

PGDM / PGDM (IB), Batch 2016-18
Corporate Banking and Credit Appraisal
DM-412 / IB-409
Trimester –IV, End-Term Examination: September 2017

Time allowed: 2 Hrs 30 Min

Max Marks: 50

Instruction: 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 out of 5 (Short Questions)	5 Marks each	3*5 = 15
B	2 out of 3 (Long Questions)	10 Marks each	2*10 = 20
C	Compulsory Case Study	15 Marks	15
		Total Marks	50

Section A: The Upper Limit for length of “to the point” answer is 200 words for each question.

- What are the three types of Export Credit facilities generally granted to an exporter? Identify the usual risks in such transactions for the shipper and the bank? How they will manage these risks?
- Give your justification for agreement or disagreement with the following statements:**
 - The lead arranger must take up a share in the syndication credit with other member banks to finance the borrower and will have a share in the arrangement fee.
 - The Basel accords are actually the tools of risk management in banks internationally.
 - Consortium arrangement is in the interest of the bank in more than one ways.
 - “The Letter Of Credit and a Bank Guarantee are similar as well as different”.
 - “Cash Management Service (CMS) has no utility to the corporate client”. (1x5)
- Give one name of Indian company having zero working capital and one name of the another Indian company having negative working capital. What are the possible risks of such situations?
 - CC Limit is sanctioned for Rs. 10 lakh against paid stocks not more than 6 months old with Margin of 25%. The company submitted a monthly stock statement as of 31st August, 2017, for total stocks valued Rs 20 lakh, out of which suppliers of raw materials have not been yet paid for Rs 3 lakh. The stocks valued Rs. 2 lakh are 3 months old, Rs 5 lakhs for than 3 months old and Rs 2 lakh are more than 6 months old. Work out the DP and show your working. (2.5x2)
- Define “Exposure” for a bank. What are the current exposure norms for Single and Group borrower and total exposure to Capital Market?

5. a) List three ways in which banks fund the corporates without giving direct credit facilities. Why does this become necessary?
- b) A term loan was granted for Rs. 10 lakh in 2016. An installment of principal for Rs.1 lakh plus interest Rs12,000 was due on 30.06.17 but remained un-paid. On which date it will become NPA as per RBI guidelines? On which dates it will be classified as a sub-standard advance and doubtful of recovery advance respectively? (2.5x 2)

Section B: The Upper Limit for length of "to the point" answer is 350 words for each question.

6. The annual turnover of a manufacturing company named Slow Startup Ltd., is projected to be Rs.22 crore in the coming year. You are required to compute working capital need of the company based on Turnover method as per Nayak committee recommendations.
- a) How much will be the working capital requirement as per turnover method?
- b) How much will be the limit sanctioned by the bank as per turnover method?
- c) How much will be the margin required from the borrower ?
- d) Supposing, the company has their own surplus funds for working capital to the tune of Rs.1.5 crore, then what amount of limit will be sanctioned?
- e) Assume that the credit officer works out the operating cycle of the company as only 2 months and requirement of working capital as Rs 3 crore as per working capital cycle method. How much limit the credit officer will sanction in this situation to the above borrower?
7. a) You are required to give your recommendations for clean sanction or conditional sanction or rejection of the proposal based on this final data provided for a Term Loan, if all other factors are satisfactory.

Parameters	industry average as a benchmark	Company's level in past year 2016-17	Projected for next year 2017-18
Current ratio	1.33	1.34	1.52
TOL/ Net worth	4.00	5.11	4.10
DSCR	2.00	1.78	1.98
Debt/Equity	2.00	1.99	1.04
Interest cover	2.00	1.46	2.0

- b) List 5 most important ingredients of credit policy of a bank and explain purpose of each briefly in not more than 25 words each.
8. ABC Enterprise needs bank credit facilities for the following purposes:

- a) Buying plant and machinery costing Rs100 lakhs.
- b) Financing of inventories in their production cycle estimated Rs. 200 lakh
- c) Financing of their credit sales of Rs 500 lakhs thru bills drawn on buyers with satisfactory credit reports obtained on the buyers.
- d) Bank's suitable credit facility for importing materials from abroad worth Rs60 lakh each year.
- e) A suitable facility of Rs. 100 lakh where they can overdraw their current account balance in case of need. They offered shares/bonds and Bank Fixed Deposit valued at Rs.140 to cover this facility.

You are required answer as under in a table form as per procedure of the banks:

Sr.no. of need above	Name of credit facility	The description of Security available to bank	Name of Charge (legal interest of bank) on the security made available
a)			
b) and so on			

Section C: The Upper Limit for length of "to the point" answer is 500 words.

