438

Roll No. ....

OPEN BOOK EXAMINATION

Time allowed : 3 hours ***Maximum marks : 100***

Total number of questions : 6 ***Total number of printed pages : 12***

NOTE : *Answer* ***ALL*** *Questions.*

1. Read the case study and answer the following questions given at the end :

Premium Resorts Limited maintains a five-star deluxe facility under the brand name Diamond Palms, with 150 rooms of various categories ranging from Standard to Presidential Suites, spanning 15 acres of land, and surrounded by lush vegetation on all sides. Tariffs vary based on the room category. In addition to a 24-hour coffee shop and specialty restaurants serving cuisine from various areas, such as Indian/Chinese/Italian cuisine, etc., the resort features 7 banqueting facilities ranging from a Board Room to halls that can accommodate 1,000 guests.

In addition, the property features one of the large swimming pools, dining options in the open air adjacent to the pool area, facilities for various games, a well-laid badminton court, an excellent SPA offering wellness treatments, a health club, and a well-appointed bar selling premium spirits. The hotel has been operating for close to fifteen years, and its brand is well-known.

Being located outside of the city, it is mostly a resort that caters to corporate clients that hold one- to three-day courses for their employees. As a result of its expansive size, the resort also a popular wedding location. These events provide a consistent source of revenue for the resort. In addition, outside catering is provided for important events, such as international cricket matches and trade shows. The resort is preferred for outdoor catering for exhibitions due to its proximity to the International Exhibition Centre, which is only three kilometres away. Additionally, the resort operates a membership loyalty programme with an outside firm. Members who enrol in the programme and pay a set price receive benefits and privileges. Marketing has been outsourced to an external organization that is responsible for bringing in business for rooms, banquets, and corporate events such as day trips or Sunday brunch, etc. for the entire property. Additionally, the agency is responsible for collecting consumer payments. The agency receives commission on sales based on monthly statements reviewed by Finance, the Front Office manager, and the Food & Beverage manager. The agency is not responsible for marketing the SPA; instead, business is generated through in-house visitors and word of mouth. The resort has also partnered with online travel sites to generate hotel bookings, primarily for leisure travellers.

Despite all the above agreements, location and amenities, business has been dismal and consistently falls short of the budget. Being a sprawling resort property, maintenance and upkeep are challenging. In addition, age-related malfunctions of equipment result in substantial repair and maintenance expenses on a regular basis. Besides this, there are further issues that are High fixed costs that necessitate continual occupancy levels of 70% to achieve Breakeven.

Dependence on outsourced marketing activities places the business at the mercy of the agency, which may have additional agreements with other companies. In addition, they frequently complaint about the poor maintenance which attributes to low business Resort.

 Contd. ....

The loss of revenue and the selection of unsuitable members resulted from the selection of an incompetent agency to manage the Loyalty Program, which failed to appropriately market the initiative. Memberships were sold to anyone without verification of their background. Membership requirements included clearly specified advantages. This was disregarded the agency, which promised benefits beyond the ordinary. In addition, the Agency has not remitted the sum collected from Members and owed to the Resort, citing various issues. Simultaneously, they issued cards to Members and granted them access to the program's benefits. The agreement required the agency to provide weekly updates on the number of members enrolled and the amount collected, but they did not comply. This resulted in a loss for the resort, and members who paid the membership price were unable to utilise the advantages since the resort did not get its portion of the cost, resulting in negative publicity from potential members who were made to suffer through no fault of their own.

It was discovered that the resort lacked a proper system to monitor the programme, including the number of members, the amount of money due and collected, and the monitoring of member-by-member benefit utilisation, which posed further issues. Frequent breakdowns disrupted service to customers.

Due to a lack of business, much-needed expenditures on equipment, including replacement, were not made since management was unwilling to contribute further Rupees.

In the hotel industry, it might be challenging to find trained personnel. This is especially true with vacation properties located away from the major metropolis.

Despite the enormous potential to market the resort as a weekend escape, online agencies that were intended to generate more revenue did not bring in the anticipated amount of bookings.

Resort had delegated the management of its website, including comments and/or inquiries, to an outside organisation. It is to the credit of this organisation that they did the best they could, but they did not fulfil their obligations in full. The agency's location in a distant city did not assist the situation.

