



JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

FIFTH TRIMESTER (Batch 2023-25)

END TERM EXAMINATIONS, JANUARY 2025

MAIN EXAM

Course Name	Management of Banks	Course Code	20238
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS:

- This question paper has four questions
- Attempt all the questions
- Please be brief and concise in your responses, writing unnecessary things will attract heavy penalty
- This is a closed book examination
- State assumptions made if any
- Marks are indicated against each question

Question 1 (5+5 marks)

- (a) *Explain* Bank Guarantee as a non-fund business undertaken by a bank. Further, *compare* performance guarantee with financial guarantee.
- (b) Suppose you want to convert 10000 Euros to Yen. Assume the following exchange rates exist:

EUR/USD: 1.1200-1.1220

USD/JPY: 110.30-110.50

How will you fulfil your currency requirements?

Question 2 (6+4 marks)

- (a) Given below is an excerpt from the balance sheet of an enterprise:

Current Liabilities	(\$)	Current Assets	(\$)
Creditors	400000	Inventory	600000
Short term borrowings	200000	Accounts receivable	500000
Other current liabilities	100000	Other current assets	200000

This enterprise has approached your bank to obtain working capital financing. *Determine* the working capital limit to be sanctioned by the loan officer of the bank using the **Maximum Permissible Bank Finance (MPBF) method** (Calculate the working capital requirements using both methods).

- (b) "Credit ratings provide buy, sell, or hold recommendations, and a measure of asset value". *Analyze* this statement.

Question 3 (6+4 marks)

- (a) *Explain* how National Electronic Fund Transfer (NEFT) operates on a Deferred Net Settlement (DNS) basis. *Compare* this with the Real Time Gross Settlement (RTGS) mode of fund transfer.
- (b) *Examine* the four major factors to be considered while appraising the credit requirements.

Question 4 (7+3 marks)

- (a) Agile Ltd., a manufacturing company, has applied for a term loan of ₹50,000,000 from your bank to finance the expansion of its business. The following information is provided for the appraisal of the loan:

Net profit	₹5,000,000
Total assets	₹100,000,000
Current liabilities	₹15,000,000
Long-term debt	₹20,000,000
Equity capital	₹40,000,000
Interest on existing debt	₹2,000,000
Debt service (principal repayment) for the current year	₹3,000,000
Annual net cash flow from operations	₹8,000,000
Projected sales growth	12% per year for the next 3 years
Projected operating profit margin (EBIT)	10% of projected sales
Loan tenure	5 years
Interest rate on new loan	10% p.a.

The bank uses the following criteria for term loan appraisal:

1. **Debt-to-Equity Ratio (D/E):**

The bank prefers a D/E ratio of **less than 2** for term loan approval.

2. **Debt Service Coverage Ratio (DSCR):**

The bank requires a **minimum DSCR of 1.5** for term loan approval.

3. **Interest Coverage Ratio (ICR):**

The bank prefers an ICR **greater than 2** for loan appraisal.

Based on these calculations, *determine* whether Agile Ltd. meets the bank's criteria for the term loan.

(b) *What* are the three major challenges faced by the banking system in India.