Roll No. ....

Total No. of Case study Questions – 3 Total No. of Printed Pages – 23

Time Allowed – 4 Hours Maximum Marks – 100

Final New Syllabus

Paper - 6 B

Financial Services & Capital Markets

NOV 2018

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GADX

Answers to questions are to be given only in English except in the case of candidates who have opted for Hindi Medium. If a candidate has not opted for Hindi Medium, his/her answers in Hindi will not be valued.

The Question Paper comprises three case study questions. The candidates are required to answer **any two case study** questions out of three.

Answers in respect of Multiple Choice Questions are to be indicated in capital letters i.e., A or B or C or D as the case may be.

Marks

Case Study – 1

HRS Ltd. is an asset financing company with a proven track record and has been in the business of mainly providing finance to purchase trucks, tractors, farm equipment and commercial vehicles. In the past, it was financing used and new vehicles, but over the recent years, it prefers to concentrate on new vehicles only. Trucks form the major part of the financing business. There is a lot of competition in this field, but due to the increasing norms on pollution control and the decrease in the value of second hand vehicles, the company wants to strategically confine itself only to new vehicles in the coming years. HRS Limited mainly uses debt finance for its operations. The debt-equity ratio is in the range of 5:1 on an average. This is in line with the industry.

The company feels that in addition to truck financing, it can expand its business to finance smaller vehicles such as passenger cars and tempo travellers. The current expansion plan is described in the succeeding paragraphs :

Marks

There has been a recent entrant in the country wide market by a mobile application provider who has not only ushered in a revolution in the way cars are being hired by common man, but also in the manner of documentation of bookings, charges, cancellations and in the ownership of vehicles for such hire. This operator has also lured many entrepreneurs to successfully earn money either as drivers or as owners of self-driven cars and be engaged by users of the mobile app. This app has found immense success in the car segment and is also being considered for trucks for transport as well as connections from goods trains to factories so that companies can track the distribution of material and finished goods on an optimal cost.

While discussing with this app provider, HRS Ltd. has discovered a huge potential to finance vehicles to be demanded by virtue of the app users who may be new entrepreneurs, small transport companies, etc. Since the individual entrepreneurs may turn out to be risky and counterproductive for HRS for repossession in the event of failure to repay, the app provider, who has a wide data base and the recovery mechanism for fares realized, has agreed to be the co-borrower for the vehicles. Under such an arrangement, the vehicles financed will be hypothecated to HRS by the entrepreneur who is the principal borrower, fully guaranteed by the app provider. The app provider will also ensure that the used vehicle is also be handed over to another entrepreneur attached to him. Thus, only the repossessed vehicles will form the used vehicle financing segment. Agreements are proposed to be drafted with conditions for repossession within one month of default and redeployment of such vehicles for earning money, by continuing to be hired. GPS system to be installed in the trucks will provide information to the delivery destination and the origin of loading so that better inventory management and production processes are ensured. Thus the whole new business is expected to have a huge success story, going by the success rate in the passenger car booking segment.

In case the app provider or the app itself fails due to technical faults or user-unfriendly situation or in the event of fierce competition that this app provider may face, the large number of vehicles financed would have to be managed by another app provider or alternatives set up in-house. These could take some time.

In the near future, HRS Ltd. would like to cater to vehicle financing as in the earlier line of business, but mainly to the customers targeted through the app provider, who would be entrepreneurs in the categories of first time vehicle owners, repeat vehicle owners, small transport operators, etc. Thus, HRS is not deviating essentially from its vehicle financing activity.

HRS Ltd. has also accepted deposits from the public in the past through its country wide branches.

The financial information relating to HRS Ltd. is given in Tables 1 and 2.

HRS Ltd. was promoted by HS Holdings Ltd. which has subscribed to 63% of the equity capital of HRS Ltd. There have been no negative pointers under any law on the company or its directors or management.

The company is professionally managed and has had qualified persons of repute heading the respective operations and the middle level managers are also carefully chosen to be able to manage the country wide operations and to take decisions quickly and efficiently. The managers who have retired have done so only due to age reasons and there have been no adverse publicity in any media about any internal mismanagement or controversy.

The company proposes to issue ₹ 500 crores worth debentures comprising 50,00,000 debentures of ₹ 1,000 each face value, for a period of five years, the full value being payable on application. Most of this issue is to be used for redeeming an earlier issue which is due to mature during the next twelve months.

