JAIPURIA
INSTITUTE OF MANAGEMENT

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

SIXTH TRIMESTER (Batch 2017-19)

END TERM EXAMINATIONS, MARCH 2019

Set-I

Course Name	**Financial Market and Services**	Course Code	**FIN 601**
Max. Time	**2 hours**	Max. Marks	**40 MM**

INSTRUCTIONS: Attempt all Questions.

Qs. 1 Read the below passage and answer questions based on this.

The Reserve Bank of India's recent rate cut hasn't, at least so far, translated into lower cost for companies raising long-term funds in the bond market.

The differential, or spread, between corporate and the benchmark bond yields has expanded to 131 basis points, among the highest since the 2008 world financial crisis, show data from Bloomberg. A large number of paper supplies that crowded the market ahead of the end of the financial year may have widened the spread, market participant said.

"Many companies including public sector units are rushing to borrow ahead of the financial year-end as they may have borrowing targets to meet," said A Balasubramanian, chief executive of Aditya Birla Sun Life Mutual Fund.

"We are taking advantage of increasing spreads as we are expecting the differential will contract next financial year amid a softer interest rate regime," he said. "With the demand remaining the same, it has checked corporate bond yields from falling even after the policy rate cut."

The central bank earlier this month cut its benchmark rate by a quarter percentage point.

Housing Development Finance Corporation, REC, National Bank for Agriculture & Rural Development and LIC are some of the companies that raised money in the past three-four weeks. Several others including Power Grid Corporation and Power Finance Corporation are in talks to sell long-term bonds before March 31. "Owing to oversupply in corporate bonds, spreads for even quasi-sovereign PSUs have risen to 100 bps over corresponding government bonds," said Suyash Choudhary, head of fixed income at IDFC Mutual Fund.

"While fiscal deficit has been optically compressed, government spending via borrowings from these entities has virtually crowded out private sector borrowing from the bond market," he said. "Also, due to this, the benefit of falling CPI (consumer price inflation) and repo rate cut is non-existent for commercial borrowers."

The differential between top-rated public-sector companies and the benchmark yield is in the range of 100-105 basis points, while that between top-rated private companies and the sovereign gauge is more than 130 basis points, dealers said.

Excess supply of state government bonds, too, are eating into the demand.

"State government bonds are relatively yielding higher, wooing investors," said Ajay Manglunia, executive vice president at edelweiss financial services. "Investors are also preferring SDLs (state development loans) due their inherent safety factors while companies nearing close of financial year end are in need of raising required money. A combination of both and risk aversion for some sectors have kept corporate bond yields elevated. RBI's latest rate cut weighed little and it was momentary on corporate bonds even if the benchmark sovereign yields rallied," Manglunia added. The gap between SDLs and corporate bonds is about 15-20 basis points.

1. Explain the reason behind the cut in repo rate not resulting in lower cost for companies raising long-term funds. **(3 marks)**
2. Name the benchmark bond yield mentioned in the second para. **(1 marks)**
3. Paraphrase the line in the fourth para – 'We are taking .... softer interest rate regime'. **(3 marks)**
4. 'The differential between top-rated public-sector companies and the benchmark yield is in the range of 100-105 basis points, while that between top-rated private companies and the sovereign gauge is more than 130 basis points'. Explain. **(2 marks)**
5. Describe the types of instruments traded in the debt market. **(5 marks)**

Qs.2 (8 marks)
The Reserve Bank of India has merged three categories of NBFCs into one new category called NBFC-Investment and Credit Company (NBFC-ICC) to ease operation flexibility of these institutions. List and explain the categories of NBFCs been merged.

Qs.3 (10 marks)
Explain the three pillars of BASEL-III norms and RBI guidelines related to capital adequacy ratio for banks.

Qs.4 (8 marks)
Recent credit events have raised concerns about the utility of credit ratings. Illustrate this statement. Explain in brief the credit rating methodology followed by credit rating agencies in India.