

VPM's
DR VN BRIMS, Thane
Programme: MMS (2016-18) (Finance)
Third Semester Examination October 2017

Subject	Financial Markets and Institutions		
Roll No.		Marks	60 Marks
Total No. of Questions	7	Duration	3 Hours
Total No. of printed pages	3	Date	26.10.2017

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) 20 Marks (Compulsory)

General Insurance Corp of India (GIC Re) is all set to kick off its mega Rs 11,370 crore initial public offer on Wednesday. This would be India's third biggest IPO ever after Coal India's Rs 15,200 crore and Reliance Power's Rs 11,700 crore issues.

Reinsurance is insurance purchased by an insurance company from other insurance firms to manage their risk.

GIC writes reinsurance for every non-life and over half of the life insurance companies in India.

GIC Re receives statutory cession of 5 per cent on each and every policy subject to certain limits.

According to GIC Re, the capacity for each class of business on 'Treaty and Facultative' basis for domestic business is given below:

Class	Capacity
Property	INR 15000 million. Any one risk
Energy	\$ 100 million
Marine	Hull - \$ 100 million. any one vessel
	Cargo \$ 100 million. Any one policy/sending
Engineering	INR 15000 million. Sum Insured
Miscellaneous	INR 3500 million. Sum Insured
Aviation-Hull/Spares- Rotor Wing	INR 20.50 million. per aircraft
Aviation-Hull/Spares- -Fixed Wing	INR 50 million. per aircraft
Liability	INR 100 million. per occurrence
Aviation Treaty - Hull	INR 500 million.
Spares	INR 250 million..
Liability	INR 1000 million.

The state-run reinsurer said it will sell 12,47,00,000 [shares](#) in Rs 855-912 apiece band in the IPO that will conclude on October13. The offer would constitute 14.22 per cent of the post-offer paid-up equity share capital. The company said it will offer a discount of Rs 45 per share to retail investors and eligible employees. Investors can bid for a minimum of 16 shares and in multiples of 16 thereafter.

The company intends to utilise the net proceeds of the fresh issue towards augmenting the capital base of the corporation to support the growth of the business and to maintain current solvency levels and General corporate purposes, subject to applicable law.

What the management says

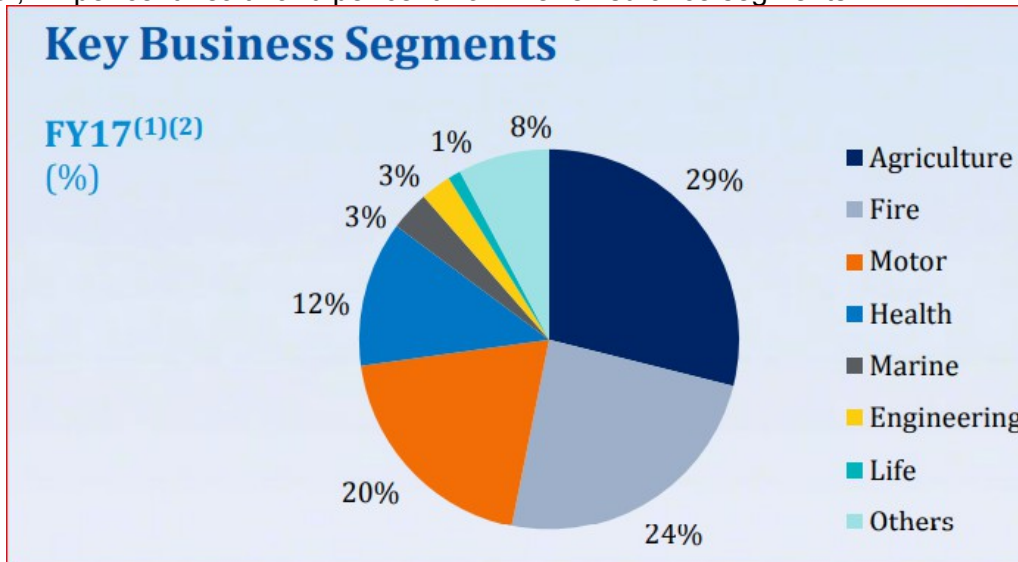
Alice G Vaidyan of GIC India said his company sees no threat or competition from foreign re-

insurance companies because "anyway these foreign re-insurers were working in the Indian market from outside of India."