Marks

The company intends to patronize active trading and hence prefers to have tradability of even one debenture. There will be no option for the company to redeem earlier than the committed period nor does it allow the holder to claim redemption earlier than stipulated. Land and buildings worth ₹ 950 crores are the intended security for this offer. The debentures are proposed to be issued and redeemed at par. The rate of interest is fixed at 9.5 % p.a. throughout the tenor and interest will be paid on the 30th day of June and December every year.

The company has fulfilled all the conditions under the various regulations and plans for the issue to open on 15th January, 2019 and remain open for only the minimum period required under law.

Choose the correct answers to the following questions : 2×10 =20

(1.1) This company is

(A) required to disclose the debt service coverage ratio to SEBI every half year.

(B) required to disclose the debt service coverage ratio to SEBI every quarter.

(C) not required to disclose to SEBI the debt service coverage ratio except at the time of issuing the prospectus.

(D) not required to disclose to SEBI at any time any debt service coverage ratio.

(1.2) The following is true :

(A) The debenture trust deed must be signed with the debenture trustee and submitted to SEBI before every issue of debentures.

(B) The debenture trust deed can be signed with the debenture trustee after the issue of debentures.

(C) The debenture trust deed has to be signed only for and before the first issue of debentures. For subsequent different debenture issues the deed need not be signed if the trustee is unchanged.

(D) The debenture trust deed has to be signed with the debenture trustee and can be submitted to SEB1 after the issue of debentures. There need not be submissions for every tranche.

Marks

(1.3) In case this company does not pay the debenture interest or the redemption amount on time, then

(A) The debenture trustee pays it on behalf of the company to the debenture holders and later recovers it from the company.

(B) The debenture trustee does not pay the holders any amount, but the debenture holders have recourse against the company by way of liquidating the assets based on which the debentures are secured.

(C) SEBI will wait for two months to lapse and suspend the trading of the debentures and enforce payment of interest.

(D) It can issue fresh debentures and use the proceeds for paying up the principal and interest overdue.

(1.4) If the redemption of debentures is drawing near and the company wants to use the funds it has set aside for redemption for some other purpose,

(A) It can, before the redemption becomes due, arrange for a fresh issue of debentures of any category and use the proceeds of issue to fund the redemption.

(B) Only the shortfall between the redemption amount and the funds set aside can be raised by a fresh issue of debentures before the due date of redemption.

(C) Only the same type of debentures can be issued afresh for funding the redemption.

(D) It cannot use the fresh issue proceeds to fund the redemption of debentures.

Marks

(1.5) For the purpose of paying interest for the first half year, the date from which the interest is to be reckoned is :

(A) from the date of allotment

(B) from the date of application

(C) from the date of deemed allotment

(D) from the record date.

(1.6) A company

(A) can list its debentures only if it has listed its equity shares in the exchange.

(B) can list its debentures even without listing its equity shares.

(C) has to list its debentures if it has listed its equity shares.

(D) is itself a listed entity and hence all its securities are tradeable on the exchange.

(1.7) Some debenture-holders of this company have not updated their addresses and their bank account numbers. Hence the interest payments sent to their bank accounts have been returned unpaid. There has not been any response to intimations from the company. Redemption is due next year. Then, for this year, the company

(A) can use this amount for other purposes such as redemption of other debentures or to provide for the redemption to these debenture-holders themselves.

(B) can write back this amount from interest expenses.

(C) cannot use this amount for any other purpose, but retain it in unpaid interest account until redemption is due.

(D) cannot use it for any other purpose but transfer it to Investor Protection Fund, treating the amount as unclaimed interest.

Marks

(1.8) The company had an earlier issue of debentures of ₹ 500 crores which is due for redemption in eleven months from now. Those debentures were secured by fixed assets consisting of land and building then worth ₹ 750 crores. The value of the land and building has now risen substantially to ₹ 950 crores and the company therefore proposes to secure these debentures also with the same assets. The current issue size is ₹ 500 crores.

(A) The same assets cannot be used for securing another issue of debentures unless the earlier issue has been redeemed in full.

(B) The cost of the underlying assets is what has to be considered for security. Hence once offered as security, it cannot be taken again as security.

(C) The company has to provide for the coverage of the shortfall in the security of ₹ 50 crores before it can issue.

(D) The company can go ahead and use the same assets for coverage of the next issue also.

