QUESTION BANK

Name of the Department : **Master of Business Administration**

Subject Code & Name : **BA5011& Merchant Banking and Financial Services**

Year & Semester : **II & III**

UNIT I INTRODUCTION TO MERCHANT BANKING

PART-A

Unit – I

1. What do you mean by financial system?

A financial system or financial sector functions as an intermediary and facilitates the flow of funds from the areas of surplus to the areas of deficit. It is a composition of various institutions, markets, regulations and laws, practices, money manager, analysts, transactions, claims and liabilities.

2. Who is a merchant banker?

Merchant banker means any person who is engaged in th e business of issue management either by making arrangements regarding selling, buying or subscribing to securities as manager -consultant, advisor or rendering corporate advisory services in relation to such issue management.

3.What is meant by banking system ?

A banking system is a group or network of institutions that provide financial services for us. These institutions are responsible for operating a payment system, providing loans, taking deposits, and helping with investments.

4.Give meaning the meaning of unorganized market.

In unorganized markets, there are a number of money lenders, indigenous bankers, traders, etc. who lend money to the public. Indigenous bankers also collect deposits from the public. There are also private finance companies, chit funds, etc. whose activities are not controlled by the RBI. The RBI has already taken some steps to bring unorganized sector under the organized fold.

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6. Expand SEBI and FEMA.

- ✓ SEBI-Security and Exchange Board of India

- ✓ FEMA - Foreign Exchange Management Act.

7. What are stock exchanges?

Stock Exchanges are a structured market place for the proper conduct of trading in company stocks and other securities. The main services of the Indian Stock Exchanges all over the country are to provide nation -wide services to investors and to facilitate the issue and redemption of securities and other financial instruments.

8. Name two stock exchanges of India.

The two most important exchange houses of the Indian stock market are

- ✓ The National Stock Exchange and
- ✓ The Bombay Stock Exchange.

9.What is meant by stock exchanges market ?

It is a place where shares of pubic listed companies are traded. The primary market is where companies float shares to the general public in an initial public offering (IPO) to raise capital. A stock may be bought or sold only if it is listed on an exchange.

10.List out the Objectives of OTCEI?

- ✓ Strengthening investors' confidence in the financial market by offering them the two-way best
- ✓ Providing a convenient and an efficient avenue of capital market investments for small investors
- ✓ Assisting and guiding small companies to raise funds from the capital market in a cost-effective manner

11.What is OTCEI?

Over-The-Counter Exchange of India an electronic stock exchange based in India that is comprised of small- and medium-sized firms looking to gain access to the capital markets. Like electronic exchanges in the U.S. such as the Nasdaq, there is no central place of exchange and all trading is done through electronic networks

Part – B QUESTIONS

1. Briefly explain the three tier system of stock exchange of India.
2. Describe about the SEBI Regulations on Merchant Banking.
3. List out the important functions of merchant banking and explain it.
4. Give the meaning and definition of financial system. What are the functions of it?
5. Write about the institutional structure of merchant banking and explain its elements.

UNIT-II – ISSUE MANAGEMENT

Unit – II

PART-A

1.What is issue management?

Public issue management involves marketing of corporate securities by offering the securities to the public, procuring private subscription to the securities and offering securities to existing shareholders of the company.

2.Define project appraisal.

Project appraisal is a process of investigation, review and evaluation undertaken as the project or alternative concepts of the project are defined. This study is designed to assist the client to reach informed and rational choices concerning the nature and scale of investment in the project and to provide the brief for subsequent implementation.

3.What is capital structure?

Capital Structure of a company refers to the composition or make -up of its capitalization and it includes all long-term capital resources viz. loans, reserves, shares and bonds.

4. Define equity shares.

Equity shareholders are the real owners of the company as they have the voting rights and enjoy decision - making authority on important matters, related to the company. The shareholders‟ return is in the form of dividend, which is dependent on the profits of the company and capital gain/loss, at the time of their sale.

5. What are participating preference shares?

The holders of these shares participate in surplus profits of the company. They are firstly paid a fixed rate of dividend and then a reasonable rate of dividend is paid on equity shares. If some profits remain after paying both these dividends, then preference shareholders participate in the surplus profits.

6. What is meant by debentures?

It is type of debt instrument that is not secured by physical asset or collateral. Debentures are backed only by the general credit worthiness and reputation of the issuer. Both corporations and governments frequently issue this type of bond in order to secure capital. Like other types of bonds, debentures are documented in an indenture.

7.Define Red Hiring Prospectus.

It is a prospectus which does not have details of either price or number of shares being offered or the amount of issue. This means that in case price is not disclosed, the number of shares and the upper and lower price bands are disclosed.

8.Give the meaning of Bought out Deals (BOD).

Bought out Deal (BOD) is a process of investment by a sponsor or a syndicate of investors/sponsors directly in a company. Such direct investment is being made with an understanding between the company and the sponsor to go for public offering in a mutually agreed time.

9.What is green shoe option?

Green shoe option means an option of allocating shares in excess of the shares included in the public issue and operating a post -listing price stabilizing mechanism for a period not exceeding 30 days in accordance with the provisions of Chapter VIII A of DIP Guidelines, which is granted to a company to be exercised through a Stabilizing Agent.

