DEPARTMENT OF

**INDUSTRIAL ENGINEERING & MANAGEMENT**

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| **Date** | **28th August 2024** | **Maximum Marks** | **10 + 50** |
| **Course Code** | **21IE6F8** | **Duration** | **20 + 90 min** |
| **Sem** | **VI** | **Improvement CIE** | |
| **Elements of Financial Management (Institutional Elective)**  **(Scheme & Solution)** | | | |

**Note:** Answer all the Questions.

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| **Sl. No.** | **Questions** | **M** |
|  | **Part – A** |  |
| **1** | **Define the term Par Value.** | **01** |
|  | Par Value: Par value, also known as face value or nominal value, is the nominal or stated value of a security as defined by its issuer. For bonds, it's the amount paid to the bondholder at maturity. For stocks, it’s the value assigned to the stock when issued, which may not necessarily reflect the market value of the stock. |  |
| **2** | **What is Pre-emptive Right?** | **01** |
|  | Pre-emptive Right: Pre-emptive right is a privilege granted to existing shareholders of a company to purchase additional shares before the company offers them to the public. This right helps shareholders maintain their proportional ownership in the company and avoid dilution of their shares. |  |
| **3** | **Mention any two phases of the IPO process.** | **01** |
|  | Two Phases of the IPO Process: - Pre-IPO Phase: This involves preparation and planning, including due diligence, financial audits, and marketing the company to potential investors.  - Post-IPO Phase: This involves the actual issuance of shares, listing on the stock exchange, and the company's ongoing compliance with regulatory requirements and reporting. |  |
| **4** | **What is Private Placement?** | **01** |
|  | Private Placement: Private placement refers to the sale of securities to a small number of select investors rather than through a public offering. This method is often used to raise capital quickly and with fewer regulatory requirements compared to a public offering. |  |
| **5** | **In which year the National Stock Exchange was established?** | **01** |
|  | Year of National Stock Exchange Establishment: The National Stock Exchange (NSE) of India was established in 1992. |  |
| **6** | **What is a Merger?** | **01** |
|  | Merger: A merger is a corporate strategy where two or more companies combine to form a single entity. This is usually done to enhance operational efficiencies, expand market reach, or achieve other strategic goals. |  |
| **7** | **What is the role of World Bank in the International Financial System?** | **01** |
|  | Role of the World Bank in the International Financial System: The World Bank provides financial and technical assistance to developing countries for development projects (e.g., infrastructure, education, health) that are expected to improve the economic prospects and quality of life for people in those countries. Its role includes reducing poverty and supporting development through loans, grants, and policy advice. |  |
| **8** | **What is letter of Credit?** | **01** |
|  | Letter of Credit: A letter of credit is a financial document issued by a bank or financial institution guaranteeing payment to a seller on behalf of a buyer, provided that the seller meets the terms and conditions specified in the letter of credit. It helps facilitate international trade by reducing the risk of non-payment. |  |
| **9** | **Define Hedging.** | **01** |
|  | Hedging: Hedging is a risk management strategy used to offset or reduce the risk of adverse price movements in an asset. This is typically done through financial instruments like options, futures, or other derivatives. The goal is to protect against potential losses from fluctuations in prices, interest rates, or other financial variables |  |
| **10** | **What type of forward contract is a futures contract?** | **01** |
|  | Type of Forward Contract: A futures contract is a standardized type of forward contract. Unlike forward contracts, which are customized agreements between two parties, futures contracts are standardized and traded on exchanges. This standardization helps in reducing counterparty risk and provides liquidity through the exchange's clearinghouse. |  |