(1.9) The following is true of the debenture issue given in the case study :

(A) The promoters of the company should subscribe to at least 20 per cent of the face value of the debentures viz. ₹ 100 crores worth debentures and to have a lock in period of 3 years.

(B) The promoters should subscribe to the market value of the debentures to the extent of 20 per cent of the issue value and then retain it for at least 3 years.

(C) The promoters should not subscribe to the debenture issue at all.

(D) The promoters are not required to subscribe any value, but they may do so to the extent they wish to invest or for underwriting purpose and they have no lock in period, their subscription not being compulsory.

Marks

(1.10) The company had NSE as the designated stock exchange in the earlier issue of the ₹ 500 crore debentures due for redemption in eleven months from now. BSE listing was also done. Then, the following is true :

(A) NSE has to be the designated stock exchange for this issue also. BSE listing has to be done as earlier.

(B) There can be listing on any other exchange also, but NSE has to be the designated exchange.

(C) Any recognized stock exchange can be designated for this issue. Further listing of this issue in any other exchange is optional.

(D) NSE has to be the designated exchange. Listing on BSE or other stock exchange can be optional.

(1.11) You are an analyst at a credit rating agency and are part of the team involved in the rating process of the company. Prepare a report to your director indicating :

(a) assessment of risks ; 5

(b) rating that you would consider appropriate along with a short note on CAMEL criteria considered. 5

(1.12) Assuming that you are the company's senior official liaising with the investment banker to get the prospectus successfully through, how would you present the draft prospectus to SEBI for approval in accordance with the regulations prevailing as on date ? 15

(You are required to present only the following portions of the prospectus in your answer) :

(a) Introduction of the issue (the portion in capital letters forming the first paragraph relating to the issue)

(b) Credit Rating, assuming independent of your answer to (1.1) that a good rating has been given by CRISIL and India Research and Ratings)

(c) Minimum Subscription

(d) General Risks

(e) Issue Details

(f) Listing

(g) Objects of the Issue and Interim use of the funds

(h) Debt Equity Ratio (pre and post issue)

(i) Regulatory authorities for the Company.

Marks

(1.13) Write a short note on the potential benefits on the proposed new unit of business. 5

Table - 1

	Statement of Profit and Loss	(Figs. in ₹ lacs)					
	Particulars	For the year ended March 31,					
			2018	2017	2016	2015	2014
A	Revenue						
(i)	Revenue from Operations		122000	108000	102800	86300	78800
(ii)	Other Income		750	20	30	70	80
	Total Revenue		**122750**	**108020**	**102830**	**86370**	**78880**
B	Expenses						
(i)	Finance Costs		53700	51800s	50500	43800	39000
(ii)	Depreciation and amortisation		360	330	360	400	290
(iii)	Provision and Write offs		31200	24400	21000	12900	11400
(iv)	Employee Costs		7150	5500	5800	4300	4000
(v)	Other Expenses		7000	6500	7200	6530	5410
	Total Expenses		**99410**	**88530**	**84860**	**67930**	**60100**
C	Profits before tax (A – B)		23340	19490	17970	18440	18780
D	Tax Expense after adjustment for deferred tax		800	6600	6000	6050	5600
E	Profit after tax from continuing operations (C – D)		22540	12890	11970	12390	13180
F	No. of o/s shares (lakhs)	327					
G	EPS – Basic		68.93	39.42	36.61	37.89	40.31
H	EPS – Diluted		68.93	39.42	36.61	37.89	40.31
	Nominal Value of equity share (₹/share)		10	10	10	10	10

Marks

Table – 2

Statement of Assets and Liabilities		(Figures ₹ lacs)				
Particulars		For the year ended March 31,				
	Liabilities	2018	2017	2016	2015	2014
A	Shareholders' Funds					
	Share Capital	3270	3270	3270	3270	3270
	Reserves and Surplus	120610	110000	99300	90000	80500
	Total Shareholders' Funds	**123880**	**113270**	**102570**	**93270**	**83770**
B	Non-Current Liabilities					
	Long Term Borrowings	400000	335000	300000	290000	220000
	Other Long Term Liabilities	16000	14000	12000	11000	9000
	Long Term Provisions	55000	38000	25000	16000	12500
	Total non-current liabilities	**471000**	**387000**	**337000**	**317000**	**241500**
C	Current Liabilities					
	Short term borrowings	75000	50000	33000	26000	29000
	Total Outstanding dues of creditors other than micro enterprises	2200	1340	1180	750	850
	Other Current Liabilities	200000	180000	195000	120000	115000
	Short term provisions	4000	3900	5000	4100	2900
	Total Current Liabilities	**281200**	**235240**	**234180**	**150850**	**147750**
D	Total Equity and Liabilities (A+B+C)	**876080**	**735510**	**673750**	**561120**	**473020**

