

PGDM / PGDM (IB) , Batch 2017-19
Corporate Banking and Credit Appraisal
DM-413 / IB-409

Trimester –IV, End-Term Examination: September 2018

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 is 200 words for "to the point" answer for each question.

1. A corporate borrower requests credit facilities for (i) Construction of factory building on plot of land owned by borrower, (ii) Purchase of Plant and Machinery, (iii) Purchase of some local raw materials and keeping stocks of WIP and Finished goods on regular basis (iv) Import of some raw materials once a year based on firm commitment of the bank on behalf of importer borrower to pay to the seller on receipt of goods and (v) Performance guarantee. Complete the relevant information for all the above 5 facilities as per the following table:

Sr.	Requirement of borrower	Type of credit facility	Security	Charge on security
i.				
continued				

2. A) What is the role of "Risk Mitigants" in credit risk management? Write examples of four such Risk Mitigants.
- B) Write three ways the banks fund the corporates when they cannot grant more credit facilities (other than non-fund based facilities) due to some operational constraints.
2.5+2.5
3. The annual turnover of the company is projected to be Rs. 25 crore in the coming year.
- A. How much will be the limit sanctioned by the bank in this case based on Nayak committee Turnover method.
- B. 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?

C. It is observed by the credit officer that the operating cycle of the company is only 2 months and requirement of working capital is Rs 3 crore as per operating cycle method. How much limit the credit officer will sanction in this situation and why?

1+2+2

4. A) Define consortium banking and multiple banking arrangements? What are the advantages of consortium banking over the multiple banking for the corporate customer as well as the banks?

B) Banks grant the corporate borrowers some financial services other than credit facilities. Briefly describe two such financial services. 2.5+2.5

5. A) The company submitted a monthly stock statement with total stocks valuing Rs 30 lakh as of 31st August, 2018. Out of which stocks worth Rs 5 lakh are unpaid, Rs.20 lakhs are two months old, Rs.5 lakh are three months old, Rs.3 lakh are five months old and Rs 2 lakh 6 months old. Credit Limit is sanctioned for Rs. 12 lakh for this company against paid stocks not more than 3 months old. Margin stipulated by the bank is 30%. Work out the DP.

B) Define Risk Sensitive Assets and Liabilities. How they are used in Interest Rate Risk Management in banks? 2.5+2.5

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

6. A) Define the term "Credit Exposure" for Banks? What are the current exposure norms for individual borrowers, group borrowers and banks' capital market exposure?

B) How banks decide NPA status for different credit facilities? 5+5

7. The following projections for 2018-19, are provided by the Progressive Products Co. Ltd.

(Amount Rs. 000)

Annual sales	Rs18,00,000
Raw material purchases:	Rs.7,20,000
Opening stock of raw materials	Rs.1,10,000
Anticipated closing stock of raw materials	Rs. 1,20,000
Wages and other Mfg expenses	Rs 2,00,000
Opening stock of WIP	Rs. 60,000
Anticipated closing stock of WIP	Rs. 70,000
Opening stock of FG	Rs. 1,40,000
Anticipated closing stock of FG	Rs. 1,60,000

Inventory norms:

Raw material: 1 months, WIP : 15 days, Finished goods: 1 month.

Credit allowed to buyers: 2 months (100% sales are on credit)

Credit allowed by suppliers: 1 month on its purchases (100% purchases are on credit)

Work out working capital required by the company based on Net Working capital cycle method.

8. A) What are the main five parameters a bank generally has in its Credit Policy?
 B) What are the Asset Classification norms in Indian banks? What is the purpose of asset classification into four categories? 5+5

Section C: A case study (carries 15 marks)

Superior Products Private limited (SPL)

SPL has requested sanction of working capital limits for Rs. 10 crore for the year 2018-19. The company has submitted the financial statements based on which the CMA Format II and III have been prepared and attached herewith for your reference.

Required:

1. Work out the working capital requirement of the borrower for the year 2018-19.
2. Work out the following important financial ratios for the year 2016-17, 2017-18 and 2018-19 using the data in format II and III and present in the following table format Table case 9.
3. Provide your analysis on long run and short run financial position of the company based on the above financial ratios for three years in the following table format Table case 9.

Table case 9

Sr.	Ratio	31.03.2017	31.03.2018	31.03.2019 (Estimated)	Analysis and observations
1	Debt Equity ratio				
2	Interest Coverage				
3	Current Ratio				
4	Net Profit Ratio				
5	Debtors turnover ratio (based on closing debtors)				
6	Creditors turnover ratio (based on closing creditors)				
7	Return on Net worth ratio				
8	Assets turnover ratio				

Decide whether you will sanction the limits. Justify your answer with reasons for sanction or rejection. If you sanction the limits, what major terms you will impose on the company, if any.