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| **Sl. No.** | **Questions** | **M** |
|  | **Part –B** |  |
| **1.** | **Enumerate the principle tasks of Securities Exchange Board of India (SEBI)? Describe briefly the key initiatives taken by SEBI.** | **10** |
|  | Principle Tasks of Securities Exchange Board of India (SEBI)  The Securities Exchange Board of India (SEBI) is the regulator for the securities market in India, and its principle tasks include:   1. Regulating Market Intermediaries: SEBI oversees the registration and regulation of various market intermediaries such as brokers, underwriters, and portfolio managers to ensure their adherence to regulations and fair practices. 2. Protecting Investor Interests: It aims to protect the interests of investors by ensuring transparency, fairness, and integrity in the securities markets. 3. Promoting Market Development: SEBI works towards the development of the securities market, including innovations in trading practices, market instruments, and the introduction of new products. 4. Regulating Market Infrastructure: It supervises the functioning of market infrastructure institutions such as stock exchanges and clearing houses to ensure smooth and efficient market operations. 5. Ensuring Compliance and Enforcement: SEBI has the authority to enforce compliance with regulations and take action against violations, including penalties and sanctions.   Key Initiatives Taken by SEBI   1. Introduction of Electronic Trading: SEBI has mandated the use of electronic trading systems to improve market efficiency and reduce systemic risks. 2. Implementation of the SEBI (Listing Obligations and Disclosure Requirements) Regulations: This initiative enhances transparency and accountability in the listing and disclosure practices of listed companies. 3. Regulation of Derivatives and Commodity Markets: SEBI has introduced measures to regulate derivative products and commodity exchanges to ensure market stability and protect investors. 4. Investor Education and Protection: SEBI conducts various programs to educate investors about financial markets and instruments, promoting better decision-making and awareness. 5. 5. Strengthening Corporate Governance: SEBI has set guidelines for corporate governance to ensure that companies adhere to best practices in managing their affairs and reporting their financials. |  |
| **2 a.** | **List the factors that have an important bearing on working capital needs?** | **05** |
|  | Factors Affecting Working Capital Needs   1. Nature of Business: Industries with seasonal demands or high inventory turnover generally require different levels of working capital compared to those with steady demand and longer production cycles. 2. Sales Volume: Higher sales often lead to higher working capital needs due to increased inventory and receivables. 3. Credit Policy: Companies that offer credit to customers will need more working capital to finance accounts receivable. 4. Inventory Management: Efficient inventory management can reduce working capital needs by minimizing the amount of cash tied up in stock. 5. Supplier Terms: Longer payment terms from suppliers can reduce working capital requirements as companies can delay cash outflows. 6. Business Cycle: The phase of the business cycle (expansion or recession) affects working capital needs, with expansions typically requiring more capital. |  |
| **b.** | **Distinguish between operating cycle and cash cycle?** | **05** |
|  | **Operating Cycle vs. Cash Cycle**   * Operating Cycle: It is the time taken between the acquisition of inventory and the collection of cash from receivables. It includes the period for selling inventory and collecting receivables. * Cash Cycle: It is the time taken for cash to flow back to the business after being spent on production. It is calculated as the operating cycle minus the accounts payable period, reflecting the net time cash is tied up in the business. |  |
| **3 a.** | **Distinguish between Initial Public Offer (IPO) and Follow on Public Offer (FPO)** | **05** |
|  | * Initial Public Offer (IPO): This is the first sale of shares by a company to the public. It allows the company to raise capital for the first time and typically involves the issuance of new shares. * - Follow-on Public Offer (FPO): This occurs after a company is already publicly listed and involves the issuance of additional shares. It can be used to raise more capital or to allow existing shareholders to sell their shares. |  |
| **b** | **“Accruals are a ‘free’ source of finance”. Analyze.** | **05** |
|  | * Accruals: Accruals refer to expenses that have been incurred but not yet paid, or revenues that have been earned but not yet received. They represent a short-term financing source that is essentially 'free' because no immediate cash outflow is required. * - Analysis: While accruals provide temporary relief by delaying cash payments or receipt, they are not truly free as they represent future cash obligations. Over-reliance on accruals can lead to liquidity issues and financial strain if not managed properly. |  |
| **4.** | **Discuss the plausible reasons for Mergers. In what way do you think mergers can enable organizations to beat competitions?** | **10** |
|  | Reasons for Mergers and Competitive Advantages  **Reasons for Mergers:**   1. Economies of Scale: Mergers can reduce costs and increase efficiency by combining resources. 2. Market Expansion: They allow companies to enter new markets and diversify their product lines. 3. Synergies: Mergers can create synergies by combining complementary strengths and resources. 4. Tax Benefits: Companies may seek to benefit from tax advantages through mergers. 5. Eliminating Competition: Mergers can reduce competition by consolidating market share.   **Competitive Advantages:**   1. Increased Market Share: Mergers can increase market share and strengthen competitive positioning. 2. Enhanced Capabilities: They can provide access to new technologies, skills, and expertise. 3. Cost Reductions: Mergers often lead to cost efficiencies and reduced operational expenses. 4. Improved Financial Strength: Combining financial resources can enhance overall financial stability. |  |
| **5.** | **Illustrate the salient features of foreign exchange market in India. How does it differ from the features of international foreign exchange market?** | **10** |
|  | Salient Features of Foreign Exchange Market in India vs. International Foreign Exchange Market  **Foreign Exchange Market in India:**   1. Regulated by RBI and SEBI: The Reserve Bank of India (RBI) and SEBI regulate the foreign exchange market to ensure stability and integrity. 2. Restricted Capital Flows: Capital flows are regulated with certain restrictions to manage currency volatility. 3. Market Segmentation: The market is segmented into the spot market, forward market, and derivatives market.   **International Foreign Exchange Market:**   1. Decentralized and Global: The market is decentralized with trading occurring globally across various platforms. 2. Higher Liquidity: It has higher liquidity with a broader range of participants including central banks, financial institutions, and corporations. 3. Less Regulation: There is less regulatory oversight compared to national markets, leading to greater volatility and risk. |  |