Roll No. ____________________

(Do not write anything on question paper except Roll No.)

[This paper consists of FOUR Pages]

Jagan Institute of Management Studies

End-Term Examination, September-October, 2017

Trimester IV – PGDM 2016-18

Indian Financial System

ET_PG_IFS_0610

Time: 3 Hrs. *M. Marks: 70*

INSTRUCTIONS: Attempt any FIVE questions including Q1 & Q7 which are compulsory.

Q 1 "The economic development of any country is positively correlated with its financial system". Do you agree with this statement? Explain with the help of examples. **14**

Q 2 Explain the functions of stock markets? What are the different index numbers of National and Bombay Stock Exchanges? **14**

Q 3 Differentiate between the money markets and capital markets. Do they have same instruments?

OR

"Primary and secondary markets are of vital importance in Indian equity markets and these two markets are strongly interdependent. Explain with the help of examples. **14**

Q 4 Write short notes on any **FOUR** of the following:

a) Open ended funds

b) Certificate of deposit

c) Offer for sale issue.

d) Buy back of shares

e) Insider trading

f) Stop loss order **14**

Q 5 An investor owns a portfolio that over the last five years has produced 16.8% annual return. During that time the portfolio produced a beta of 1.1. Further the risk free return and the market return averaged 7.4% and 15.2% respectively. How would you evaluate the performance of the portfolio? **14**

Q 6 Commodities markets provide excellent instruments for hedging the business operations; explain their role in Indian scenario?

OR

Differentiate between any **TWO** of the following

a) An IPO and a GDR issue.
b) Market order and limit order.
c) Capital markets and commodities markets.
d) Sharpe ratio and Treynor ratio **14**

Q 7 Read the case and answer the questions given at the end.

In the past few decades, both mutual fund (mf) investors and the sector have had to consistently take it on the chin and move on. Investors have faced the failure of us-64, the CRB scam and Morgan Stanley growth fund's marketing gimmick that caused much grief.

The sector has also regularly had to face the wrath of the market regulator. since 2006, the securities and exchange board of India (SEBI), has consistently rapped it on the knuckles, disallowed open-end funds to charge initial expense from investors, stopped amortization of costs of closed-end schemes, banned entry load and even prescribed the font size to be used in advertisements.

Things were quite different for the market's oldest and biggest player, unit trust of India, till us-64 closed in 2001. In the early '90s, one of its executive directors called all brokers and said the brokerage was being cut from one per cent to 25 basis points. "There was stunned silence but none of us could say anything because the business was too big," recalls a leading broker. Such was government-owned UTI's clout.

The attraction it held for investors was also phenomenal. In 1992, a year before the first private sector mf, Kothari pioneer, entered the segment, the UTI master gain scheme entered the Guinness book of world records for attracting 5.7 million folios (one person's holding in a scheme). In September 2014, the entire mf sector's folios, despite 40-plus players and 3,000-odd schemes, stands at 30.74 million, just around six times of a single scheme of the 1990s.

The sector was opened for private sector players in 1993 and the first big jolt to investors came the very next year. In 1994, the first foreign mf house, Morgan Stanley launched its growth fund, a 15-year closed-end fund. At the time of launch, the fund house said it was targeting ₹ 300 crore. However, its marketing gimmick that investors would get allotment based on a "first-come, first serve" basis gave poorly-informed investors the impression that, like an initial public offering, there would be a proportionate allotment.

The result: investors actually paid a premium to black marketers to get the investment form and the line for applications snaked way back the sting in the tale came when the scheme closed. The NFPO collected almost ₹ 1,000 crore and retained the entire amount. Since it was a closed-end fund, investors who had thought they would get part of the money back, much like an initial public offering, did not get anything. Worse still, when the scheme declared its net asset value (NAV), it was down 10 per cent. although it was listed on the stock exchanges, investors could not exit as units were quoting at a discount to the nav. this created panic among investors, which further widened the gap between the market price and nav. eventually, Morgan Stanley's schemes were bought by HDFC MF in 2013.

In 1995, the first and, till now, last instance of a promoter misusing the asset management company (AMC) came to light. This was chain Roop Bhansali of CRB mutual fund and the fund house was banned from launching new schemes. His CRB, Arihant Mangal fund raised ₹ 230 crore, a rare feat in those days. It was revealed later that only ₹ 6 crore came from retail investors. Reports suggest the rest was collected from companies and reinvested in the same companies' shares. In fact, CRB even got an in-principle approval to set up a bank in Bhubaneswar from the reserve bank of India but it was withdrawn after the inspections revealed the group was misusing funds.

The big blow came for mf investors came in the late '90s, when it was discovered that us-64 was offering a dividend of 18 to 26 per cent while it's NAV was slipping. In 2001, the government stopped the sale of us-64 units. Investors from all over the country, for many of whom the scheme was a saving for their children's marriage or retirement, suddenly found themselves in a soup.

in 2003, the scheme offered cash or tax-free tradable bonds with a 6.75 annual rate of interest. Subsequently, the UTI act was repealed and the entity was bifurcated. UTI Mutual Fund was created as a SEBI-registered fund with four sponsors, the State Bank of India, Life Insurance Corporation of India, Bank of Baroda and Punjab National Bank. A few years earlier, T ROWE price group INC (TRP group) acquired 26 per cent stake in the AMC. The other entity, SUUTI, kept the assets of the schemes that the government bailed out the sector's biggest shock came in 2009 when semi under C B Bhave banned entry loads, a sales charge on investors to a fund, with immediate effect. Consequently, the sector lost both assets and distributors in large numbers. Other moves, like banning the declaration of indicative yields, have reduced the attraction for fixed maturity plans. Besides the ban, bad market conditions due to the global slowdown and crisis contributed to investors moving away from the sector.

Overall, the sector looks more settled in the past few years. Private sector MFS have had a reasonably good time. In April 2006, there were 36 fund houses with total average assets under management of ₹ 2.5 lakh crore. the top five were UTI (₹ 30,000 crore), ICICI prudential (₹ 27,500 crore), reliance mutual fund (₹ 26,400 crore), HDFC mutual Fund (₹ 22,500 crore) and franklin Templeton (₹ 19,600 crore) the new pecking order of the ₹ 11 lakh sector in September 2014 is HDFC, ICICI Prudential, Reliance and Birla Sunlife - all have over ₹ 1 lakh crore, with UTI at the fifth spot at ₹ 80,000 crore.

Despite the tumultuous times, has the sector learnt its lessons? Most feel there hasn't been enough learning. "Seasonality is still the name of the game. Fund houses try to take advantage of market conditions and launch new fund offerings when the markets are doing well. Also, serious efforts are required to ensure the retail investor is kept in the scheme for a long time. When all this will fall in place, the mf sector will be better placed," says Dhirendra Kumar, chief executive officer, value research.

Questions:

a) When do fund houses come out with new funds offering?
b) What was the biggest shock to until in 2009?
c) Which fund was banned to launch new schemes?
d) what as the Morgan Stanley's marketing gimmick **14**

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