Roll No: ___________

PGDM / PGDM (IB) , Batch 2015-17

Corporate Banking and Credit Appraisal

DM-412 / IB-412

Trimester –IV, End-Term Examination: September 2016

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 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.

1. A corporate customer requests that the bank should help them to get cash against credit sales (90-180 days credit) to their buyers in *India and abroad.* You advise the client how the bank will help them and what shall be some major terms and conditions related to the facility or service.

2. Banks sometimes can not help the corporate borrowers through lending due to certain reasons. List the ways in which banks help corporate funding without giving credit facilities.

3. Great Startup Ltd will be manufacturing fibre glass sheets for industrial and household use. The annual turnover of the company is projected to be Rs. 24 crore in the coming year.
   a) Compute working capital need of the company based on Nayak committee Turnover method.
   b) How much will be the limit sanctioned by the bank in this case ?
   c) If the company has their own surplus funds for working capital (margin) to the tune of Rs.2 crore, then what amount of limit will be sanctioned?
   d) It is observed by the credit officer that the the operating cycle of the company is only 2 months and requirement of working capital is Rs 4 crore as per operating cycle method. How much limit the credit officer will sanction in this situation?

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4. a) What are the advantages of Consortium banking over the multiple banking arrangements for the corporate customer as well as the member banks.
   b) Write four common processes or terms and conditions adopted by Lead Arranger and other banks in a Syndicate.

5. a) Credit Limit is sanctioned for Rs. 15 lakh for a company against paid stocks not more than 6 months old. Margin stipulated by the bank is 25%. The company submitted a monthly stock statement for value of total stocks of Rs 28 lakh as of 31st August, 2016. Out of which Rs 4 lakh are unpaid stocks (suppliers are yet not paid). The stocks valued Rs.20 lakhs are two months old, Rs.3 lakh are three months old, Rs.5 lakh are five months old. Work out the DP.
   b) Give one name of Indian company who may have zero working capital. Illustrate how is it possible?
   c) Give one name of Indian company who may have negative working capital. Illustrate how it can be so?

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

6. a) What are the current exposure norms for individual and group borrowers, NBFC borrowers and capital market exposure?
   b) List the exposures exempted from current exposure norms.
   c) RBI has suggested changes in the above exposure norms on its website in August, 2016. How the proposed norms are different from existing norms?

7. The following projections for 2016-17, are provided by Gledhill Mfg Company.

(Amount Rs ooo)

Annual sales	Rs14,40,000	Cost of production	Rs 12,00,000
Raw material purchases:	Rs.7,05,000	Monthly Expenses	Rs. 25,000

Anticipated opening stock of raw materials 1,40,000

Anticipated closing stock of raw materials 1,25,000

Inventory norms: Raw material: 2 months WIP :15 days Finished goods: 1 month.

The company enjoys a credit of 15 days on its purchases and allows one month credit on sales. They have received an advance of Rs.15,000 on sales orders.

You may state your assumptions, if any. Work out working capital required by the company based on working capital cycle method.

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8. With the undernoted information, you are required to work out the Maximum Permissible Bank Finance (MPBF) as per second method of Tandon committee.

Current Liabilities	(Amount Rs lakh)	Current assets	
Creditors for purchases	100	Raw materials	200
Other current liabilities	50	Stock in Process	20
Total current liabilities		Finished Goods	90
(Excluding bank borrowings)	150	Receivables	50
Bank Borrowings	200	Other current assets	10
Total Current Liabilities	350	Total current assets	370

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

9. Excellent Industries Limited. (EIL)

Excellent Industries Limited. (EIL) has been enjoying various credit limits and also a term loan with National Overseas Bank.

Credit Facility	Credit Line *Amount Rs. Lakhs*	Current outstanding
Term loan	Rs 250	Rs 102.30
Cash Credit	Rs.400	Rs 360.90
Overdraft	Rs. 25	Rs 25.90
Performance	Rs. 50	All Guarantees outstanding

Apart from the primary securities, the EIL had also offered collateral securities worth Rs. 300.00 lakh against all these loans.

