and factors constituting risk

7. Once accepted, it is disclosed and put in the surveillance process thereafter

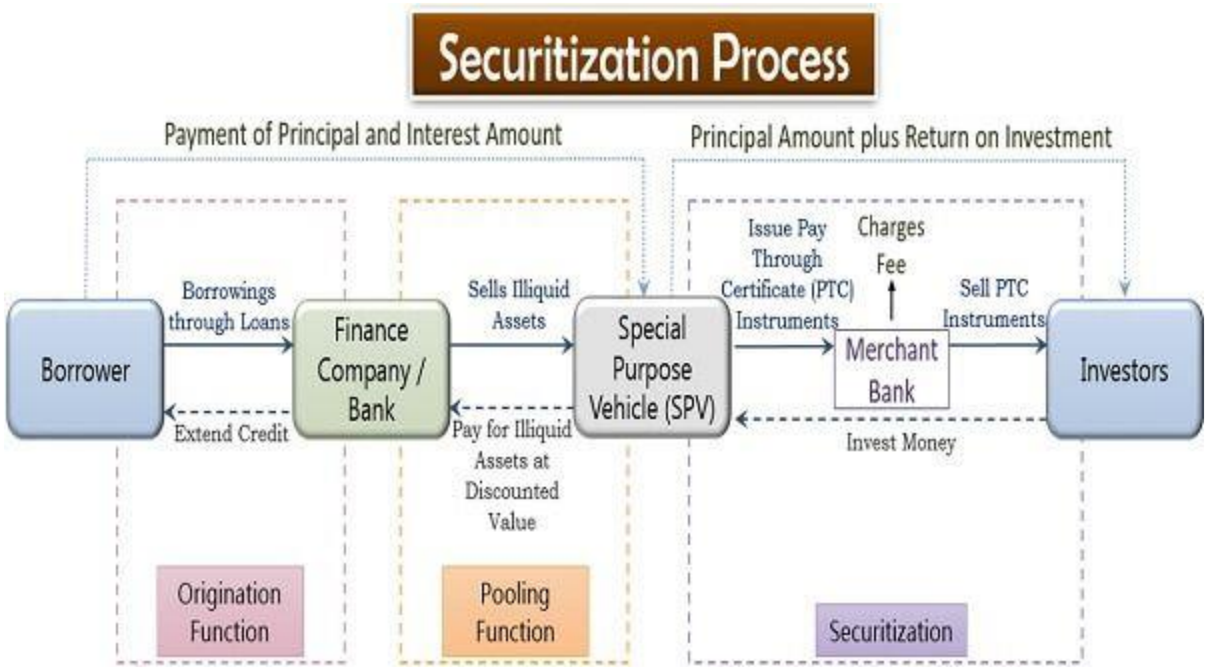
8. **Surveillance:** Continuous review of the ratings assigned to the rating agency. Frequency of the reviews may vary from quarterly to annually as per the agreement

9. **Credit Watch**: In case of any event taking place, that may result in major deviations from the expected trends and which are likely to impact the credibility, rating of the entity, **such instruments are put on credit watch, until the impact of the event is not evident or clear**

10. Investments in investment grade: Investors are advised to invest in securities upto investment grade level, which is BBB (S&P) and Baa (Moody's). Securities rated below the investment grade are referred to as speculative grade or junk bonds .

3a	• The term venture capital comprises of two words that is, “Venture” and “Capital”. • Venture is a course of processing, the outcome of which is **uncertain** but to which is attended the risk or danger of “loss”. • “Capital” means **recourses to start an enterprise**. To connote the **risk and adventure of such a fund**, the generic name Venture Capital was coined. • Venture capital is considered as financing of high and new technology based enterprises. It is said that Venture capital involves investment in **new or relatively untried technology, initiated by relatively new and professionally or technically qualified entrepreneurs with inadequate funds**. • The conventional financiers, unlike Venture capitals, mainly finance proven technologies and established markets. However, high technology need not be pre-requisite for venture capital.	3
3b	Over-Indebtedness. ... Higher Interest Rates in Comparison to Mainstream Banks. ... Widespread Dependence on Indian Banking System. ... Inadequate Investment Validation. ... Lack of Enough Awareness of Financial Services in the Economy. ... Regulatory Issues. ... Choice of Appropriate Model.	7
3c	The major reforms relating to the banking system were: Prudential norms were introduced and progressively tightened for income recognition, classification of assets, provisioning of bad debts, marking to market of investments. Pre-emption of bank resources by the government was reduced sharply.	10

4a	Factoring is a financial transaction and a type of debtor finance in which a business sells its accounts receivable (i.e., invoices) to a third party (called a factor) at a discount. A business will sometimes factor its receivable assets to meet its present and immediate cash needs.	3
4b		7

4c		10
5a	Operating & Finance Lease Benefits. A finance lease transfers the risk of ownership to the individual without transferring legal ownership. ... Operating lease on the other hand, is an asset funding option for businesses that don't want to take on the risk of selling the vehicle at the end of the lease.	3
5b	The primary functions of a commercial bank are accepting deposits and also lending funds. Deposits are savings, current, or time deposits. Also, a commercial bank lends funds to its customers in the form of loans and advances, cash credit, overdraft and discounting of bills, etc.	7