C. Case Study: M/S Excellent Products Pvt. Ltd. (EPL)

EPL have submitted their financial statements based on which the CMA format II and III has been prepared and attached herewith.

Required:

(6 + 1 + 8)

1. Workout the MPBF for EPL for all the three years as per Second Method of lending.
2. A cash flow statement is also prepared as part of Financial statements. What inferences are intended to be drawn from the study of cash flow statement?
3. Workout the following important ratios using the data in Format II and III and provide your analysis on financial position of the company and decide whether you will sanction the limits as per MPBF arrived at. Also mention any special terms and conditions you will specify for the borrowers in view of financial indicators to get this facility sanctioned.

Sr.	Particulars	31-Mar-16 Year 1	31-Mar-17 Year 2	31-Mar-18 Year 3
1	Debt Equity ratio			
2	Interest Coverage ratio			
3	Current ratio			
4	Return on Capital Employed			
5	Net Profit Margin			
6	Debtors Turnover ratio [Based on closing debtors]			
7	Creditors Turnover ratio [Based on closing creditors]			
8	Assets Turnover ratio			

FORM II : OPERATING STATEMENT

Name: EXCELLENT PRODUCTS PVT. LTD.

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED / PROJECTED	
				31-Mar-17	31-Mar-18	
		31-Mar-16	Year 1	Year 2	Year 3	

A Quantities:

i	Raw Material Consumption		-	-	-
ii	Sales		-	-	-
iii	Rejects and Scraps		-	-	-

1 Gross Income

a Sales (net of returns)

i	Domestic Sales		2,790.00	3,200.00	3,700.00
ii	Export Sales		-	-	-
T1	Sub-total [a(i+ii)]		2,790.00	3,200.00	3,700.00
iii	Less: Excise Duty		-	-	-
T2	Net Sales [T1-iii]		2,790.00	3,200.00	3,700.00
iv	% rise or fall in sales turnover [compared to previous year]		{0.00%}	{14.70%}	{15.63%}

b Other Income

i			-	-	-
ii			-	-	-
iii			-	-	-
iv			-	-	-
v			-	-	-
T3	Total Other income [b(i to iv)]		-	-	-
T4	Total Gross Income [T2+T3]		2,790.00	3,200.00	3,700.00

2 Cost of Production & Cost of Sales

a	Raw Materials [Including Stores and other items used in the process of manufacture]				
i	Imported		-	-	-
ii	Indegenous		2,220.00	2,470.00	2,750.00
T5	sub-total [a(i+ii)]		2,220.00	2,470.00	2,750.00
b	Other Consumable Spares				
i	Imported		-	-	-
ii	Indegeneous		-	-	-
T6	sub-total [b(i+ii)]		-	-	-
c	Direct Expenses				
i	Power and fuel		28.00	55.00	71.00
ii	Direct labour		51.00	53.00	66.00
iii	Other manufacturing expenses		80.00	83.00	108.00
iv			-	-	-
v			-	-	-
vi			-	-	-
vii			-	-	-
viii			-	-	-
ix			-	-	-
x	Depreciation		40.00	74.00	140.00
T7	Total Direct Expenses [c(i to x)]		199.00	265.00	385.00
T8	sub-total [T5+T6+T7]		2,419.00	2,735.00	3,135.00
d	Add : Opening stock of W.I.P.		-	-	-
T9	Sub-total [T8+2(d)]		2,419.00	2,735.00	3,135.00
e	Less : Closing Stock W.I.P.		-	-	-
T10	Total Cost of Production [T9-2(e)]		2,419.00	2,735.00	3,135.00
f	Add : Opening stock of Finished Goods		-	-	-
T11	sub-total [T10+2(f)]		2,419.00	2,735.00	3,135.00
g	Less : Closing Stock of Finished Goods		-	-	-
T12	Total Cost of Sales [T11-2(g)]		2,419.00	2,735.00	3,135.00

FORM II : OPERATING STATEMENT

Name: EXCELLENT PRODUCTS PVT. LTD.

