

[c] A signboard outside a leading consumer electronics shop read 'Buy TV at 0%\* interest'. This \* meant so many things. The terms of offer were as under:

Cost of TV: 18000

Discount offered if full down payment is done: 1173

Advance EMI to be paid for 12 months (if EMI option is chosen): 1500

The sales official explained that since the customer was not paying any amount more than the cost of 18000, it is a zero interest great opportunity. Do you agree? What is the implied effective interest rate?  
(6 marks)

Total No. of Pages 4<sup>th</sup>

3rd SEMESTER

END SEMESTER EXAMINATION November/December-2019

PAPER CODE - MGF03

## Investment Banking and Financial Services

Time: 3:00 Hours

Max. Marks: 60

Note : Answer all question by Selecting any two parts from each questions.  
All questions carry equal marks.  
Assume suitable missing data, if any.

Q.1[a] 'Leasing essentially involves the divorce of ownership from the economic use of an asset' – Critically explain this statement.  
(6 marks)

[b] Briefly explain the evaluation framework of the hire purchase transaction *vis-à-vis* leasing.  
(6 marks)

[c] Your company is considering acquiring an additional computer to supplement its time share services to clients. It has two options:

- i) To purchase the computer for Rs. 22 lakhs
- ii) To lease the computer for 3 years from a leasing company for Rs. 5 lakhs as annual lease rent + 10% of gross time share service revenue. The agreement also requires an additional payment of Rs. 6 lakhs at the end of 3<sup>rd</sup> year. Lease rents are payable at year end and the computer reverts to the lessor after the contract period.

The company estimates that the computer under review will be worth rs. 10 lakhs at the end of 3<sup>rd</sup> year. Forecast revenues are:

Year	I	II	III
Amt (Rs. Lakh)	22.5	25	27.5

Annual operating costs excluding depreciation / lease rent of computer are estimated at Rs. 9 lakhs with an additional Rs. 1 lakh for start-up and training costs at the beginning of the first year. These costs are to be borne by the lessee. Your company will borrow at 16% interest to finance the acquisition of computer. Repayment is to be made according to the following schedule: The company uses SLM to depreciate the assets and pays 50% tax on its income. Which alternative is better?

Year end	I	II	III
Principal	500	850	850
Interest	352	272	136

(6 marks)

Q.2 [a] 'Technical analysis pre-empts the fundamental data' – Critically explain this statement. (6 marks)

[b] Explain the concept of 'intrinsic value'. (6 marks)

[c] The estimate of a firm's PV of FCFs is USD 400 million. Its estimated invested capital is USD 700 million. It has cash holdings of USD 9 million. The value of debt and capitalized operating leases are USD 220 million and USD 33 million respectively. If there are 2 million shares of common equity outstanding, what is the estimated value per share? (6 marks)

Q.3 [a] Discuss the eligibility requirements for public issues (6 marks)

[b] Discuss the main features of the operational framework of merchant bankers / lead managers in the Indian primary market. (6 marks)

[c] A firm's estimated PV of economic profit is USD 150 million.

Its

estimated invested capital is USD 250 million. It has cash holdings of USD 16 million. The value of debt and capitalized operating leases are USD 80 million and USD 26 million respectively. What is the estimated value of equity? (6 marks)

Q.4 [a] What are the three inputs that are required to value any asset by using *discounted cash flow* model. Briefly explain each of them. (6 marks)

[b] 'Credit ratings do not indicate investment merit' – Critically discuss this statement. (6 marks)

[c] Explain the role played by *duration* of a bond, in immunizing the balance sheet of a financial institution. (6 marks)

Q.5 [a] Discuss the key trends in private equity / venture capital investment trends in India during 2018. (6 marks)

[b] Outline the main features of the scheme of regulation of prohibition of fraudulent and unfair trade practices in issue management. (6 marks)