5c	• Signing of MoU- between the **client company and the MB**. The role and responsibility is clearly spelt out in the MoU. • Obtaining appraisal note- contains the details of the **proposed capital outlay of the project and the sources of funding is either prepared in house or is obtained from the external appraising agencies.** • Optimum capital structure- the level of capital that would **maximize the shareholders value and minimize the overall cost of capital**. This has to be done considering the nature and size of the project. • Convening meetings- A meeting of the Board of Directors of the issuing company is conveyed followed by the EGM of the members. The purpose of the meetings is to decide the various aspects related to issues **like an application to RBI seeking its permission where capital issue of shares is to offer to NRI/OCBs**. • Appointment of financial intermediary- FIs such as underwriters, registrars, auditors, solicitors, bankers etc has to be obtained under section 58 of the company's act 1956.	10
6a	Private placement is a funding round of securities which are sold not through a public offering, but rather through a private offering, mostly to a small number of chosen investors. Generally, these investors include friends and family, accredited investors, and institutional investors.	3
6b	The different types of NBFCs: Asset Finance Company. Loan Company. Mortgage Guarantee Company. Investment Company. Core Investment Company.	7

	Infrastructure Finance Company. Micro Finance Company. Housing Finance Company.	
6c	Funds based on maturity period Open ended funds Open ended funds allow investors to subscribe or redeem units as per the prevailing Net Asset Value (NAV) on a continuous basis. Basically, what you get with open ended funds is liquidity and flexibility of time. Close ended funds Listed on the stock exchange, these funds come with a fixed maturity date, like 3-6 years. Investors can opt to subscribe to close ended funds at the time of initial launch. Interval Funds These funds are a hybrid of open and close ended funds. While they operate mainly as close ended funds, these funds may trade on stock exchanges and are open for sale or redemption at predetermined intervals at the prevailing NAV. Funds based on investment objective Equity/Growth Funds If you are investing in equity growth funds, then you are largely putting your money in stocks. The main objective of these funds is to achieve long-term capital growth. Equity funds invest at least 65% of their corpus in equity and equity-related securities. These funds may invest in a wide range of industries/sectors or focus on one or more sectors. These funds are suitable to invest in if you have a higher risk appetite and you have a long-term financial goal. Debt/Income Funds Following a simpler approach, debt/income funds usually invest 65% of the amount in	10

	fixed income securities such as bonds, corporate debentures, government securities (gilts) and money market instruments. These funds are likely to be less volatile than equity funds. Balanced Funds With an aim to provide stability of returns and capital appreciation, balanced mutual funds invest in both equities and fixed income instruments. These funds generally tend to invest around 60% in equity and 40% in debt instruments such as bonds and debentures. Money Market/Liquid Funds If you are looking for a fund that offers liquidity and capital preservation with moderate income, then this is a suitable choice. Money market/liquid funds invest in safer short-term instruments such as Treasury Bills, Certificates of Deposit and Commercial Paper for less than 91 days. These funds are ideal to invest in if you are a corporate or an individual investor and wish to earn moderate returns on surplus funds. Gilt Fund Gilt mutual funds invest exclusively in government securities. The Gilt funds do not carry a credit risk - where the issuer of the security can default. However, it comes with an interest rate risk i.e. risk due to the rise or fall in interest rates.	
7a	Universal banking is a system in which banks provide a wide variety of comprehensive financial services, including those tailored to retail, commercial, and investment services. Universal banking is common in some European countries, including Switzerland.	3
7b	**The Five Stages of VC Funding Explained** Stage 1: Seed capital. Stage 2: Startup capital. This stage is similar to the **seed stage**. ... Stage 3: Early stage/first stage/second stage capital. ... Stage 4: **Expansion stage**/second stage/third stage capital. ... Stage 5: Mezzanine/bridge/**pre-**public stage.	7

7c	**Recourse Factoring** This is the most common type of factoring. Here, if your customer does not pay your factored invoices for any reason (typically within a "recourse period," for example 90 days), you are responsible to make the factor whole. That is, you must (through any of various means) repay the factor for the advance you received plus the factoring discount owed on date of the "chargeback." There is no debt protection under this type of service, and you must be sure to factor invoices only to customers who will dependably pay your invoices. **Non-Recourse Factoring** If your customer does not pay due to insolvency or bankruptcy – in other words, your customer can't pay your invoices – the factor does not need to be made whole by you, since you are factoring "without recourse." The factor simply absorbs the loss. **Invoice Discounting** With invoice discounting, you do not sell your invoices but rather use them as collateral for a loan, usually in bulk (using all your receivables, rather than selected invoices and/or customers). Typically, an agreed percent of your invoices' face value is provided, and as your invoices are repaid by your customers, the factor providing the invoice discounting is repaid. The agreement is ordinarily confidential, as with non-notification factoring. **Maturity Factoring** Here, the factor takes over all credit and collection functions and ordinarily provides receivables insurance to the business owner. However, the advance is not provided until the date the invoices are due to be paid, or shortly thereafter. Payment to the seller may be done on a monthly basis, on the average due date of the invoices factored. In some cases the factor may grant the client's customer an extension of payment terms (later than the Net terms), who is charged for this if accepted. This type of factoring is not commonly practiced, though some factors provide it.	10
8a	**Justify based on students answer**	20