 Marks

	Assets					
E	Fixed assets					
	Property, Plant and Equipment	1100	8200	9900	9850	9890
	Intangible Assets	20	18	14	12	16
	Non-Current investments	15000	14500	12500	11500	7000
	Deferred Tax Assets (Net)	4300	3600	3000	2500	2400
	Long Term Loans and Advances	580000	475000	440000	350000	275000
	Total Non-Current Assets	600420	501318	465414	373862	294306
F	Current Assets					
	Current Investments	105	520	1040	22130	20350
	Cash and Bank Balances	36500	44400	23600	47500	70800
	Short term loans and advances	238430	188687	183186	117003	86764
	Other Current Assets	625	585	510	625	800
	Total Current Assets	275660	234192	208336	187258	178714
	Total Assets (E+F)	876080	735510	673750	561120	473020

 Marks

Case Study – 2

The expansion project of BON BON Limited which is under finalization is expected to consist of :

	₹ lakhs
Capital assets	200
Working capital	300
Total	500

The initial scheme of raising project finance is :

11 % Long Term Debt	135
12% Bank borrowings for working capital	225
Internal accruals	140
Total	500

Extracts from the Balance Sheet of the Company as at the end of the last financial year are given in Annexure 1.

The Company's risk-free rate is 9%, market return 14% and relevant company assets beta is estimated at 1.5.

The Company has approached you, a financial and management consultant, to review the above numbers. They have also given you additional information about the project which is given in the Annexure 2.

Upon an initial study of the given information, the first thought that strikes you is that Adjusted Present Value (APV) should be calculated to test whether the project is worth undertaking; also, that the plan of financing should be re-cast.

Marks

Choose the correct answers to the following questions : **2×10 =20**

(2.1) Gross working capital means

(A) total value of inventories and securities

(B) cash and items convertible into cash at short notice

(C) total current assets

(D) total value of fixed and current assets

(2.2) Negative working capital means

(A) when current assets are less than current liabilities

(B) the outstanding short term loans of an organisation

(C) bank overdraft taken by an institution

(D) the amount of current liabilities

(2.3) Adjusted present value method is used to

(A) determine the validity of a project

(B) decide the present value of a business

(C) measure the value of the inventories

(D) determine the current value of receivables.

(2.4) Determine which of the following is not part of bank financing :

(A) term loans

(B) packing credit

(C) overdraft

(D) commercial paper

(2.5) Bill discounting deals with

(A) accounts receivables

(B) inventories

(C) fixed assets

(D) goodwill

Marks

(2.6) Which one of the following does not fall within the scope of credit rating ?

(A) Opinion in regard to a debt instrument

(B) Opinion based on an evaluation of business risks

(C) Opinion on the probability of meeting the interest and principal obligations of a business

(D) Opinion on a holding company, its subsidiaries and associates

(2.7) Which of the following is incorrect as regards the functioning of an investment banker ?

(A) they help in raising capital for the client

(B) they take deposits from their customers

(C) they act as an intermediary for their customers in relation to their dealings

(D) they earn an underwriting commission as part of business.

(2.8) In connection with a public issue of shares, merchant bankers are responsible to follow the regulations prescribed by

(A) RBI

(B) SEBI

(C) IRDAI

(D) Insolvency Board of India

(2.9) Which one of the following does not form part of treasury management ?

