

**PGDM / PGDM (IB), Batch 2019-21**  
**Corporate Banking and Credit Appraisal**  
**DM-412/ IB-413**

**Trimester –IV, End-Term Examination: September 2020**

Time allowed: 2 Hrs. 30 Min

Max Marks: 50

**Instructions:** Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of Admit Card should be followed meticulously.

Sections	No. of Questions to attempt	Marks	Marks
A	3 Questions	10 Marks each*3	30
B	Compulsory Case Study	20 Marks	20
		<b>Total Marks</b>	<b>50</b>

**SECTION A:**

**Write to the point and relevant while answering questions. Maximum word limit for full question with all its parts is 300 words.**

**Q. 1. A. [CILO-1]**

- i) There are many differences between Corporate Banking and Retail Banking. Describe at least six such material differences.
- ii) Structured Finance is a recent phenomenon. How is it different from traditional finance? Give four examples for the structured finance.
- iii) What is the difference between Documentary and clean bills? Define DP and DA bill. Which one is safer for the bank to give advance against? (4+3+3)

**OR**

**Q. 1. B [CILO-1]**

- i) Define the term "Credit Exposure" for Banks in detail as defined by RBI? What are the current exposure norms for Single borrower, Group borrowers and banks' Capital market exposure?
- ii) Write examples of four Risk Mitigants that can be considered to reduce the level of exposure.

- iii) Describe the purpose and basis of asset classification by banks? What are the Asset Classification and Income Recognition norms in Indian banks? (4+3+3)

**Q. 2. A [CILO-2]**

- i) Define Risk Sensitive Assets and Liabilities. How they are used in Interest Rate Risk Management in banks.
- ii) Define NPA. Briefly mention the impact of NPAs on Banks and the economy? A borrower had to pay the term loan installment on 31<sup>st</sup> March, 2020. On which date this account has to be treated as NPA in the following situations : a) if 50% interest is still not paid b) if only part installment of principal is still not paid c) if interest and full principal installment is not paid yet.
- iii) Consortium banking has some advantages over the multiple banking arrangements for the corporate customer as well as the member banks. If this is true, give various justifications for the same. (4+3+3)

**OR**

**Q. 2. B [CILO -2]**

- I. a) In what way, the Consortium lending is different from the multiple banking arrangement?
- b) Why the well-defined credit policy is important for a bank? Mention five major planks of the policy. ( 2+3)

II. Bensons Processes Ltd (BPL) has been manufacturing products for the last three years. The annual turnover of the company is projected to be Rs. 2000 lakh in the coming year 2020-21. The balance sheet of the company as of 31st March, 2020 (Actuals) is appended below:

<b>Capital and liabilities</b>	<b>Amount Rs lakhs</b>	<b>Assets</b>	<b>Amount Rs lakhs</b>
Capital and surplus	400	Fixed assets	460
Long term loans	350	Investment in shares of sister concerns	120
Sundry creditors	100	Inventories	280
Outstanding expenses	80	Bills Receivables	155
Deferred Tax Liability	57	Sundry Debtors	102
Banks borrowings	150	Cash and Bank balance	20
<b>Total liabilities</b>	<b>1137</b>	<b>Total Assets</b>	<b>1137</b>

- a) The company has applied for working capital cash credit limit for Rs.5 crore. Compute working capital need of the company. If balance sheet surplus is considered, how much WC limit will be sanctioned by the bank?
- b) It is observed by the credit officer that the operating cycle of the company is 4 months and requirement of working capital is Rs.500 lakhs as per net operating cycle method. How much limit the bank will sanction in this situation? (2.5 \*2)

**Q. 3. A [CILO -3]**

- i) The borrower, Modern Manufacturers Pvt. Ltd. has provided the following projections for the year 2020-21: (Amount Rs. 000)

Annual sales	Rs.20,00,000
Raw material purchases:	Rs. 7,50,000
Opening stock of raw materials	Rs. 1,20,000
Anticipated closing stock of raw materials	Rs. 1,20,000
Wages and other Mfg expenses	Rs 4,00,000
Opening stock of WIP	Rs. 1,00,000
Anticipated closing stock of WIP	Rs. 1,10,000
Opening stock of FG	Rs. 1,20,000
Anticipated closing stock of FG	Rs. 1,40,000

**Inventory norms:**

Raw material: 2 months, WIP : 10 days, Finished goods: 1.5 months.