10.What is Book-Building?

Book building is actually a price discovery method. In this method, the company does not fix up a particular price for the shares, but instead gives a price range, e.g. Rs.80 -100.

11.What do you mean by private placement?

The sale of securities directly to an institutional investor, such as a bank, mutual fund, insurance company, pension fund, or foundation. Does not require SEC registration, provided the securities are bought for investment purposes rather than resale, as specified in the investment letter.

12. Define green shoe

A provision contained in an underwriting agreement that gives the underwriter the right to sell investors more shares than originally planned by the issuer. This would normally be done if the demand for a security issue proves higher than expected. Legally referred to as an over-allotment option. A green shoe option can provide additional price stability to a security issue because the underwriter has the ability to increase supply and smooth out price fluctuations if demand surges

13. What is book building?

The process of determining the price at which an Initial Public Offering will be offered. The book is filled with the prices that investors indicate they are willing to pay per share, and when the book is closed, the issue price is determined by an underwriter by analyzing these values.

Part – B QUESTIONS

1. Explain capital structure and its instruments.
2. Describe placement of the issues
3. Explain about the post-issue management.
4. Give some details about SEBI Guidelines for Post -Issue Management.
5. Explain issue marketing and its steps.

Unit – III- OTHER FEES BASED SERVICES

Unit – III

PART-A

1.What is meant by merger?

The term 'merger' is used to mean the unification of two or more business houses to form an entirely new entity. It leads to the dissolution of more or more entities, to get absorbed into another undertaking, which is relatively bigger in size.

2.What are the objectives of Merger?

The objectives as well as the benefits of a merger or an acquisition are numerous: to mitigate the weaknesses of either business and to bolster their combined strengths, to

remove a competitor or threat within their industry, or to undergo a period of exponential growth in a short space of time

3. What is Portfolio Management Service?

Portfolio Management Service is a tailor made professional service offered to cater the investments objective of different investor classes. The Investment solutions provided by PMS cater to a niche segment of clients. The clients can be Individuals or Institutions entities with high net worth.

***4.What is meant by* Credit rating** *?*

Credit rating is an analysis of the credit risks associated with a financial instrument or a financial entity. It is a rating given to a particular entity based on the credentials and the extent to which the financial statements of the entity are sound, in terms of borrowing and lending that has been done in the past.

5.What Is Loan Syndication?

Loan syndication is the process of involving a group of lenders in funding various portions of a loan for a single borrower. Loan syndication most often occurs when a borrower requires an amount too large for a single lender to provide or when the loan is outside the scope of a lender's risk exposure levels. Thus, multiple lenders form a syndicate to provide the borrower with the requested capital.

6.what is meant by business valuation?

A business valuation is a general process of determining the economic value of a whole business or company unit. Business valuation can be used to determine the fair value of a business for a variety of reasons, including sale value, establishing partner ownership, taxation, and even divorce proceeding

7.What Is a Mutual Fund?

A mutual fund is a type of financial vehicle made up of a pool of money collected from many investors to invest in securities like stocks, bonds, money market instruments, and other assets. Mutual funds are operated by professional money managers, who allocate the fund's assets and attempt to produce capital gains or income for the fund's investors. A mutual fund's portfolio is structured and maintained to match the investment objectives stated in its prospectus.

8.What are the Advantages of Mutual Funds?

- ✓ Diversification
- ✓ Easy Access
- ✓ Economies of Scale
- ✓ Professional Management
- ✓ Variety and Freedom of Choice
- ✓ Transparency

9. What is portfolio management?

The portfolio is a collection of investment instruments like shares, mutual funds, bonds, FDs and other cash equivalents, etc. Portfolio management is the art of selecting the right investment tools in the right proportion to generate optimum returns with a balance of risk from the investment made.

10.What is objectives of portfolio management?

- ✓ Capital Growth
- ✓ Security of Principal Amount Invested
- ✓ Liquidity
- ✓ Marketability of Securities Invested in
- ✓ Diversification of Risk
- ✓ Consistent Returns
- ✓ Tax Planning

Part – B QUESTIONS

1. What are the types of Mergers and also explain the process of mergers.
2. Explain the details about Business Valuation.
3. What are all the techniques of Investment Analysis/Performance Evaluation of Mutual funds?
4. What are the types of mutual funds?
5. Explain the functions of Credit Rating Agency.

UNIT- IV – IVFUND BASED FINANCIAL SERVICES

UN I T – IV

PART-A

1. Define Lease Financing

A leasing company (the lessor or owner) buys the asset for the user (usually called the hirer or lessee) and rents it to them for an agreed period. ... The lessee pays a fixed periodic amount called lease rental to the lessor for the use of the asset

2.Define Hire purchase

Hire purchase is an arrangement for buying expensive consumer goods, where the buyer makes an initial down payment and pays the balance plus interest in installments. The term hire purchase is commonly used in the United Kingdom and it's more commonly known as an installment plan in the United States

3.What are the characteristics of Hire purchase ?

