

March 2013

Master of Business Administration (MBA) Examination

III Semester**Financial Systems and Services**

Time : 3 Hours]

[Max. Marks : 80

Note : Attempt any four questions from Section A. Each question carry equal marks. Section B is compulsory and carries 20 marks.

Section A

- Critically examine the structure and performance of Indian Financial System.
- What is Reinsurance ? How does Reinsurance help insurers to reduce risk ?
- Critically examine the role of risk management in a bank and comment upon its working.
- "RBI Controls the Liquidity in Financial Markets." Do you agree with this statement ? Explain various tools and techniques to control the liquidity.
- Explain briefly the nature of Factoring Services in India. What are the operational obstacles encountered by Factoring Services in India?
- Write short notes on : (any two)
 - Commercial Papers
 - Micro Finance
 - Securitization
 - Venture Capital.

Section B

- Read the following case. Answer the question attached to the case :
ARQ Ltd. is an Indian company based in Greater Noida, which manufactures packaging materials for food items. The company maintains a present fleet of five Flat Cars and two Contessa Classic Cars for its chairman, general manager and five senior managers. The book value of seven cars is Rs. 20,00,00 and their market value is estimated at Rs. 15,00,000. All the cars fall under the same block of depreciation @ 25 per cent.

A German multinational company (MNC) BYR Ltd. has acquired ARQ Ltd. in all cash deal. The merged company called BYR India Ltd. is processing to expand the manufacturing capacity by four folds and the organization structure is reorganized from top to bottom. The German MNC has the policy of providing transport facility to all senior executives (22) of the company because the manufacturing plant at Greater Noida was more than 10 kms. outside Delhi where most of the executive were staying.

Prices of the Cars to be Provided to the Executives have been as follows :

Type of Executive	No. of Executive	Type of Car	Amount in Rs.
Manager	10	SantroXing	3,75,000
DGM and GM	5	Honda City	6,75,000
Director	5	Toyota Corolla	9,25,000
Managing Director	1	Sonata Gold	13,50,000
Chairman	1	Mercedes Benz	23,50,000

The company is evaluating two options for providing these cars to executives :

Option 1

The company will buy the cars and pay the executives fuel expenses, maintenance expenses, driver allowance and insurance (at the year-end). In such case, the ownership of the car will lie with the company. The details of proposed allowances and expenditures to be paid are as follows :

(a) Fuel Expenses and Maintenance Allowance per month :

Particulars	Fuel Expenses	Maintenance Allowance
Manager	Rs. 2,500	Rs. 1,000
DGM and GM	Rs. 5,000	Rs. 1,200
Director	Rs. 7,500	Rs. 1,800
Managing Director	Rs. 12,000	Rs. 3,000
Chairman	Rs. 18,000	Rs. 4,000

- (b) **Driver Allowance:** Driver Allowance is Rs. 4,000 per month (only Chairman, Managing Director and Directors are eligible for driver allowance).

- (c) **Insurance Cost :** 1 per cent of the cost of the car.

The useful life for the cars is assumed to be five years after which they can be sold at sold 20 per cent salvage value. All the cars fall under the

same block of depreciation @ 25 per cent using written down method of depreciation. The company will have to borrow to finance the purchases from a bank with interest at 14 per cent repayable in five annual equal installments payable at the end of the year.

Option 2

ORIX Ltd. the fleet management company has offered the 22 cars of the same make at least for the period of five years. The monthly lease rentals for the cars are as follows (assuming that the total of monthly lease rentals for the whole year is paid at the end of each year).

Type of Car	Amount in Rs.
SantroXing	9,125
Honda City	16,325
Toyota Corolla	27,175
Sonata Gold	39,250
Mercedes Benz	61,250

Under this lease agreement the leasing company, ORIX Ltd. will pay for the fuel, maintenance and driver expenses for all the cars. The lessor will claim the depreciation on the cars and the lessee will claim the lease rentals against the taxable income. BYR India Ltd. will have to hire fulltime supervisor (at monthly salary of Rs. 15,000 per month) to manage the fleet of cars and hired on lease. The company will have to bear additional miscellaneous expenses of Rs. 5,000 per month for providing him the PC, mobile phone and so on. The company's effective tax rate is 40 per cent and its cost of capital is 15 per cent

Question :

Analyze the financial viability of the two options. Which option would you recommended? Why? Support your answer by workings.

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