Realisations were delayed as a result of the marketing agency's inadequate collection follow up, resulting in cash flow concerns. This resulted in delayed payments to suppliers, who consequently increased the cost of supplies to offset their expenses. This resulted in an increase in procurement costs and frequent supply disruptions.

The problem was exacerbated by the regular resignations of department heads who were tasked with overseeing operations. Added to this resort's responsibilities were legacy difficulties resulting from the property's previous owners. This strained the available resources.

Certain ideas to cut costs and increase operating efficiency, such as the conversion of dieselfired boilers to LPG and the adoption of enhanced gas consumption techologies, were not implemented. This would have saved the property approximately ₹ 3 million per year.

Additionally, the resort did not have the practise of generating a Profit & Loss Account by event. Thus, it was impossible to determine the profit or loss of a particular event in order to make an informed choice. Management accepted all of Marketing Agency's leads regardless of their feasibility. Staff unionisation was another unstable aspect.

The resort obtained Duty Credit Scrip under the Serve from India Scheme in exchange for ₹ 7 million in free foreign exchange earned over a three-year period. Almost fifty percent of the unused scrip could not be utilised correctly by the resort. This may have saved the resort a significant duty sum and much-needed funds.

 Contd. ....

Similarly, ensuring reasonable accommodation rates, banquet prices, and F & B costs is crucial for sustaining and growing revenue. Marketing is essential, because attempts to sell at any cost in order to fill a facility will fail.

The management approaches you and demands a comprehensive report covering the following areas as well as recommendations for resolving the issues.

(*a*) Various risks to which the resort is subject and their repercussions.

(*b*) Evaluate the identified risks and their ability to cause harm to the firm.

(*c*) Risk mitigation strategy with accompanying checkpoints.

(*d*) How Premium Resorts Ltd. fulfil the needs of corporate clients ?

(*10 marks each*)

2. (*a*) You have recently been promoted to head of risk management at a steel casting company. ABC Steel Castings Ltd. [ABC] is the company's name.

ABC has assured you that it will continue to enhance its risk management capillarities in order to better protect and increase shareholder value. As stated earlier, the risk management system ensures compliance with Clause 49, as amended, of the Listing Agreement. With this structure in place, the Company will be able to apply standardised risk management practises across all of its divisions and departments. Risks are managed in accordance with a well-defined framework that is periodically verified and double-checked.

In addition, you are informed that the company has implemented a Risk Management Manual, compiled a comprehensive profile of the most major risks facing the organisation, identified the most significant gaps in managing these risks, and developed preliminary action plans to address them. With this work, the following aims are achieved.

(*a*) Meets the Board's requirement for a more comprehensive understanding of risks and a more robust strategy for mitigating those risks; provides the means to identify, assess, and respond to business risk; and integrates an effective internal control and management reporting system with the formalised, specific requirements for conducting risk assessments on a regular basis.

(*b*) Through backward integration, the company has grown into coal and iron mines, and through brownfield expansions, it has constructed a sinter plant, sponge iron plant, coke oven plant, and power plant from waste head recovery. Additionally, it launched research and development to boost production capacity and reduce costs.

You discovered that the Company is ISO-140001-2004 certified and strictly adheres to industry-wide emission norms. In addition, the Company tells you that demand for DI Pipes is likely to increase significantly and that it is confident of maintaining its market position due to the Indian government's emphasis on water and water-related projects, as well as the anticipated increase in water demand.

This year, worker relations have remained stable and friendly despite the expanding number of unions. The lack of lost man-days over the past eight years is directly attributable to the mutual respect and cooperation between the two sides. From the company's perspective, labour relations can only improve from here. The company additionally provides credit insurance coverage.

Now, the Company's management has requested you to give a report outlining the most pressing dangers to the company and the preventative measures that can be taken to mitigate their impact. Provide a list of at least six tasks for the role of risk management.

(*6 marks*)

(*b*) The credit portfolio of The Gargi Bank Ltd. (Bank), is approximately ₹ 10 billion. The following are some of the most important characteristics of the portfolio.