"It is now just that the regulations permit them to open office in India. They had a considerable [market share](#) for around 50 per cent even earlier and given the growth at which pace at which Indian market is growing, there is room for everyone to grow in this market and we will continue to maintain our dominant market share in the Indian re-insurance market.

Vaidyan said that FY17 was a very good year for his company. "We have completed a premium of Rs 33,741 crore, which was an 82 per cent increase over the previous year. I think the growth will stand well this year as well. We are in a very comfortable position as far as growth in the market is concerned for this year as well."

Data showed a healthy 29 per cent of GIC's revenue came from agriculture segment, 20 per cent from motor, 12 per cent health and per cent from life reinsurance segments.



The company's gross premium has grown at a compounded annual growth rate (CAGR) of 24.84 per cent in FY15-17. On a consolidated basis, the company's gross premium have grown at a CAGR of 48.65 per cent FY1517.

Profit after tax (PAT) for the firm has grown at a 4.23 per cent annually during the period. Productivity, as measured by PAT per employee on a restated consolidated basis, improved to Rs 5.57 crore per employee in FY17 from ?5.5crore in FY15.

What analysts say

Jimeet Modi, CEO at Samco Securities said that GIC being a [monopoly](#) business should be subscribed to, given that the issue is fairly priced.

"The stock must be held with ultra long term perspective for superior returns," Modi said.

"If you look at general finance sector, its valuations have steadily gone up over the last 5 to 10 years, as the market has figured out how to value such a sector. There is a business model. How do it expands, what are the cost, the capital requirement and other things -- these are all testing phases. Only one or two listings have happened in the insurance space so far. So it is in a discovery phase for the market," said Sunil Subramaniam, CEO, Sundaram [Mutual Fund](#).

"We have some more listings coming in terms of the insurance companies GIC and New India. So there will be supply and you will get what you call a price realisation," Subramaniam said.

Alice said that his company was seeing investor interest, both from foreign [markets](#) and from domestic markets.

"Given the fact that GIC is in a very unique space as a reinsurer, with a dominant market share with a global book, firm financial [balance sheet](#), diversified investment portfolio and a rating A minus, we are very confident that there is an investor appetite and the markets will respond very well to the issue," he said.

- 1) What s Reinsurance? What's the issue size of GIC?
- 2) What do you understand by IPO and Book building process?
- 3) Who are QIBs?
- 4) What do you think whether there will be any threat or competition from foreign re-insurance Companies in the Indian market? Elaborate your answer with justification."
- 5) Explain the Financials of GIC

Q2) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- A) What do you understand by following terms: Spot Rate, Forward Rate, and Bond Yield? Curve and Coupon,
- B) What do you understand by following terms: Speculators, Arbitrators, and Hedgers Market Makers?
- C) What do you understand by following terms: Bull, Bear, Stag, Lame Duck

Q3) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- A) Elaborate on Evolution of Indian Financial System
- B) What are Hedge funds?
- C) Explain the role and functions of RBI in monetary policy.

Q4) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- A) Illustrate with diagram Indian Financial System with important pillars of the system
- B) Illustrate with diagram functions of Investment Banks.
- C) Elaborate PPP Theory of Foreign Exchange with the help of diagram

Q5) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- A) What is the difference between Forward and Future Currency?
- B) Differentiate between Money Market and Capital Market
- C) Differentiate between Floaters and Reverse Floaters.

Q6) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- A) Consider a bond of Blue Star Intermediaries Limited with the following features:
Par Value: Rs. 100
Coupon Rate 10%
Years to Maturity 6 years

Find out the value of bond if the required rate of return is 11%.AND 13%.

- B) *Debenture of Rs100 face value carries an interest rate of 14% is redeemable after 6 years at a premium of 2%.If the required rate of return is16% What is the present value of debenture?*
- C) Explain different types of Stock Exchanges- NSC, BSC and OTC.

Q7) Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks

- A)Write short note on A)Sharia Banking , B) Series B financing
- B)Write are various instruments of Money Markets
- C)You are considering an investment in one of the following bonds

Sr.No.	Bond	Coupon Rate	Maturity	Price (Par value Rs 1000)
1	Bond A	14%	8years	Rs 600/-
2	Bond B	12%	4 years	RS 500/-

What is YTM of each bond?

Which bond would you recommend and why