(A) cash management

(B) management of interest, currency and commodity risks

(C) inventory control

(D) liquidity planning and control

 Marks

(2.10) Factoring concerns itself with the management of

(A) fixed assets

(B) accounts receivable

(C) stock in trade

(D) accounts payable

In the light of the information supplied above, answer the following :

(2.11) What is Adjusted Present Value (APV) in the context of project feasibility. Calculate the APV for the above project and state your view on acceptability. **4**

(2.12) Is the debt option as proposed viable for the company ? Would you suggest any other alternative ? **4**

(2.13) State what changes you would like to recommend to the project financing plans, briefly explaining each change. **4**

(2.14) Rewrite and show the project financials after taking into account the changes you recommend. **18**

ANNEXURE 1

BON BON LIMITED

BALANCE SHEET SUMMARY - ACTUALS FOR THE LAST TWO YEARS

Year ended 31st March (In ₹ Lakhs)

	2018	2017
Share Capital :		
Shares of ₹ 10 each	50	50
Reserves	200	140
11% Long Term Debt	250	300
12% Bank borrowings	120	125
Total	**620**	**615**
Fixed assets	140	150
Net Current assets	480	465
Total	**620**	**615**

Marks

ANNEXURE 2

PROJECT CASH FLOWS & OTHER DETAILS

Amounts in ₹ Lakhs

	Year 1	Year 2	Year 3	Year 4	Year 5
Sales :					
Domestic	540	780	1320	1500	1350
Exports	360	520	880	1000	900
Total	**900**	**1300**	**2200**	**2500**	**2250**
Profit before depreciation	180	350	400	500	450
Less :					
Depreciation	38	38	38	38	38
Interest:					
LT Debt	8	14	12	9	6
Short term Debt	7	27	27	27	27
Profit before Tax	127	271	323	426	379
Less: Tax	44	95	113	149	133
Profit after Tax	83	176	210	277	246
Cash in-flow :					
PAT + Dep + Int	136	255	287	351	317
Terminal in-flow :					
Capital assets					10
Working capital assets					300
Total	**136**	**255**	**287**	**351**	**627**

Marks

PROJECT - INTEREST WORKINGS

Amounts in ₹ Lakhs

	Year 1	Year 2	Year 3	Year 4	Year 5
LT Debt :					
Amount outstanding at the start of the year	-	135.00	121.50	94.50	67.50
Additions during the year	135.00	-	-	-	-
Repayment during the year	-	13.50	27.00	27.00	27.00
Amount outstanding end of the year	135.00	121.50	94.50	67.50	40.50
Interest at 11% on average outstanding	7.43	14.11	11.88	8.91	5.94
Rounded off	8.00	14.00	12.00	9.00	6.00
WC borrowings :					
Amount outstanding at the start of the year	112.50	225.00	225.00	225.00	225.00
Interest at 12%	6.75	27.00	27.00	27.00	27.00

Marks

Case Study – 3

The details relating to repo/reverse repo transactions are given in Tables 1 and 2.

Table 1:

Details	7.5% 2025 G-Sec	GoI 91 day T Bill maturing on 31-01-2019	9% Corporate Bond maturing on 8th July, 2020
	I	II	III
Market Value per security on 15/11/2018 (₹)	96.9000	98.6000	99.5000
Market Value per security on reversal date (₹)	96.9485	98.6493	99.5498

Table 2 :

Common Parameters	
Repo Period	7 days
Repo Commencement Date	16th November, 2018
Coupon Dates	8th January and 8th July every year
Face Value of security	₹ 100
Day Count Convention	30/360 for coupons and actual/365 for repos
Repo Interest Rate	6.5%
Value of securities	To be calculated to four decimal places
Number of securities	To be rounded off to the next higher integer

Assume all entities in this case study are Indian entities.

Marks

Answer the following questions :

(3.1) The following is true : 2×10 =20

(A) Repos can be traded on a recognized stock exchange.

(B) Repos are solely privately traded transactions between a borrower and a lender and are reversed between the parties at a pre-determined date.

(C) Repos are entered into between two parties, one of whom should be a banking entity.

(D) Repos must have RBI as one entity.

(3.2) In India, repos shall be undertaken for

(A) a minimum period of three days

(B) a minimum period of one day

(C) a maximum period of 270 days

(D) for a maximum period of one month, subject to renewal every month, upto 270 days.

(3.3) If 'E' is an entity that wishes to participate in repo/reverse repo transaction under LAF (Liquidity Adjustment Facility), then the following is true :

(A) Securities under Columns I, II and III are eligible, provided Column III is listed.

(B) Securities only under Columns I and II are eligible.

(C) Entity 'E' itself is not eligible if it is not a banking company.

(D) 'E' cannot borrow funds under LAF even if it is a banking company, irrespective of the securities' eligibility.

 Marks

(3.4) The following is not true : (consider 'E' to be an eligible entity)

(A) Any regulated entity can participate in a repo transaction.