The construction industry accounts for twenty percent of the portfolio's exposure (other sectors include cement/steel manufacturers, building material distributors, real estate developers/builders, automotive manufacturers, tyre makers and investment companies). 30% of revenues are generated by just two clients (they belong to the construction and building materials sector). The loan portfolio consists exclusively of Indian debtors.

The bank offers a variety of loan terms, ranging from short-term to long-term, with the latter being 60% of the portfolio. Over 75% of total finance needs were met by short-term deposits and inter-bank borrowings.

Even though all loans were denominated in Rupees, 45% of all time deposits were held in non-Rupee currencies. Real estate is the only acceptable form of security.

The overall risks that this portfolio confronts must be discussed. Does this credit portfolio contain any significant undiversified risks ? Include some suggestions for boosting diversity if this is the case.

(*6 marks*)

3. (*a*) Rule 10MA(2)(i) of FEMA states that the rollback provisions must be applied if the international transaction covered by the agreement (other than the rollback provision) is identical to the international transaction covered by the rollback provisions. It is unclear what the phrase ''same'' means. Also unknown is whether this constraint applies to the FAR analysis of functions, assets and risks. Explain.

(*6 marks*)

(*b*) A meeting of members of Joka Agricultural Equipment's Limited was convened under the orders of the Court for the purpose of considering a scheme of compromise and arrangement. The meeting was attended by 200 members holding 500000 shares. 70 members holding 400000 shares in the aggregate voted for the scheme. 120 members holding 90000 shares in aggregate voted against the scheme. 10 members holding 10000 shares abstained from voting. Examine with reference to the relevant provisions of the Companies Act, 2013 whether the scheme was approved by the requisite majority ?

(*6 marks*)

4. (*a*) The Reserve Bank of India (RBI) began adjusting its liquidity management in February, 2020. How does the RBI utilises the reverse repo rate or variable reverse repo rate auction as its primary liquidity management operation ?

(*b*) Examine the following circumstance in light of the Real Estate (Regulation and Development) Act, 2016.

Vivaan booked a 4 BHK apartment in the Flower Valley development for 2 crore. Jiyu is in charge of directing the project. Before engaging into a written agreement for sale with Vivaan, Jiyu stipulated that an application fee of ₹ 50 lakh be paid. Determine whether Jiyu's claim is valid.

(*6 marks each*)

5. (*a*) Forex Dealers Ltd. qualifies as an Authorized Person under the Foreign Exchange Management Act of 1999. the Reserve Bank of India instructed the aforementioned Authorized Person to file specific returns, which it failed to do. Specify the penal provisions to which the mentioned Authorized person has been subjected.

(*6 marks*)

(*b*) The Chief Executive Officer of DEF Ltd. an up-and-coming firm with a snappy name, has reached out to you for your input on a limited range of topics pertaining to their company and a few others within the Group. He is also a member of the Board of Directors for STU Ltd. (STU), a subsidiary of the Group involved in the production of table salt that is publicly traded. Huge cash reserves are held by STU. Directors of STU have been contemplating a possible buy-back of the company's equity for the past two board meetings. After analysing the prospective channels, the Board will likely give its approval at the following meeting.

You have established a solid reputation as an expert in investment banking, advising investors and companies on capital raising, financing strategic acquisitions etc. As a result of your wide network of venture capitalist and Private Equity providers (PE) connections, you are highly sought after in the industry for advice regarding return, the optimal combination of investments, investor exit strategies etc.

The Managing Director (MD) of the company has planned a first orientation meeting for you to become acquainted with DEF Ltd. and the other members of the Group. He provided a complete overview of firm organisation and discussed probable future prospects. Specifically, he was seeking your input on the following :

He hopes to attract Private Equity (PE) investors or Venture Capitalists (VC) to further grow DEF Ltd. He is curious in the criteria used by private equity and venture capital firms to select whether or not a finance a start-up.

To effectively raise cash for DEF Ltd. he requires your assistance in selecting the appropriate course of action and decisions to make. He is contemplating a variety of options for repurchasing STU shares. He is curious about the Group's second publicly traded company, Peps Ltd., and its aspirations to expand its sugar-producing subsidiary via a follow-on offer. As he is not a financial specialist, he has heard from his co-workers that term-sheet that PE investors typically provide is extremely complicated. When he reaches that moment, he expects you to assist him. He is also courious about the break-fee, as it is commonly utilised in the field of private investing. He learned that a relative was having difficulty in identifying the suitable exit path for PE investors. He desired your advice on how he should approach his discussions with investors.