Credit allowed to buyers: 3 months (70% sales are on credit)

Credit allowed by suppliers: 2 months on its purchases (80% purchases are on credit)

You are required to compute the amount of working capital required by the company based on Net Working capital cycle method.

**OR****Q. 3. B [CILO -3]**

National Industries Pvt Limited. (NIPL) enjoys various credit limits from the Bank.

Credit Facility	Credit Line	Current outstanding (Rs. Lakh)
Cash Credit	400	360.90
Overdraft	30	33.90
Bid Bond Guarantees	60	40.00
Performance Guarantees	150	100.00

**Other details**

1. Co. had given the primary and collateral securities worth Rs. 450 lakh.
2. The total cost of up-gradation of plant and additional purchase of machinery is estimated at Rs. 300 lakh. The company has requested for an appropriate amount of term loan, re-payable in 10 equal half yearly installments from December, 2022
3. The company has estimated export sales of Rs. 400 lakh and also expects large orders in the domestic market during the current year.
4. The company is enjoying good reputation in the market with market share of 22%. But due to stiff competition, the margins are under pressure.
5. The up-gradation of production capability is expected to take around 10 months.
6. Dividend is proposed to be paid from 2020-21 onwards @20% for 5- 6 years.
7. The current ratio for last 3 years are around 1.50 and quick ratio around 1.02.
8. Salient Projected Financials are provided hereunder:

Particulars	Actual	Projected (Rs. Lakhs)					
	2019-20	2020-21	2021-22	2022-23	2023-24	2024-25	2025-26
Turnover	15000	16000	17500	19000	21500	24000	26000
Surplus	400	520	650	800	800	960	1200
Depreciation	10	30	30	35	40	40	45
Interest	60	88	82	76	70	65	60
Installment	Nil	20	40	40	40	40	40

**Required:**

1. Work out the following financial ratios for aiding the decision making:
  - a) % Growth in turnover
  - b) Profitability
  - c) DSCR
  - d) Interest Cover
  - e) Debt equity Ratio.
  - f) Security Cover in relation to bank credit exposure
  - g) Cash flow projections and moratorium period.
- a) Write your observations on appraisal of financial health of the company and write your decision for approval with terms and conditions like loan amount, margin, securities etc. If you find any relevant information missing or not provided, you may assume it and record it for taking this decision.  
(7+3 )

**SECTION B:**

**Q4. Write to the point and relevant while answering questions. Maximum word limit for full question with all its parts is 600 words.**

**Case Study- Shakti Footwear Pvt Ltd**

Shakti Footwear Pvt Ltd. Is engaged in Manufacture of Footwear made of leather, synthetic leather rexine, canvas rubber plastic and such other material and their main supply has been

to Reebok India and other players of the footwear industry. Company has been enjoying Fund based Working Capital CC limit of Rs.400.00 lacs against common security of stocks and book debts with 25% margin. The company is dealing with the Bank since 2016 and availing credit limits for their activity. Present position of the account and transaction in the account is satisfactory.

The company has requested its bankers for enhancement of their Fund based Working Capital CC to Rs.900.00 lacs against common security of stocks and book debts with 25% margin to enable them to achieve their estimated / targeted sale of Rs.4500 lacs for current year ending March 2021.

The company proposes Primary Security i.e. Hypothecation of Stocks and Receivables and also a Collateral Security of charge on Factory land and Building Valuing Rs.340.00 lacs. The Company further offers Personal Guarantees of Directors of the company

1. Mr. Ganesh Net worth Rs.138.00 lacs as on 31.03.2020
2. Mrs. Lata Devi Net Worth Rs.350.00 lacs as on 31.03.2020

During first Quarter (April-June 2020) of the current year, the company has already achieved sale of around Rs.1200.00 lacs. Looking to their past performance, good market potential for their products and well acquaintance of the Directors in the line of their activity, the company do not foresee any problem in achieving their targeted (estimated) sale for current year. The financials are provided hereunder:

<b>OPERATING STATEMENT</b>			
	Actual	<i>Estimated</i>	Projected
	31-Mar-20	31-Mar-21	31-Mar-22
<b><u>INCOME</u></b>			
<b>Net Sales</b>	<b>3,750.02</b>	<b>4,500.03</b>	<b>4,950.03</b>
Gross Income	3,750.02	4,500.03	4,950.03
<b><u>EXPENSES</u></b>			
Raw material [Indigenous]	2,922.28	3,522.73	3,860.01
Consumables [Indigenous]	6.05	7.26	7.97
Direct Labour	32.96	39.55	43.51
Depreciation	53.46	52.50	51.15
Other direct overheads	479.53	575.44	632.98
+Inventory [opening] of WIP	46.62	53.62	64.34
-Inventory [closing] of WIP	-53.62	-64.34	-70.77
<b>Total cost of production</b>	<b>3,487.28</b>	<b>4,186.76</b>	<b>4,589.19</b>

