



Plot No. 2, Knowledge Park-III, Greater Noida (U.P.)-201306

POST GRADUATE DIPLOMA IN MANAGEMENT (2017-19)
MID TERM EXAMINATION (TERM-V)

Subject Name: **Management of Banking and Financial Services**

Time: **01.30 hour**

Subject Code: **PGF-03**

Max Marks: **20**

Note:

- 1. Writing anything except Roll Number on question paper will be deemed as an act of indulging in unfair means and action shall be taken as per rules.**
- 2. All questions are compulsory in Section A, B & C. Section A carries 1 Case Study, 8marks, Section B carries 3 questions of 2 marks each and Section C carries 2 questions 3 marks each.**

SECTION A

8 Marks

Q. 1: Case Study:

Smaller companies offer investors the chance to beat the benchmark returns

In the investing world, it is often said that small-cap stocks of today are the large caps of the future. The natural progression for a small cap stock is to grow to become a mid-cap and then a large cap.

Like mid-caps, there is no clear definition of a small-cap stock. In India, usually the companies with a market capitalization of less than Rs 500 crore could be termed as small-caps. But this definition can change depending on the market condition. In a highly bullish market, even a company with a Rs 700-750 crore market cap could be a small cap while in an extremely bearish market scenario some companies with a Rs 300-crore market cap could be termed a mid cap stock.

Investing in small-cap stocks could give returns in multiples but it should be very clear in the mind of the investor that if you are not very experienced about investing, putting money in these stocks could be very risky. One of the main reasons for this is that there is not much publicly available information on these stocks and, hence analyzing these could be a tricky affair even for the experienced analysts and fund managers. On the flip side, there is a big advantage too. Often, mutual funds and other institutional investors do not invest in these stocks because they have the mandate to invest in only the stocks with some minimum level of market cap, which ensures liquidity for the fund. In such a situation, if you are able to invest in small-cap stocks with strong prospects, there is a high chance that you can beat even the most seasoned fund manager if your investments are correct.

So what does it take for a small cap to grow faster than its larger peers? According to Sundeep J Pissay of Sri Samrudhi Investment Services, in any small-cap company, two components are very important in improving the profitability of the company. "One is the energy cost and the other is the interest cost. Unless these two become cheaper, a small-cap company's profitability cannot increase," Pissay said. The interest cost increased from 24.7% of EBITDA in 2011 to 40% in 2013. Even though the revenue grew during the last five years, margins contracted because of the high energy and interest costs.

"As the economic recovery takes off, I believe small and midcap space will outperform the broader markets by a wide margin since they were disproportionately hammered during the downturn. The sheer magnitude of the downturn (five consecutive quarters of GDP decelerating) combined with 11 repo rate hikes till April 2012 has meant that the small and mid-caps were hammered mercilessly. With a foreseeable uptick in the economy, these sectors would be disproportionate beneficiaries too," Pissay said.

Over the last five years, foreign investors have invested \$90 billion in the Indian market and most of this money has been invested in select large-cap stocks, creating a huge valuation gap between the large-cap and the mid-cap and small-cap stocks. "It therefore makes great sense now to invest in the small cap sector," he said.

Financial planners believe that a systematic investment plan (SIP) is always the best tool for creating wealth for a retail investor. Although not many MF schemes invest in these stocks, there is a few which do, and some even have small-cap funds which invest most of their corpus in such stocks.

Pissay carried out a study of a few small-caps MF schemes to assess their performance between January 2008 and February 2014, since the markets were below the same levels during this period. “The results were startling: An SIP monthly investment in these schemes has shown an annualized return of 16-18% CAGR during this period,” he said.

Questions:

- a) Retail investors should go with small cap mutual fund schemes. Comment. [2 marks]
- b) What does it take for a small cap to grow faster than its larger peers? [2 marks]
- c) A systematic investment plan (SIP) is always the best tool for creating wealth for a retail investor. Discuss. [4 marks]

SECTION B

02×03 = 06 Marks

Q.2: What is likely to happen to (a) deposits with the banking system and (b) interest rates in each of the following transactions?

- i) The central bank decreases CRR by 50 basis point
- ii) The central bank increases CRR by 100 basis point
- iii) The central bank sells government securities of Rs 100 crore to the banking system
- iv) The central bank buys government securities of Rs 200 crore from the banking system

Q.3: Do you think that the central bank in USA should have bailed out large financial institutions during the credit crisis?

Q.4 Firms should always invest in money market instruments? Give you points in favor as well as against the statement.

SECTION C

03×02 = 06 Marks

Q.5: If a bank has more rate sensitive liabilities than rate sensitivity assets, what will happen to its net interest margin (NIM) during a period of rising interest rate? Also comment on NIM when the interest rates decline.

Q.6: What are the four major sources of funds for banks? What alternatives does a bank have if it needs temporary funds? What is the most common reason that bank issues bonds?