VPM's
DR VN BRIMS, Thane
Programme: MMS (2018-20) (Finance)
Third Semester Examination October 2019

Subject	**Financial Markets And Institutions**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**2**	**Date**	**22.10.2019**

Instructions:-

- **Q. No 1** is compulsory.
- Attempt **Any Four** from the Remaining Six Questions.
- Figures to the right indicate marks in full.

Q1. From the following case, Answer the following questions. (20 Mks)

ArcelorMittal is the largest steel company in the world. The company was founded in 2006 when Arcelor and Mittal Steel company merged. The company is headquartered in Luxemberg City, in southern Luxemberg, the former seat of Arcelor. Arcelor Mittal produces as much as 110 million tons of steel a year, about 10 percent of world output. The company also controls the biggest bulk handling port in Mexico, from where it imports iron ore and exports semi-finished steel products.

Laxmi Mittal (owner of Mittal Steel) is the president and chairman. Mittal's family holds a 43.6% stake in this company. Counting all shareholders, 50.6% will be former Arcelor shareholders and 49.4% will be former Mittal shareholders.

Mittal Steel Announcement Offer for Arcelor Merger proposal to create first 100 million ton plus steel producer US$40 billion merger marks step change in steel sector consolidation Mittal Steel N.V. (“Mittal Steel”) on 27 January, launched an offer to the shareholders of Arcelor SA (“Arcelor”) which would create the world’s first 100 million ton plus steel producer. The offer valued each Arcelor share at €28.21 which represented a 27% premium over the closing price and all time high on Euronext Paris of Arcelor shares on 26 January 2006, a 31% premium over the volume weighted average price in the preceding month, and a 55% premium over the volume weighted average share price in the preceding 12 months. This offer valued Arcelor at an equity value of €18.6 billion on a fully diluted basis.

The offer valued each Arcelor share at €28.21 which represented a 27% premium over the closing price of Arcelor shares on Euronext Paris as of 26 January 2006, a 31% premium over the volume weighted average price in the preceding month, and a 55% premium over the volume weighted average share price in the preceding 12 months. Mittal Steel offerd to acquire all of the outstanding Arcelor shares
Through three offers:- a primary mixed cash and exchange offer for Arcelor shares consisting of 4 new Mittal Steel shares and €35.25 in cash for every 5 Arcelor shares;
- a secondary cash offer consisting of €28.21 per each Arcelor share;
- a secondary exchange offer consisting of 16 new Mittal Steel shares for every 15 Arcelor shares.

The geographic overlap between Mittal Steel and Arcelor was limited. This combination was expected to create a truly global steel company with leading positions in the five main regions (South America, NAFTA, European Union, Central Europe and Africa). Geographic diversification was expected to reduce volatility for the enlarged group while presenting numerous strategic opportunities.The enlarged group was expected to have leading positions in a number of product segments and have the ability to supply customers across a range of geographic regions and in end-markets such as automotive, domestic appliances, packaging, construction and oil and gas. The company was also expected to have a strong value-added contract business which will allow for reduced pricing volatility.In the automotive sector, the new group was expected to be the leader in both the European Union and NAFTA regions and will also have leading positions in South America, Eastern Europe, Africa and Asia. Mittal Steel aimed to maximise the value and opportunities within the combined portfolio of assets. Major initiatives included:
(i) Leveraging Mittal Steel’s R&D capabilities for processing and product innovation
(ii) Improving productivity through global benchmarking and continuous improvement programmes across the network of operating units (iii) Maximising industrial potential between units, for example through product specialization by unit By organising and optimising product flow and investments throughout the production system, the company was expected to have the ability to realize more potential and value from its asset base.

Target annual cost synergies were expected to reach US$1 billion before tax by the end of 2009. The integration and restructuring costs to realize this level of synergies were expected to be minimal. The

industrial plan for the combined entity identified several synergies, primarily from purchasing, marketing opportunities and manufacturing process optimization.
Arcelor later implemented a white knight defence through a transaction structure contemplating the issuance of shares to a friendly strategic partner (SeverStal of Russia), which was also a technique allowed in certain jurisdictions in Europe (but not in the U.K.) and used in the U.S. Just as Arcelor took actions to protect Dofasco with the S3, Arcelor believed that an opportunity to acquire SeverStal was consistent with Arcelor's corporate interest and should, if possible, be presented as a viable alternative to Mittal Steel's original offer, which Arcelor believed was an inadequate offer. While Arcelor had a previous mandate from its shareholders to issue the Arcelor shares proposed to be issued to Mr. Mordashov (SeverStal's controlling shareholder), the Arcelor Board felt it was important to give the shareholders an opportunity to express their opinion on the transaction, in particular given the outstanding takeover offer from Mittal Steel. The Arcelor Board called an extraordinary meeting of shareholders on June 30, 2006, to vote on the SeverStal transaction. Unless more than 50% of the then outstanding Arcelor shares opposed the transaction, the merger with SeverStal would proceed. While the 50% unwind mechanism was criticised by the market, including institutional investors, the SeverStal transaction caused Mittal Steel to increase the price of its offer and to deliver better overall corporate governance and other terms. And in the end, the proposed SeverStal merger was unwound as over 50% of Arcelor's shareholders voted to unwind it.

Questions (5 marks each)

A. Explain the Case as per your understanding?
B. Explain the Merger Process?
C. Explain the Highlights of the Merger offer?
D. Explain the SYNERGIES in the case?

Q2. Attempt any 2 questions for 5 marks each. [(5x2) = 10 Marks]

A Government Bond is issued with a face value of Rs. 5,000 for 3 years with a coupon of 7% and interest is paid annually. Assume the market interest rate for 3 years is also 8%. For Duration and Modified Duration, working should be upto 2 digits, for Convexity, working should be upto 4 digits.

A: From the above input, arrive at the Duration of the Bond.
B: Arrive at the Modified Duration of the Bond, from A above.
C: Elaborate the types of Mutual Funds in detail?

Q3. Attempt any 2 questions for 5 marks each. [(5x2) = 10 Marks]

A: What are Bonds and Features of bonds?
B: Explain 5 differences between Investment banks vs Commercial banks?
C: Explain Equity Linked Saving Scheme (ELSS)?

Q4. Attempt any 2 questions for 5 marks each. [(5x2) = 10 Marks]

A: Explain Speculation, Hedging and Arbitrage??
B: Explain functions on Investment banks?
C: Who is a Broker and explain his responsibilities towards investors?

Q5. Attempt any 2 questions for 5 marks each. [(5x2) = 10 Marks]

A: Explain any 5 steps of IPO procedure?
B: Explain forward contract with example?
C: Explain callable Bond & Putable Bond?

Q6. Attempt any 2 questions for 5 marks each. [(5x2) = 10 Marks]

A: Explain features of OTC markets?
B: Explain role & Functionality of NSE & BSE?
C: Explain Types of Insurance?

Q7. Attempt any 2 questions for 5 marks each. [(5x2) = 10 Marks]

A: Explain any 5 Factors influencing Stock Market?
B: Assuming Government of India had originally issued a bond of Rs. 2,000 with a coupon rate of 10%. The Current market price of the bond is Rs. 1,860/- and the remaining period of the bond is 3 years.

Calculate the exact YTM of the Bond assuming the interest rates at 12% and 13%.

C: Explain Financial System in India with role of different regulators.