


<b>Name:</b>	 <b>UPES</b> <small>UNIVERSITY OF TOMORROW</small>
<b>Enrolment No:</b>	

**UNIVERSITY OF PETROLEUM AND ENERGY STUDIES**  
**End Semester Examination, May 2023**

<b>Course: Financial Institutions and Markets</b>	<b>Semester: II</b>
<b>Program: MBA with Specialization in Finance</b>	<b>Time : 03 hrs.</b>
<b>Course Code: FINC7020</b>	<b>Max. Marks: 100</b>

**Instructions: This is an OPEN NOTES and OPEN BOOK exam. No electronic screens (such as mobiles, tablets, or laptops) are allowed.**

**SECTION A**  
**10Qx2M=20Marks**

S. No.		Marks	CO
Q 1	Statement of question		CO1
	<p>Zerodha is an Indian financial services company that provides retail and institutional broking services. Founded in 2010, the company has grown rapidly in the last few years and has become one of the largest retail broking firms in India.</p> <p>Zerodha's net profit increased 87% in fiscal year 2022 (FY22) to Rs 2,094.3 crore from Rs 1,122.3 crore in FY21, according to its audited financial statement filed with the Ministry of Corporate Affairs. Operating revenue jumped to Rs 4,963.7 crore from Rs 2,728.9 crore in the same period.</p> <p>In April 2022, Zerodha was expected to show significant increase in revenue and profit as many new users joined the brokerage platform owing to several initial public offerings (IPOs). In an interview with ET then, Zerodha founder and chief executive Nithin Kamath said the company posted an almost 60% year-on-year jump in both its unaudited profits and revenue for 2021-22 at around Rs 1,800 crore and Rs 4,300 crore, respectively.</p> <p>One of the key factors that has contributed to Zerodha's growth is its focus on technology. The company was one of the first in India to offer a fully online and mobile-based trading platform, which has made it easy for users to trade from anywhere and at any time. The platform is also user-friendly and easy to navigate, which has helped to attract and retain customers.</p> <p>Another factor that has contributed to Zerodha's growth is its pricing strategy. The company offers low and transparent brokerage fees, which has helped to attract price-sensitive customers. Additionally, Zerodha</p>		

offers a range of other services such as mutual fund investments and bonds trading, which has helped to diversify its revenue streams.

Zerodha's marketing and branding strategy has also played a major role in its growth. The company has used social media and online platforms to connect with customers and build a strong brand. Zerodha has also built a strong reputation for its customer service and support, which has helped to attract and retain customers.

The Indian brokerage industry is highly competitive, with a number of leading firms operating in the market. Some of the leading competitors for Zerodha in the Indian brokerage industry include:

1. **ICICI Securities:** ICICI Securities is one of the largest and most established brokerage firms in India. It offers a wide range of financial services including equity trading, mutual fund investments, and insurance.
2. **HDFC Securities:** HDFC Securities is a subsidiary of HDFC Bank, one of the largest private sector banks in India. The company offers a wide range of services including equity trading, mutual funds, and insurance products.
3. **Kotak Securities:** Kotak Securities is a subsidiary of Kotak Mahindra Bank, one of the largest private sector banks in India. The company offers a wide range of services including equity trading, mutual funds, and insurance products.
4. **Sharekhan:** Sharekhan is one of the leading retail broking firms in India. The company offers a wide range of services including equity trading, mutual funds, and insurance products.
5. **Angel Broking:** Angel Broking is one of the leading retail broking firms in India. The company offers a wide range of services including equity trading, mutual funds, and insurance products.
6. **Upstox (formerly known as RKS SV Securities)** is also one of the leading retail broking firms in India which offers a wide range of services including equity trading, mutual funds, and insurance products.

Some of the leading firms in the global market that provide a service similar to Zerodha include:

1. **ETRADE:** ETRADE is an online brokerage firm based in the United States. The company offers a wide range of services including equity trading, mutual funds, and retirement accounts.
2. **Saxo Bank:** Saxo Bank is a Danish investment bank that specializes in online trading and investment. It offers a wide range of services including equity trading, forex trading, and investment products.

3. IG Group: IG Group is a British online trading company, it offers trading in financial derivatives such as contracts for difference and financial spread betting, and, operating in several countries.
4. Plus500: Plus500 is a British online trading company that provides online trading on financial derivatives such as Contracts for Difference (CFDs) on a wide range of financial instruments.
5. CMC Markets: CMC Markets is a British financial derivatives dealer. The company offers online trading in contracts for difference (CFDs), including shares, forex, commodities, binary options, and indices.
6. eToro: eToro is a social trading and multi-asset brokerage company that has registered offices in Cyprus, Israel, and the United Kingdom. It offers both copy trading and social trading.
7. Rakuten Securities: Rakuten Securities is a Japanese online brokerage firm that offers a wide range of services including equity trading, forex trading, and investment products.
8. TD Ameritrade: TD Ameritrade is an online brokerage firm based in the United States. The company offers a wide range of services including equity trading, mutual funds, and retirement accounts.
9. Charles Schwab: Charles Schwab is an online brokerage firm based in the United States. The company offers a wide range of services including equity trading, mutual funds, and retirement accounts.
10. Interactive Brokers: Interactive Brokers is a global electronic brokerage firm, which is based in the United States. The company offers a wide range of services including equity trading, mutual funds, and options trading.
11. Robinhood: Robinhood is an American financial services company, which offers commission-free trading through its mobile app. It's a popular platform among retail investors, especially among the younger demographic.
12. Fidelity: Fidelity is a global financial services firm based in the United States, which offers a wide range of services including equity trading, mutual funds, and retirement accounts.