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED / PROJECTED
		31-Mar-16 Year 1	31-Mar-17 Year 2	31-Mar-18 Year 3	
General, Administrative & Selling Expenses					
i	Advertisement Expenses /other Indirect expenses	220.00	275.00	290.00	
ii		-	-	-	
iii		-	-	-	
iv		-	-	-	
v		-	-	-	
vi		-	-	-	
vii		-	-	-	
viii		-	-	-	
ix		-	-	-	
x		-	-	-	
T13	Total General, Administrative & Selling Expenses [3(i to x)]	220.00	275.00	290.00	
	Operating Profit before Interest [T4-T12-T13]	151.00	190.00	275.00	
Finance Charges					
i	Interest on Working Capital and Term Loan	50.00	110.00	170.00	
ii		-	-	-	
iii		-	-	-	
iv		-	-	-	
v		-	-	-	
T14	Total Finance Charges [5(i to v)]	50.00	110.00	170.00	
6	Operating Profit after Interest [4-T14]	101.00	80.00	105.00	
Non-Operating Income					
i	interest income	5.00	2.00	3.00	
ii		-	-	-	
iii		-	-	-	
T15	Total Non-Operating Income [7(i to iii)]	5.00	2.00	3.00	
Non-Operating Expenses					
i		-	-	-	
ii		-	-	-	
iii		-	-	-	
T16	Total Non-Operating Expenses [8(i to iii)]	-	-	-	
T17	Net Non-Operating Income (+) / Expenses (-) [T15-T16]	5.00	2.00	3.00	
10	Net Profit before Tax / (Loss) PBT [6+/-T17]	106.00	82.00	108.00	
	Provision for Taxes	31.80	24.60	32.40	
12	Net Profit / Loss after Tax PAT [10-11]	74.20	57.40	75.60	
	PAT to Net Sales % [12/T2] %	{2.66%}	{1.79%}	{2.04%}	
Equity Dividend & Dividend Tax					
	Dividend Rate %	{0.00%}	{0.00%}	{0.00%}	
	Dividend Distribution Tax %	{0.00%}	{0.00%}	{0.00%}	
14	Retained Profit [12-13]	74.20	57.40	75.60	
	Retained Profit / PAT % [14/12] %	{100.00%}	{100.00%}	{100.00%}	
Additional Data:					
Break-up of Total Gross Income					
Domestic Sales:					
i	1st Quarter	-	-	-	
ii	2nd Quarter	-	-	-	
iii	3rd Quarter	-	-	-	
iv	4th Quarter	-	-	-	
T18	<i>sub-total</i> [i to iv]	-	-	-	
T19	Export Sales	-	-	-	
T20	Total [T18+T19] to agree with T4	-	-	-	

FORM III : ANALYSIS OF BALANCE SHEET

Name: EXCELLENT PRODUCTS PVT. LTD.

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED/PROJECTED	
		31-Mar-16 Year 1	31-Mar-17 Year 2	31-Mar-18 Year 3		
Current Liabilities						
1	Short term borrowings					
a	from Banks (including bills purchased, dis & excess borrowings placed on repayment)					
	i from Applicant Bank	250.00	400.00	600.00		
	ii from Other Banks	-	-	-		
	T1 sub-total [a(i + ii)]	250.00	400.00	600.00		
	of which BP & BD					
	iii from Applicant Bank	{00.00}	{00.00}	{00.00}		
	iv from Other Banks	{00.00}	{00.00}	{00.00}		
	T2 sub-total [b(iii + iv)]	-	-	-		
	T3 Total short term borrowings from banks T1	250.00	400.00	600.00		
b	from Others					
	i Sundry Trade Creditors - Indigenou	430.00	470.00	350.00		
	ii Sundry Trade Creditors - Import	-	-	-		
	iii Advance payments from Customers / Deposits from Dealers / Stockists	-	-	-		
	iv Provision for Taxation	22.00	25.00	32.00		
	v Dividend payable	-	-	-		
	vi Other Statutory Liabilities (due within 1 year)	-	-	-		
	vii Deposits / Debentures / Instalments of Term Loans / DPGs etc. (due within 1 year)	-	-	-		
	T4 Total short term borrowings from others [b(i to vii)]	452.00	495.00	382.00		
2	Other Current Liabilities and Provisions (due within one year-specify major items)					
	i Audit Fee Payable /other misc provisions	12.00	20.00	22.00		
	ii	-	-	-		
	iii	-	-	-		
	iv	-	-	-		
	v	-	-	-		
	T5 sub-total [2(i to v)]	12.00	20.00	22.00		
	T6 Current Liabilities excl. bank borrowings [T4+T5]	464.00	515.00	404.00		
	T7 Total Current Liabilities [T3+T6]	714.00	915.00	1,004.00		
3	Term Liabilities					
a	Debentures (maturing after 1 year)	-	-	-		
b	Preference Shares (redeemable after 1 year)	-	-	-		
c	Term loans (repayable after 1 year)	202.00	540.00	483.00		
d	Deferred Payment Credits (repayable after 1 year)	-	-	-		
e	Term deposits (repayable after 1 year)	-	-	-		
f	Other term liabilities					
	i Unsecured Loans	155.00	300.00	500.00		
	ii Deferred Tax Liability	10.00	13.00	13.00		
	T8 Total Term Liabilities [3(a to f)]	367.00	853.00	996.00		
	T9 Total Outside Liabilities [T7+T8]	1,081.00	1,768.00	2,000.00		
4	Net Worth					
a	Capital	150.00	150.00	200.00		
b	General reserve	74.20	131.60	207.20		
c	Revaluation Reserve	-	-	-		
d	Other reserves (excluding provisions)	-	-	-		
e	Surplus (+) or deficit (-) in P & L A/c	-	-	-		
f	Others					
	i Share Premium Account	-	-	-		
	ii Capital Redemption Reserve	-	-	-		
	iii	-	-	-		
	iv	-	-	-		
	v	-	-	-		
	T10 Net Worth [4(a to f)]	224.20	281.60	407.20		
	T11 Total Liabilities [T9+T10]	1,305.20	2,049.60	2,407.20		