5+5+5

Name: Superior Products Private Limited (SPL)

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED / PROJECTED	
		31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
		Year 1	Year 2	Year 3	Year 4	Year 5

A Quantities:

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

1 Gross Income

a Sales (net of returns)

i	Domestic Sales		3,892.31	3,260.89	3,750.02	4,500.03	4,950.03
ii	Export Sales		-	-	-	-	-
T1	Sub-total	[a(i+ii)]	3,892.31	3,260.89	3,750.02	4,500.03	4,950.03
iii	Less: Excise Duty		-	-	-	-	-
T2	Net Sales	[T1-iii]	3,892.31	3,260.89	3,750.02	4,500.03	4,950.03
iv	% rise or fall in sales turnover [compared to previous year]		{0.00%}	{-16.22%}	{15.00%}	{20.00%}	{10.00%}

b Other Income

i			-	-	-	-	-
ii			-	-	-	-	-
iii			-	-	-	-	-
iv			-	-	-	-	-
v			-	-	-	-	-
T3	Total Other income	[b(i to iv)]	-	-	-	-	-
T4	Total Gross Income	[T2+T3]	3,892.31	3,260.89	3,750.02	4,500.03	4,950.03

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		3,059.92	2,562.85	2,922.28	3,522.73	3,860.01
T5	sub-total	[a(i+ii)]	3,059.92	2,562.85	2,922.28	3,522.73	3,860.01
b	Other Consumable Spares						
i	Imported		-	-	-	-	-
ii	Indegeneous		5.53	5.26	6.05	7.26	7.97
T6	sub-total	[b(i+ii)]	5.53	5.26	6.05	7.26	7.97
c	Direct Expenses						
i	Power and fuel		37.39	28.66	32.96	39.55	43.51
ii	Direct labour		292.62	296.54	341.02	409.23	450.15
iii	Other manufacturing expenses		166.89	120.44	138.51	166.21	182.83
iv			-	-	-	-	-
v			-	-	-	-	-
vi			-	-	-	-	-
vii			-	-	-	-	-
viii			-	-	-	-	-
ix			-	-	-	-	-
x	Depreciation		55.89	52.51	53.46	52.50	51.15
T7	Total Direct Expenses	[c(i to x)]	552.79	498.15	565.95	667.49	727.64
T8	sub-total	[T5+T6+T7]	3,618.24	3,066.26	3,494.28	4,197.48	4,595.62
d	Add : Opening stock of W.I.P.		49.42	55.65	46.62	53.62	64.34
T9	Sub-total	[T8+2(d)]	3,667.66	3,121.91	3,540.90	4,251.10	4,659.96
e	Less : Closing Stock W.I.P.		55.65	46.62	53.62	64.34	70.77
T10	Total Cost of Production	[T9-2(e)]	3,612.01	3,075.29	3,487.28	4,186.76	4,589.19
f	Add : Opening stock of Finished Goods		81.28	58.87	115.10	132.37	158.84
T11	sub-total	[T10+2(f)]	3,693.29	3,134.16	3,602.38	4,319.13	4,748.03
g	Less : Closing Stock of Finished Goods		58.87	115.10	132.37	158.84	174.72
T12	Total Cost of Sales	[T11-2(g)]	3,634.42	3,019.06	3,470.01	4,160.29	4,573.31

FORM II : OPERATING STATEMENT

Name: Superior Products Private Limited (SPL)