There are several prospective areas of growth for Zerodha:

1. International Expansion: Zerodha has a strong presence in India, but there is an opportunity for the company to expand its services to other countries in the region.
2. Wealth Management Services: Zerodha could look to expand its offerings to include wealth management services, such as portfolio management, to attract high net worth individuals and institutions.

3. **Robo-Advisory:** Zerodha could consider developing a robo-advisory platform to provide automated investment advice to customers, which is becoming increasingly popular in the industry.
4. **Mutual Funds and Insurance:** Zerodha could explore the possibility of offering mutual funds and insurance products to its customers, as this would help to diversify its revenue streams.
5. **Cryptocurrency trading:** With the increasing popularity of cryptocurrency, Zerodha could look to offer trading options for cryptocurrencies to its customers, which would attract a new set of customers and increase revenue.
6. **Platform innovation:** With the increasing popularity of fintech innovations such as gamification, Zerodha can explore new ways to make trading more interactive, engaging and fun for its customers.

Financial businesses like Zerodha may face a variety of problems, including regulatory compliance, market volatility, and competition from other financial institutions. They may also face operational risks such as cyber-attacks, data breaches, and system failures. Additionally, they may be impacted by changes in economic conditions, interest rates, and government policies. Another problem may be customer complaints, disputes and legal issues.

To set up a business like Zerodha, a brokerage firm, you would need to take several steps, including:

1. **Obtain the necessary licenses and registrations:** You would need to register your business with the relevant regulatory bodies and obtain any licenses required to operate a brokerage firm in your country.
2. **Secure funding:** Starting a brokerage firm requires significant capital, so you would need to secure funding from investors or through a business loan.
3. **Develop a trading platform:** You would need to develop a trading platform that is user-friendly and offers a variety of features, such as real-time stock prices and charting tools.
4. **Build a team:** You would need to build a team of experienced professionals, including traders, analysts, and customer service representatives.
5. **Establish relationships with market participants:** You would need to establish relationships with other market participants, such as market makers, exchanges, and other brokerages.

	<p>6. Advertise and market your business: It is important to promote your business through various marketing channels to attract clients and increase your visibility in the market.</p> <p>In conclusion, Zerodha's focus on technology, pricing strategy, marketing, and branding has been key to its growth in the last few years. The company's innovative approach to retail broking and its commitment to providing a user-friendly and transparent service has helped it to become one of the largest retail broking firms in India.</p>		
i.	<p>What type of company is Zerodha?</p> <p>a) A technology company b) An investment bank c) A financial services company d) A healthcare company</p>	2	
ii.	<p>What was Zerodha's net profit for fiscal year 2022?</p> <p>a) Rs 2,094.3 crore b) Rs 1,800 crore c) Rs 4,963.7 crore d) Rs 2,728.9 crore</p>	2	
iii.	<p>What is one of the key factors that has contributed to Zerodha's growth?</p> <p>a) Its focus on technology b) Its high brokerage fees c) Its lack of diversification d) Its poor customer service</p>	2	
iv.	<p>What is Zerodha's pricing strategy?</p> <p>a) High and transparent brokerage fees b) Low and transparent brokerage fees c) High and hidden brokerage fees d) Low and hidden brokerage fees</p>	2	
v.	<p>What is one of Zerodha's competitors in the Indian brokerage industry?</p> <p>a) Saxo Bank b) TD Ameritrade c) ICICI Securities d) IG Group</p>	2	
vi.	<p>What is one of the leading firms in the global market that provides a service similar to Zerodha?</p> <p>a) Rakuten Securities b) Johnson &amp; Johnson c) Goldman Sachs d) General Electric</p>	2	
vii.	<p>What does Zerodha offer in addition to equity trading?</p> <p>a) Mutual fund investments b) Insurance products c) Forex trading d) All of the above</p>	2	
viii.	<p>What type of trading does IG Group specialize in?</p>	2	