(B) Exim Bank can buy or sell repos from/to entity 'E'.

(C) An unlisted company can never participate in a repo transaction.

(D) Any entity approved by RBI can participate in a repo transaction.

(3.5) Suppose entity 'E' is an eligible entity and wants to enter into a repo transaction with Bank 'B' for market value of T bills and CDs of ₹ 500 crores and ₹ 200 crores respectively, then, the amount of borrowing can be (in ₹ Crores)

(A) 98% of 500 + 98% of 200

(B) 500 + 98% of 200

(C) 98% of 500 + 200

(D) 500 + 200

(3.6) The following is true of the coupon interest on column I of Table I securities assuming E is the receiver of funds in the first leg of the agreement and 'K' is the other party :

(A) Interest from 8-7-18 to 16-11-18 accrues to 'E'. Interest from 16-11-18 to the date of reversal accrues to K.

(B) K will receive the interest and it is entitled to retain 7 days' interest and has to pay 'E' the balance interest on receiving the interest.

(C) K is not entitled to any portion of the interest. On receipt of the coupon interest amount, it has to hand it over to 'E'.

(D) No interest is handed over by K. The repo repayment is adjusted for interest due to 'E' for the 7 day period.

Marks

(3.7) On 16-11-2018, when 'E' sells the securities under repo to K,

(A) E sells at the prevailing market related price (say 'x') and repurchases on reversal date at the same price (x).

(B) E can sell at x, but repurchase has to be at market related price on repurchase date (say 'y') and y can be different from x.

(C) Repurchase will have to be at x plus the repo interest for the duration of the first leg.

(D) 'E' can sell at an amount agreed to by the repo agreement, say 'z' which can be different from 'x' and has to repurchase it at 'z' plus interest for the repo period.

(3.8) Suppose that 'E' had made a bid for a term repo of 14-day tenor under the LAF through a variable rate auction mechanism, then

(A) 'E' can be any entity that accepts deposits.

(B) 'E' can be any entity, provided it is regulated by SEBI

(C) E has to be a scheduled commercial bank

(D) E can be an NBFC, RRB or a commercial bank, provided RBI regulates it.

(3.9) Assuming that 'E' is an eligible participant in a variable rate term reverse repo of 7 days, for E to be a successful bidder, it should have bid a rate

(A) below the cut off rate

(B) at or above the prevailing reverse repo rate

(C) at or above the cut off rate

(D) at or above the reverse repo rate.

Marks

(3.10) The following is in ascending order :

(A) Bank rate, reverse repo rate, repo rate.

(B) Bank rate, repo rate, reverse repo rate

(C) Repo rate, reverse repo rate, bank rate

(D) Reverse repo rate, repo rate, bank rate

Answer the following questions :

(3.11) Suppose entity 'E' wants to raise funds based on the above securities (in table 1), under a ready forward agreement by selling and simultaneously agreeing to repurchase after 7 days and that 'E' wants your computations on a per security basis for each of the given securities, show the following values: consideration for the first leg of the transaction and the consideration for the second leg showing clearly in your tabulation, who pays what amounts to whom on which dates under the repo deal based on a per security basis. Assume that 'E' has adequate number of each type of security for the purpose. Consider 'K' as the other party. 10

(3.12) Discuss the impact of the above transaction on the coupon interests on the securities on the due dates and in the intervening period of the repo/reverse repo. What happens if the coupon date falls in the repo period ? 4

(3.13) Which entity owns the securities and for what period ? Discuss from the start date to reversal date, assuming that 'E' is one party and the other is 'K'. 2

Marks

(3.14) How many securities will it have to offer in order to raise an amount of ₹ 5 crores ? You may assume a haircut of 2% for the corporate bonds only. 4

(3.15) Suppose 'E' is an entity having to obey the prescribed capital adequacy norms of RBI, discuss the implication of the above transaction in terms of the CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio) requirements. 4

(3.16) In case 'E' is a company and under conditions as per (1) above, if there is another company 'B' who is willing to lend the funds to 'E' on a longer repo period, say 6 months and at a lower rate of 5.75%, will there be any violation of any regulation if 'E' agrees to such an offer ? Discuss. 4

(3.17) Suppose that RBI conducts a seven day term repo auction and 'E' participates in the term repo auction, then, will 'E' have more funds or lesser funds if it is successful in the auction ? Explain briefly. 2