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED / PROJECTE	
		31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
		Year 1	Year 2	Year 3	Year 4	Year 5
3	General, Administrative & Selling Expenses					
i	Advertisement Expenses /other Indirect expenses	86.94	83.46	95.98	115.17	126.69
ii		-	-	-	-	-
iii		-	-	-	-	-
iv		-	-	-	-	-
v		-	-	-	-	-
vi		-	-	-	-	-
vii		-	-	-	-	-
viii		-	-	-	-	-
ix		-	-	-	-	-
x		-	-	-	-	-
T13	Total General, Administrative & Selling Expenses [3(i to x)]	86.94	83.46	95.98	115.17	126.69
4	Operating Profit before Interest [T4-T12-T13]	170.95	158.37	184.03	224.57	250.03
5	Finance Charges					
i	Interest on Working Capital and Term Loan	77.43	56.65	65.88	68.00	72.00
ii		-	-	-	-	-
iii		-	-	-	-	-
iv		-	-	-	-	-
v		-	-	-	-	-
T14	Total Finance Charges [5(i to v)]	77.43	56.65	65.88	68.00	72.00
6	Operating Profit after Interest [4-T14]	93.52	101.72	118.15	156.57	178.03
7	Non-Operating Income					
i	Interest income	0.20	0.64	3.02	3.00	3.00
ii		-	-	-	-	-
iii		-	-	-	-	-
T15	Total Non-Operating Income [7(i to iii)]	0.20	0.64	3.02	3.00	3.00
8	Non-Operating Expenses					
i		-	-	-	-	-
ii		-	-	-	-	-
iii		-	-	-	-	-
T16	Total Non-Operating Expenses [8(i to iii)]	-	-	-	-	-
T17	Net Non-Operating Income (+) / Expenses (-) [T15-T16]	0.20	0.64	3.02	3.00	3.00
10	Net Profit before Tax / (Loss) PBT [6+(-)T17]	93.72	102.36	121.17	159.57	181.03
11	Provision for Taxes	15.80	30.02	40.08	47.87	54.31
12	Net Profit / Loss after Tax PAT [10-11]	77.92	72.34	81.09	111.70	126.72
	PAT to Net Sales % [12/T2] %	{2.00%}	{2.22%}	{2.16%}	{2.48%}	{2.56%}
13	Equity Dividend & Dividend Tax					
	Dividend Rate %	{0.00%}	{0.00%}	{0.00%}	{0.00%}	{0.00%}
	Dividend Distribution Tax %	{0.00%}	{0.00%}	{0.00%}	{0.00%}	{0.00%}
14	Retained Profit [12-13]	77.92	72.34	81.09	111.70	126.72
15	Retained Profit / PAT % [14/12] %	{100.00%}	{100.00%}	{100.00%}	{100.00%}	{100.00%}
16	Additional Data:					
	Break-up of Total Gross Income					
	Domestic Sales:					
i	1st Quarter	-	-	-	-	-
ii	2nd Quarter	-	-	-	-	-
iii	3rd Quarter	-	-	-	-	-
iv	4th Quarter	-	-	-	-	-
T18	sub-total [i to iv]	-	-	-	-	-
T19	Export Sales	-	-	-	-	-
T20	Total [T18+T19] to agree with T4	-	-	-	-	-

FORM III : ANALYSIS OF BALANCE SHEET

Name: Superior Products Private Limited

Sr. No.	Particulars	Actuals as per audited accounts		PROVISIONAL	ESTIMATED/PROJECTED	
		31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
		Year 1	Year 2	Year 3	Year 4	Year 5
Current Liabilities						
1	Short term borrowings					
a	from Banks (including bills purchased, discounts & excess borrowings placed on repayment)					
i	from Applicant Bank	302.93	301.55	374.33	600.00	600.00
ii	from Other Banks	-	-	-	-	-
T1	sub-total [a(i + ii)]	302.93	301.55	374.33	600.00	600.00
	<i>of which BP & BD</i>					
iii	from Applicant Bank	{00.00}	{00.00}	{00.00}	{00.00}	{00.00}
iv	from Other Banks	{00.00}	{00.00}	{00.00}	{00.00}	{00.00}
T2	sub-total [b(iii + iv)]	-	-	-	-	-
T3	Total short term borrowings from banks T1	302.93	301.55	374.33	600.00	600.00
b	from Others					
i	Sundry Trade Creditors - Indigenous	181.02	198.20	210.00	176.50	190.00
ii	Sundry Trade Creditors - Import	-	-	-	-	-
iii	Advance payments from Customers / Deposits from Dealers / Stockists	-	-	-	-	-
iv	Provision for Taxation	18.22	25.49	37.37	47.87	54.31
v	Dividend payable	-	-	-	-	-
vi	Other Statutory Liabilities (due within 1 year)	22.84	18.77	29.10	33.40	40.25
vii	Deposits / Debentures / Instalments of Term Loans / DPGs etc. (due within 1 year)	64.72	55.51	40.88	31.15	30.08
T4	Total short term borrowings from others [b(i to vii)]	286.80	297.97	317.35	288.92	314.64
2	Other Current Liabilities and Provisions (due within one year-specify major items)					
i	Audit Fee Payable /other misc provisions	23.60	22.00	40.00	43.95	56.25
ii		-	-	-	-	-
iii		-	-	-	-	-
iv		-	-	-	-	-
v		-	-	-	-	-
T5	sub-total [2(i to v)]	23.60	22.00	40.00	43.95	56.25
T6	Current Liabilities excl. bank borrowings [T4+T5]	310.40	319.97	357.35	332.87	370.89
T7	Total Current Liabilities [T3+T6]	613.33	621.52	731.68	932.87	970.89
3	Term Liabilities					
a	Debentures (maturing after 1 year)	-	-	-	-	-
b	Preference Shares (redeemable after 1 year)	-	-	-	-	-
c	Term loans (repayable after 1 year)	91.36	48.55	84.04	52.89	22.81
d	Deferred Payment Credits (repayable after 1 year)	-	-	-	-	-
e	Term deposits (repayable after 1 year)	-	-	-	-	-
f	Other term liabilities					
i	Unsecured Loans	200.00	200.00	200.00	220.00	220.00
ii	Deferred Tax Liability	-	-	-	-	-
T8	Total Term Liabilities [3(a to f)]	291.36	248.55	284.04	272.89	242.81
T9	Total Outside Liabilities [T7+T8]	904.69	870.07	1,015.72	1,205.76	1,213.70
4	Net Worth					
a	Capital	47.50	47.50	47.50	47.50	47.50
b	General reserve	194.69	267.03	348.12	459.82	586.54
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)]	242.19	314.53	395.62	507.32	634.04
T11	Total Liabilities [T9+T10]	1,146.88	1,184.60	1,411.34	1,713.08	1,847.74