	a) Equity trading b) Forex trading c) Binary options d) All of the above		
ix.	What type of company is eToro? a) An investment bank b) A healthcare company c) A social trading and multi-asset brokerage company d) A technology company	2	
x.	Where is Charles Schwab based? a) Japan b) Denmark c) India d) The United States	2	
<b>SECTION B</b> <b>4Qx5M= 20 Marks</b>			
Q	Statement of question (please refer to the Zerodha case above)		<b>CO2</b>
2	What is Zerodha and how has it grown in recent years?	4	
3	What factors have contributed to Zerodha's growth?	4	
4	Who are Zerodha's competitors in the Indian brokerage industry? How is it differentiated from them?	4	
5	What are the prospective areas of growth for Zerodha?	4	
<b>SECTION-C</b> <b>3Qx10M=30 Marks</b>			
Q	Statement of question		<b>CO3</b>
	<p>The Indian banking sector has been facing a significant challenge with regard to non-performing assets (NPAs) in recent years. NPAs refer to loans that have been classified as unlikely to be repaid by the borrower. High levels of NPAs can put a strain on the financial health of banks and can also have a negative impact on the overall economy.</p> <p>One example of this situation is the case of the State Bank of India (SBI), the country's largest commercial bank. In 2016, the bank reported that nearly 20% of its total loan portfolio was made up of NPAs. This was a significant increase from the previous year and was primarily due to a slowdown in the Indian economy and a lack of debt recovery.</p> <p>To address this problem, the Reserve Bank of India (RBI), the country's central bank, has taken several measures. These include implementing stricter norms for loan classification and provisioning, as well as introducing a new framework for the resolution of stressed assets. Additionally, the RBI has also set up a special task force to help banks identify and resolve cases of NPAs.</p> <p>Commercial banks, such as SBI, have also taken steps to address the problem of NPAs. These include increasing their focus on risk management, improving their credit appraisal and monitoring processes,</p>		

	<p>and strengthening their recovery efforts. Banks have also been encouraged to sell their NPAs to asset reconstruction companies (ARCs) or other parties to free up their balance sheets and improve their financial health. The Indian government has also taken steps to tackle the problem of NPAs. They have implemented Insolvency and Bankruptcy Code (IBC) which is a new legislation that provides a time-bound process for resolving NPAs and stressed assets.</p> <p>In conclusion, high levels of NPAs in the Indian banking sector have been a significant challenge in recent years. The Reserve Bank of India and commercial banks have taken several measures to address this problem, including stricter loan classification norms, improved risk management, and enhanced recovery efforts. Additionally, the Indian Government has implemented the Insolvency and Bankruptcy Code to tackle the problem of NPAs.</p>		
6	What are non-performing assets (NPAs), and how can they impact the financial health of banks and the overall economy?	<b>10</b>	
7	What are the measures taken by the Reserve Bank of India (RBI) and the Government of India to address the problem of NPAs?	<b>10</b>	
8	In addition to the measures discussed above, please recommend steps that the central bank can take to curb the problem of NPAs in the banking system.	<b>10</b>	
<b>SECTION-D</b> <b>2Qx15M= 30 Marks</b>			
Q	Statement of question		<b>CO4</b>
	<p><b>Income Tax investigation against insurers widens to banks</b></p> <p>The income-tax (I-T) department sent notices to two large private banks in its ongoing investigation into possible malpractices involving commission payments made by insurance companies, says a report. According to the report, investigators from the tax department are apparently scrutinizing transactions of over Rs 60,000 crore and also investigating suspected evasion of goods and services tax (GST) exceeding Rs 5,500 crore.</p> <p>The I-T department and the directorate general of GST intelligence (DGGI) are investigating these insurance firms over alleged malpractices and suspected tax evasion. Initially, the I-T department was probing more than 20 insurance companies and about 500 entities linked to their sales agents. But the line of investigation has now shifted to banks after the probe allegedly revealed voluminous transactions demanding a further explanation. Quoting a source aware of the contents of the notices, the report says, "The notices have been sent under Section 131 of the Income Tax Act and information about the manpower deployed by the banks and the mode of payments had been sought."</p> <p>Last month, the Insurance Regulatory and Development Authority of India (IRDAI) lifted limits on the payment of commissions to insurance intermediaries. According to new rules, the earlier cap on commission</p>		

	<p>payments is now replaced with an overall cap on expenses of management of insurers. Official sources told that many insurance companies are paying overriding commissions to banks and other intermediaries on top of the legal commission, which led to concerns over potential exploitation and a rise in management expenses within the insurance industry. "Banks that act as corporate brokers for insurance companies allegedly took the legal commission from these firms through legal channels, although the overriding commission was allegedly routed through various ways."</p> <p>Quoting sources, the report cited several instances where banks charged insurance companies for marketing activities, but the events were never held. "In one case," it says, "a bank asked an insurance company to hold an insurance awareness marketing event in its premises across multiple locations, but the activity was never executed. The bank still charged the insurance company for the event, which included refreshments and marketing costs."</p> <p>"In other instances, banks requested advertising space in their premises and charged insurance companies double the going rate. Banks were also receiving payments for staff that sold insurance policies, leading to questions over the transparency of such transactions. Additionally, there were instances of technology outsourcing where a common vendor was used and the bill was raised to the insurance company. All of these activities have led to concerns over increased management expenses within the insurance industry," the report says.</p>		
9	What are the potential consequences of the ongoing investigation into possible malpractices involving commission payments made by insurance companies to banks and other intermediaries?	<b>15</b>	
10	How can the insurance industry in India ensure transparency in commission payments and prevent malpractices involving intermediaries?	<b>15</b>	