(Following Paper ID and Roll No. to be filled in your Answer Books)

Paper ID : 2289982 Roll No. | | | | | | | | | | |

M.B.A.

Regular Theory Examination (Odd Sem - III), 2016-17

MANAGEMENT OF FINANCIAL INSTITUTIONS AND SERVICES

Time : 3 Hours *Max. Marks : 100*

Note : Attempt all questions.

PART - I

1. **Attempt all parts of the following : (Max 30 Words) (10×2=20)**

   a) Define NAV. How is it computed?

   b) Compare and contrast between hire purchases and lease.

   c) Discuss the various stages of venture capital financing.

   d) Define factoring and state how is it superior to bill financing.

e) Discuss the role of development banks in developing rural sector of India.

f) What are the special features of open ended mutual fund?

g) Explain role of RBI as a government bank.

h) Discuss the advantages of credit card to its members.

i) "A contract of the insurance is contract of utmost good faith". Discuss.

j) Why there was a need of financial reforms in India?

PART - II

2. Attempt any five of the following : (Maximum 300 - 350) (5×10=50)

a) Classify the various financial intermediaries functioning in the India financial system and bring out their features.

b) "Monetary policy has an important role to play in the functioning of the national economy of developing country like India". Discuss the statement.

c) What is asset liability management? Discuss the Gap method of ALM.

d) Critically analyze the present position of the financial service sector in India and state its challenges it has to face in the years to come.

e) 'Insurance is the process in which uncertainties are made certain.' Discuss the statement and explain the importance of the insurance.

f) Briefly discuss the process and various parties involve in Debt Securitization.

g) XYZ Ltd is in the business of manufacturing steel utensils. The firm is planning to diversify and add a new product line. The firm can either buy the required machinery or get it on lease. The machine can be purchased for $ 15,00,000. It is expected to have a useful life of 5 years with salvage value of $ 1,00,000 after the expiry of 5 years. The purchase can be financed by 20 per cent loan repayable in 5 equal annual instalments (inclusive of interest) becoming due at the end of each year. Alternatively, the machine can be taken on year-end lease rentals of $ 4,50,000 for 5 years. Advise the company on which option it should choose. For your exercise, you may assume the following :

i) The machine will constitute a separate block for depreciation purposes. The company follows writtes down value method of depreciation, the rate of depreciation being 25 percent.

ii) Tax rate is 35 per cent and cost of capital is 18 pe cent.

iii) Lease rents are to be paid at the end of the year.

iv) Maintenance expenses estimated at $ 30,000 per year are to be borne by the lessee.

h) "Mutual funds provide stabilities to share prices, safety to investors and recourses to perspective entrepreneurs". Discuss.

PART - III

Case Study : **(3×10=30)**

Indian Bank Achieves A Turnaround

In mid-2002, Indian Bank, a prominent public sector bank (PSB) in India, posted a net profit of Rs. 33.22 crore 3 for the fiscal year 2001-2002. This marked Indian Bank's return to the black after being in the red for six consecutive years, following an industry record loss of Rs. 1336.4 crore in the fiscal 1995-1996.

In 1999, Indian Bank was formally recognized as a weak bank by the Verma Committee, set up by the Government of India (GoI) earlier that year. Following this, the bank embarked on a comprehensive restructuring program, under the leadership of Ranjana Kumar (Kumar), who. The restructuring process, eventually led to the turnaround of Indian Bank in 2002. By 2003, the bank was looking forward to a promising future.

Indian Bank was set up as part of the Swadeshi Movement in 1907. Incorporated on March 5, 1907, with an authorized capital of Rs. 20 lakh, the Bank commenced operations on August 15, the same year. During the first year of operations, the Bank received deposits of Rs. 2,01,157 and made a profit of Rs. 5,505.

Headquartered in Chennai (formerly known as Madras) in the south Indian State of Tamil Nadu, Indian Bank enjoyed a good customer base in the south. As a bank backed by the government, Indian Bank continued to flourish and boasted of the trust it had been enjoying since the early 1900s.

The 'nine decades of trust', suddenly came under threat in the 1990s, when the GoI and the Reserve Bank of India (RBI) introduced a new set of norms for the banking sector. The once respected bank found itself with the ignominious distinction of being classified as one of the three weak banks in India, alongside UCO Bank and United Bank of India.

The Indian Banking Sector

The GoI realized the importance of a strong banking sector for the development of the country and gave due importance to banking. Before India's independence in 1947, banking was essentially an informal, local process, with moneylenders playing a prominent role. Banking institutions were usually private bodies and operated at the local level.