+Inventory [opening] of finished goods	115.10	132.37	158.84
-Inventory [closing] of finished goods	-132.37	-158.84	-174.72
<b>Total cost of sales</b>	<b>3,470.01</b>	<b>4,160.29</b>	<b>4,573.31</b>
<b>Gross Profit</b>	280.01	339.74	376.72
Total indirect expenses	-95.98	-115.17	-126.69
<b>Operating profit before finance charges</b>	<b>184.03</b>	<b>224.57</b>	<b>250.03</b>
Total finance charges [only interest element]	-65.88	-68.00	-72.00
<b>Operating profit after finance charges</b>	<b>118.15</b>	<b>156.57</b>	<b>178.03</b>
Non-operating income	3.02	3.00	3.00
Non-operating expenses	-	-	-
<b>Profit before Tax / (Loss) PBT</b>	<b>121.17</b>	<b>159.57</b>	<b>181.03</b>
Provision for Taxes	-40.08	-47.87	-54.31
<b>Net Profit / Loss after Tax PAT</b>	<b>81.09</b>	<b>111.70</b>	<b>126.72</b>
Equity dividend pay-out	-	-	-
<b>Retained Profit</b>	<b>81.09</b>	<b>111.70</b>	<b>126.72</b>

**BALANCE SHEET**

<b>ASSETS</b>	Actual	<b>Estimated</b>	Projected
	31-Mar-20	31-Mar-21	31-Mar-22
Cash and bank balances	35.46	41.38	47.19
Receivables other than deferred & exports	630.00	774.50	824.15
Raw Materials and consumables Indigenous	350.00	427.00	458.45
Work [ Stock ] in Process	63.62	74.34	80.77
Finished Goods	132.37	158.84	174.72
Advances to suppliers of raw materials	10.79	34.00	36.00
Advance payment of taxes	25.10	47.87	54.31
Security deposits / Tender Deposits	32.34	32.34	32.34
Other Misc. Current Assets	29.55	43.10	46.25
<i>Gross Block</i>	<i>644.90</i>	<i>675.00</i>	<i>740.00</i>
<i>Depreciation</i>	<i>222.79</i>	<i>275.29</i>	<i>326.44</i>
<b>Net Block</b>	<b>422.11</b>	<b>399.71</b>	<b>413.56</b>
<b>Total Assets</b>	<b>1,731.34</b>	<b>2,033.08</b>	<b>2,167.74</b>

<b>CAPITAL AND LIABILITIES</b>	Actual	Estimated	Projected
	31-Mar-20	31-Mar-21	31-Mar-22
Short term borrowings from Applicant Bank	374.33	600.00	600.00
Sundry Trade Creditors - Indigenou	310.00	276.50	290.00
Provision for Taxation	47.37	57.87	64.31
Other Statutory Liabilities (due within 1 year)	39.10	43.40	50.25
Loans / DPGs etc. (due within 1 year)	30.88	31.15	30.08
Audit Fee Payable /other misc provisions	30.00	33.95	56.25
Term loans (repayable after 1 year)	84.04	52.89	22.81
Unsecured Loans (50% repayable in less than 1 year)	300.00	320.00	320.00
Deferred Tax Liability	20.00	10.00	-
Capital	147.50	147.50	147.50
General reserve	348.12	459.82	586.54
<b>Total Capital and Liabilities</b>	<b>1,731.34</b>	<b>2,033.08</b>	<b>2,167.74</b>

**Required:**

1. Calculate MPBF as per 2<sup>nd</sup> Method of Lending.
2. Work out the following financial ratios
  - i) Interest Coverage
  - ii) Current Ratio
  - iii) Net Profit Ratio %
  - iv) Debtors turnover ratio( based on closing debtors)
  - v) Creditors turnover ratio ( based upon closing creditors)
  - vi) Return on Net Worth ratio %
3. Based on the financial statements, and above financial ratios (assuming other aspects being satisfactory) write the appraisal note (a note on strengths and weaknesses of the borrowing company) and the WC limit to be approved with major terms and conditions. (7+6+7)