The MD is interested in discovering all of his or her choices for escaping PE. What are some potential exit routes for a PE ?

(*6 marks*)

6. Ramanandan Bank was the state's third largest Bank. It maintained a vast branch and ATM network in order to serve its broad retail clientele. Despite Ramanandan Bank's size, that bank's commercial success was highly reliant on local economic trends. Two years of economic downturn resulted in two years of subpar loans, and Ramanandan Bank fell into dire straits. There were numerous layoffs in order to minimise and cut overhead expenses. A new executive management team anticipated achieving faster, superior results with fewer assets. Everyone at Ramanandan Bank feared termination, despite that bank's gradual return to profitability. There was still pressure to perform or face consequences.

Contd. ....

Ramanandan Bank's six-person Spring Hill Branch was managed by G. Revathi. Spring Hill, complete with an ATM and a newly renovated lobby, stood in the parking lot of a new suburban shopping centre. The mall, which was anchored by a store from the largest grocery chain in the region, contained approximately twenty modest retail shops. In addition, a big hospital was only across the street and a significant manufacturing factory (with around 3,000 employees) was located in a nearby industrial park. Numerous customers of the branch worked in these areas.

Revathi was promoted to her current position around one year ago. Prior to that, she had served as Assistant Manager at another branch in the region. In the past year and a half, Revathi had mastered her managerial duties. She enjoyed her work and performed well.

In any case, I used to enjoy it, she reflected to herself. She was seated at her desk at 6:00 p.m., observing the onset of night. ''I wish I could get out of here before 5:30. These layoffs are extremely painful, the strain is too great, and nobody cares if I'm here or not.'' Revathi was aware that she was in a foul, depressed mood.

Six months had passed since the layoffs she was contemplating, but their full impact was just now being felt. The Spring Hill Branch of Revathi was a popular location, with nine employees previously appointed. There were now only six positions available, two New Accounts posts (including Revathi's) and four tellers. One teller could divide their time between the teller line and the back office.

The issue was that there were an excessive number of consumers. Revathi chuckled at the inconsistency. Here, the bank wants more customers, but we cannot service the existing ones. On nearly every day and hour, there were three or four clients waiting in line. The fact that the majority of them simply wanted to cash a check or make a deposit did not seem to matter : by the time they reached the teller, they were brusque or harsh, demanding, and occasionally confrontational and aggressive.

Revathi vividly recalled an event that occurred just two days prior. Twenty minutes had passed while a consumer waited to pay a utility payment. When he finally reached the window, he began criticising the tellers for their tardiness and the bank for its incompetence. When he finished, the teller was in tears. Revathi recalled their conversation after he left. The cashier stated : ''We exert so much effort, but no one seems to appreciate it. I simply cannot work in this state.''

Revathi began to receive significantly more complaints, seemingly from everyone. Customers were grumbling about bad services, tellers were moaning about pressure and ''downtown'' was beginning to protest about the branch's high amount of mistakes, errors, and shortages.

Revathi was scheduled to hold one of her monthly ''sales meetings'' with the team tomorrow. These conferences were mandated by ''downtown.'' Revathi despised them because they usually seemed to last forever and nothing was ever done. Revathi was scheduled to deliver a 15 to 20 minutes presentation on a product, and she imagined the audience members fidgeting or staring at the floor. There would be no inquiries, but there would be occasional complaints about ''the consumers yelling at us'' or ''the need for extra assistance''.

Revathi dreaded tomorrow's meeting and pondered how she could focus on the branch's actual issues and generate tangible outcomes. Answer the following questions.

(*a*) Can Revathi use this meeting to assist in resolving some of the branch's issues ?

(*b*) What types of broad techniques may Revathi employ to assist in resolving these issues ?

(*c*) Describe the procedure Revathi and her staff can follow to address productivity and quality issues.

(Each question is of 4 marks = Total 12 marks)

——— o ———