About the company

EIL is engaged in manufacturing of EOT cranes. The product is utilised in ports, sugar industries, power plants or paper plant etc. The EIL is required to immediately upgrade the manufacturing facilities in order to manufacture higher tonnage cranes and also handle several orders simultaneously. This up-gradation is must for now and future. They have submitted the following proposal to the bank.

The term loan requirement

The demand for higher tonnage cranes above 125 T capacity with 24 Meter span is on the increase with a lot of power projects corning up in the range of 500 MW to 700 MW. The company is proposing to cater to higher tonnage cranes since the competition is lower in this segment, resulting in better realizations. The company has received orders of Rs. 2.6 crore from MSEB and Rs. 1.9 crore from L&T for this range of cranes. The company

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has provided necessary evidence for the above order received.

Currently, there are only two players in India manufacturing higher tonnage cranes. The company has to upgrade their material handling capabilities i.e. increase the handling capacity of Fabrication and Assembly sheds and upgrade load testing facilities in order to manufacture higher tonnage cranes. The total cost of up-gradation as per Chartered Engineers estimate is Rs.140 lakh and the company has requested for a term loan of Rs.100 lakh, re-payable in 20 equal quarterly installments.

The company is proposing to upgrade their material handling capability and manufacture higher tonnage cranes. The company has already registered with various EPC contractors operating worldwide like the Kawasaki Heavy Industries, Japan;GE Power, USA; Siemens, Germany and Doosen Heavy Industries, Korea. The company has started getting enquiries for cranes in this range and has estimated export sales of Rs. 200 lakh and also expects large orders in the domestic front relating to higher tonnage cranes during the current year. Besides, the company has orders in hand amounting to Rs. 18.06 crore at various stages of production. *Project Cost is Rs140 lakhs*

Highlights of Projected Financials

Particulars FY	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
Turnover	1547.20	2220.0	2700.00	3100.0	3600.00	4200.00	4700.00
PAT	26.36	60.54	155.00	181.00	153.97	154.77	152.36

Particulars		2016-17	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Surplus		60.54	155.00	181 .00	153.97	154.77	154.36	857.64
Depreciation		24.96	39.96	39.96	54.96	54.96	54·.96	269.76
Interest		13.50	19.60	23.28	22.20	20.28	12.36	111.22
Total (A)		99.00	214.56	244.24	231.13	230.01	219.68	1238.62
Installment		26.67	40.00	40.00	40.00	28.33	13.33	188.33
Interest		13.50	19.60	23.28	22.20	20.28	12.36	111.22
Total (B)		40.17	59.60	63.28	62.20	48.61	25.69	299.55

Justifications given by the company for Projected Financials

a) The company has estimated an increase in profitability during the current year due to commencement of export sales and better realizations from higher tonnage cranes.

b) Dividend is proposed to be paid till 2021-22 as under:

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2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
NIL	NIL	NIL	25%	30%	40%

c) The profitability is expected to increase in the subsequent years, due to increase in export sales and consequent increase in total turnover & reduction in fixed expenses.

d) The Rate of Interest on TL (existing and proposed) is computed @ 12 percent p.a. payable monthly.

e) The TL installments include re-payment towards existing TL @ Rs. 20 lakh per annum. The existing loan will be repaid in full by August 2020.

f) The up-gradation of its material handling capability is expected to take around three months.

Required:

1. Company claims that they will provide margin requirement out of internal accruals. Estimate whether internal accruals are adequate to meet the margin on proposed TL.
2. Work out the following information, analyze and use the same in the years for which data is avEILable in decision making:

   a) % Growth in turnover of the company
   b) Profitability of the company % in terms of PAT to Sales
   c) Cash flows of the company
   d) Ratios and other data you will use to make analysis and decision to grant or not to grant a term loan of Rs. 100 lakh as per bank's practice of sanctioning Terms Loans.

   You have to take a decision with only the data and information as avEILable above about this case. If other information you require that is not provided above, you may make reasonable assumptions for the same, mention it and work out the case decision accordingly.

3. If it was possible to get, what other *most important* information or data you would have asked from the company in addition to what has been provided for this case decision.