FORM III : ANALYSIS OF BALANCE SHEET

Name: EXCELLENT PRODUCTS PVT. LTD.

Sr. No.	Particulars	Actuals as per audited accounts		PROVSIO	ESIMATED/PROJECTED	
		31-Mar-16 Year 1	31-Mar-17 Year 2	NAL	31-Mar-18 Year 3	
Current Assets						
5	Cash and bank balances		49.20	55.60	66.20	
6	Investments <i>[other than long term Investments]</i>		-	-	-	
i	Government & other trustee securities		-	-	-	
ii	Fixed deposits with Banks & Others		-	-	-	
T12	<i>sub-total [6(i+ii)]</i>		-	-	-	
7	i Receivables other than deferred & exports <i>[Including bills purchased & discounted by bankers]</i>		695.00	880.00	957.00	
ii	Export receivables (Including bills purchased/discounted by bankers)		-	-	-	
T13	<i>sub-total [7(i+ii)]</i>		695.00	880.00	957.00	
8	Instalments under deferred receivables (due within one year)		-	-	-	
9	Inventory					
a	Raw Materials (Including Stores and other items used in the process of manufacture)					
i	Imported		-	-	-	
ii	Indigeneous		180.00	290.00	360.00	
b	Work [Stock] in Process		-	-	-	
c	Finished Goods		-	-	-	
d	Goods in Transit		-	-	-	
e	Other consumable spares		-	-	-	
i	Imported		-	-	-	
ii	Indigeneous		-	-	-	
T14	<i>sub-total [(a to e)]</i>		180.00	290.00	360.00	
10	Advances to suppliers of of raw materials / stores & spares		-	-	-	
11	Advance payment of taxes		26.00	28.00	32.00	
12	Other current assets <i>[specify major items]</i>					
i	Misc Current Assets		42.00	49.00	58.00	
ii			-	-	-	
iii			-	-	-	
iv			-	-	-	
v			-	-	-	
T15	<i>sub-total 2(i to v)]</i>		42.00	49.00	58.00	
T16	Total Current Assets [5 to 12]		992.20	1,302.60	1,473.20	
3	Fixed Assets					
i	Gross Block		470.00	930.00	1,185.00	
ii	Depreciation		40.00	74.00	140.00	
T17	Net Block [13(i-ii)]		430.00	856.00	1,045.00	

FORM III : ANALYSIS OF BALANCE SHEET

Name: EXCELLENT PRODUCTS PVT. LTD.

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED/PROJECTED	
			31-Mar-16	31-Mar-17	31-Mar-18	
			Year 1	Year 2	Year 3	
	Other Non-Current Assets					
14	Investments / book debts / advances / deposits which are non-current					
a	Investments in subsidiary companies / affiliates		-	-	-	
b	Other investments		21.00	21.00	21.00	
c	Advances to suppliers of capital goods and contractors		-	-	-	
d	Deferred receivables [maturity exceeding one year]		-	-	-	
e	Security deposits / Tender Deposits		10.00	20.00	20.00	
f	Others					
	i Receivables exceeding one year		-	-	-	
	ii		-	-	-	
	iii		-	-	-	
T18	sub-total 4(a to f)]		31.00	41.00	41.00	
15	Obsolete Stocks		-	-	-	
16	Non-consumable consumables & spares		-	-	-	
17	Other non-current assets (Including dues from directors)		-	-	-	
T19	Total Other Non-Current Assets 14 to 17]		31.00	41.00	41.00	
18	Intangible assets (Patents, Goodwill, Preliminary Expenses, Bad / Doubtful Debts not provided for etc)		12.00	10.00	8.00	
T20	Total Assets [T16+T17+T19+18]		1,465.20	2,209.60	2,567.20	