FORM III : ANALYSIS OF BALANCE SHEET

Name: Superior Products Private Limited

Sr. No.	Particulars	Actuals as per audited accounts		PROVSIONAL	ESIMATED/PROJECTED	
		31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
		Year 1	Year 2	Year 3	Year 4	Year 5
Current Assets						
5	Cash and bank balances	20.32	22.86	25.46	31.38	37.19
6	Investments [other than long term Investments]	-	-	-	-	-
i	Government & other trustee securities	-	-	-	-	-
ii	Fixed deposits with Banks & Others	-	-	-	-	-
T12	sub-total [6(i+ii)]	-	-	-	-	-
7	i Receivables other than deferred & exports [Including bills purchased & discounted by bankers]	440.85	458.25	530.00	674.50	724.15
ii	Export receivables (Including bills purchased/discounted by bankers)	-	-	-	-	-
T13	sub-total [7(i+ii)]	440.85	458.25	530.00	674.50	724.15
8	Instalments under deferred receivables (due within one year)	-	-	-	-	-
Inventory						
a	Raw Materials [Including Stores and other items used in the process of manufacture]					
i	Imported	-	-	-	-	-
ii	Indigeneous	175.18	187.25	250.00	327.00	358.45
b	Work [Stock] in Process	55.65	46.62	53.62	64.34	70.77
c	Finished Goods	58.87	115.10	132.37	158.84	174.72
d	Goods in Transit	-	-	-	-	-
e	Other consumable spares					
i	Imported	-	-	-	-	-
ii	Indigeneous	-	-	-	-	-
T14	sub-total [9(a to e)]	289.70	348.97	435.99	550.18	603.94
9	Advances to suppliers of raw materials / stores & spares	44.41	12.80	10.79	34.00	36.00
11	Advance payment of taxes	15.80	18.95	25.10	47.87	54.31
Other current assets [specify major items]						
i	Misc Current Assets	14.33	11.80	29.55	43.10	46.25
ii		-	-	-	-	-
iii		-	-	-	-	-
iv		-	-	-	-	-
v		-	-	-	-	-
T15	sub-total [2(i to v)]	14.33	11.80	29.55	43.10	46.25
T16	Total Current Assets [5 to 12]	825.41	873.63	1,056.89	1,381.03	1,501.84
Fixed Assets						
i	Gross Block	414.62	443.35	544.90	575.00	640.00
ii	Depreciation	116.82	169.33	222.79	275.29	326.44
T17	Net Block [13(i-ii)]	297.80	274.02	322.11	299.71	313.56

FORM III : ANALYSIS OF BALANCE SHEET

Name: Superior Products Private Limited

Sr. No.	Particulars	Actuals as per audited accounts		PROVSIONAL	ESIMATED/PROJECTED	
		31-Mar-16	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20
		Year 1	Year 2	Year 3	Year 4	Year 5
	Other Non-Current Assets					
14	Investments / book debts / advances / deposits which are non-current					
a	Investments in subsidiary companies / affiliates	-	-	-	-	-
b	Other investments	-	-	-	-	-
c	Advances to suppliers of capital goods and contractors	-	-	-	-	-
d	Deferred receivables [maturity exceeding one year]	-	-	-	-	-
e	Security deposits / Tender Deposits	23.67	36.95	32.34	32.34	32.34
f	Others	-	-	-	-	-
i	Receivables exceeding one year	-	-	-	-	-
ii		-	-	-	-	-
iii		-	-	-	-	-
T18	sub-total 4(a to f)]	23.67	36.95	32.34	32.34	32.34
15	Obsolete Stocks	-	-	-	-	-
16	Non-consumable consumables & spares	-	-	-	-	-
17	Other non-current assets (Including dues from directors)	-	-	-	-	-
T19	Total Other Non-Current Asset [4 to 17]	23.67	36.95	32.34	32.34	32.34
18	Intangible assets (Patents, Goodwill, Preliminary Expenses, Bad / Doubtful Debts not provided for etc)					
T20	Total Assets [T16+T17+T19+18]	1,146.88	1,184.60	1,411.34	1,713.08	1,847.74