- ✓ Goods are delivered by the seller to the buyer.
- ✓ Buyer agrees to pay hire purchase price (i.e., cash price + interest) in
- ✓ Instalments paid are treated as hire charges till the payment of the last instalment.
- ✓ After the payment of the last instalment, ownership is transferred in the name of the buyer.

4.What are the Term Used in Hire Purchase agreement?

- ✓ Hire Purchaser
- ✓ Hire Vendor.
- ✓ Cash Price
- ✓ Down Payment
- ✓ Hire Purchase Price:

5.What are the importance of hire purchase system?

A hire purchase arrangement is beneficial because it reduces the risk of the provider for the consumer goods involved. Because the ownership of the item does not officially transfer until all payments are made, this plan offers protection to the vendor for an unsecured item because it can be repossessed.

6.List out the Disadvantages of Hire Purchase System

- ✓ Higher Price:
- ✓ Artificial Demand:
- ✓ Heavy Risk:
- ✓ Difficulties in Recovery of Installments:
- ✓ Break Up Of Families:

7.what is financial evaluation?

Financial evaluation of a project is analysis of a project for checking whether project is profitable or not before taking project in hand. We also review the project by investigating its cost, risk and return. In simple words, we uses following tools for financial evaluating of a project.

8.What are the purpose of financial analysis?

Financial analysis is the process of evaluating businesses, projects, budgets, and other finance-related transactions to determine their performance and suitability. Typically, financial analysis is used to analyze whether an entity is stable, solvent, liquid, or profitable enough to warrant a monetary investment

9.What is the importance of lease financing?

As vehicles depreciate, leasing remains a stable and sound financial decision. These savings amount to increased liquidity for a business, conserving your capital to be allocated to other important aspects of your operations. This could help to pay for the insurance of a fleet of trucks or construction machinery.

10.List out the Types of Lease Financing?

- ✓ Capital Lease
- ✓ Operating Lease
- ✓ Sale and Leaseback
- ✓ Leveraged Leasing:

Part – B QUESTIONS

1. Difference between Leasing and Hire purchase financing.
2. What are all the income tax considerations for the lessees?
3. What are the limitations of lease financing?
4. What are the types of leasing?
5. What are the advantages of leasing?

UNIT – V -OTHER FUND BASED FINANCIAL SERVICES

UN I T – V

PART-A

1. What is consumer credit ?

A consumer credit system allows consumers to borrow money or incur debt, and to defer repayment of that money over time. Having credit enables consumers to buy goods or assets without having to pay for them in cash at the time of purchase.

2.What is credit card ?

A credit card is a rectangular plastic card issued by financial institutions, which lets you borrow funds from a pre-approved limit to pay for your purchases. Your credit card details are always secured with the card issuer and you should not share your credit card information with anyone to avoid fraud.

3.What is Real Estate Project Finance?

Project finance is long-term financing of an independent capital investment, which are projects with cash flows. The statement of cash flows acts as a bridge between the income statement and balance sheet and assets.Typically, the financing is made up of debt.

4.What is Bill discounting ?

Bill discounting can be defined as the advance selling of a bill to an intermediary (an invoice discounting business) before it is due to be paid. In this arrangement, the initial owner of the invoices that are sold on is still in control of its own sales ledger and will chase payment in the usual way.

5.Definition of Forfeiting

The terms forfeiting is originated from a old French word 'forfait', which means to surrender ones right on something to someone else. In international trade, forfeiting may be defined as the purchasing of an exporter's receivables at a discount price by paying cash. By buying these receivables, the forfeiter frees the exporter from credit and the risk of not receiving the payment from the importer.

6. What are the elements of Forfeiting?

The forfeiting typically involves the following cost elements:

1. Commitment fee, payable by the exporter to the forfeiter 'for latter's' commitment to execute a specific forfeiting transaction at a firm discount rate with in a specified time.
2. Discount fee, interest payable by the exporter for the entire period of credit involved and deducted by the forfeiter from the amount paid to the exporter against the availised promissory notes or bills of exchange.

7. Define Factoring

Factoring is very simple and can be defined as the conversion of credit sales into cash. Here, a financial institution which is usually a bank buys the accounts receivable of a company usually a client and then pays up to 80% of the amount immediately on agreement. The remaining amount is paid to the client when the customer pays the debt.

8.What is Venture Capital?

Venture capital is a form of private equity and a type of financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Venture capital generally comes from well-off investors, investment banks and any other financial institutions. However, it does not always take a monetary form; it can also be provided in the form of technical or managerial expertise. Venture capital is typically allocated to small companies with exceptional growth potential, or to companies that have grown quickly and appear poised to continue to expand.

9.Define Venture Capital.

Venture Capital Startup companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.

10.What are the advantages of venture capital?

The primary advantage of venture capital financing is an ability for company expansion that would not be possible through bank loans or other methods. This is essential for start-ups with limited operating histories and high upfront costs.

Part – B QUESTIONS

1. What are the characteristics of Venture Capital?
2. What are the features of Consumer Credit?
3. What are the functions of a factor?
4. What are the types of bills?
5. What are the types of factoring?