After 1947, the RBI and the State Bank of India (SBI)9 played a prominent role in the Indian banking sector along with other private banks. In keeping with the country's principle of socialism, the GoI undertook nationalization of several private banks in 1969. In the first phase of the nationalization program, 14 banks were taken over by the government.

The second phase of nationalization was initiated in 1980, when six other banks were made PSBs. This brought the number of PSBs to 28 - 20 nationalized banks and the eight associate banks of SBI. In 1993, the New Bank of

India merged with the Punjab National Bank to form a single entity, bringing down the number of PSBs to 27.

Besides PSBs, private banks, foreign banks, Regional Rural Banks (RRBs)10 and cooperative banks also formed a part of the banking sector. There were also specialized financial institutions like the Industrial Development Bank of India (IDBI), Industrial Finance Corporation of India (IFCI) and the National Bank for Agriculture and Rural Development (NABARD), which provided loans and finance to certain sectors.

Analysts felt that the decline of Indian Bank was not a sudden phenomenon, but rather a result of weaknesses building up over the years. The operations of the bank had been faulty for sometime, but because of financial and other forms of aid provided by the GoI, this did not come to light earlier.

The loopholes were exposed by the introduction of the new banking norms in 1992. The reasons behind the weaknesses are described below. First, though the bank had a loyal customer base, analysts felt that people stayed with the Indian Bank only because of a lack of competitive alternatives.

Customers, who felt that one PSB was as good as another, did not feel the need to move to other banks. However, with the opening up of the banking sector in the 1990s, private banks began offering more variety and flexibility in services. The rather obsolete systems of operation at the Indian Bank caused customers to drift way.

The report of the committee also suggested that some of the credit decisions taken by the bank in the early 1990s were faulty.

The Options

The Verma committee pondered over the various options available to the Indian Bank. It decided that closure was not advisable because of the extermity of such an action. The committee felt that the cost of closure would be too high for the depositors, clients and employees of the bank and it would have adverse consequences on too many people. Merger with a healthier institution was also ruled out because of the possible undesirable consequences of merging a sick unit with a healthier one. The Indian banking sector had witnessed only one merger between PSBs - between PNB and New Bank of India in 1993. This merger, however, was not successful. PNB, a strong bank with an uninterrupted record of profits, suffered a net loss of Rs. 95.90 crore in 1996.

Efforts at Restructuring

Efforts at reviving the Indian Bank began in July 2000 when the management, led by Kumar, submitted a plan to the GOI with details of the steps it proposed to take during the three-year restructuring period. Kumar requested the finance ministry to provide recapitalization funds, but the government decided to defer it till the bank showed a distinct improvement.

Kumar began the restructuring by entering into a written agreement with the trade unions, seeking their cooperation on the three year long initiative. Soon after, the bank's structure was modified to make operations simpler and ensure quick decisions. The original four-tiered structure was modified into a three-tiered one, by doing away with the zonal office level.

The Revival

The official turnaround period of the Indian Bank was three years - 2000 to 2003. However, efforts started yielding fruit within the first year itself. The first ray of sunshine came in 2000-2001, when the bank posted its first operating profit of Rs. 61.59 crore after suffering losses for years.

The turnaround finally happened, when the Indian Bank posted its first net profit of Rs. 33 crore in six years in 2001-2002. In the fiscal year 2002-2003, net profits increased by 468 per cent to Rs. 188 crore (Refer Exhibit-III).

In the Business Standard Annual 'Banker of the Year Survey' 2003, the Indian Bank was ranked second on the growth parameter. Analysts felt that this was no mean achievement for a bank, which was in the throes of losses half a decade ago. The honor was not surprising, as over 25 percent of Indian Bank's business since its inception had been done in the three-year period between 2000 and 2003 (Out of the total business of Rs. 40,000 crore, Rs. 11,000 crore was gained during the three-year period).

Looking Ahead

Encouraged by the progress achieved during the three years of restructuring leading to the turnaround, the Indian Bank developed a new long term vision document called Vision 2010. The document, which embodied the vision of the bank, looked ahead to the year 2010 and included plans for a public issue which was likely to open in early 2005 (According to norms laid down by the Securities Exchange Board of India, an entity can come out with an IPO only if it posts profits for three consequent years and the Indian Bank was expecting to post its third consequent profit in the fiscal year 2004).

Questions :

3. Describe the nature and working of public sector banks in India.

4. Explain the reasons for the decline of a prominent public sector bank in India.

5. Discuss the possible options in effecting the turnaround of the bank.

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