

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (SM)

FOURTHTRIMESTER (Batch 2017-19)

END TERM EXAMINATIONS, OCTOBER 2018

Course Name	Banking Operation & Credit Analysis	Course Code	FIN 404
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS: Attempt all Questions.

Q.1 (4+3 marks)

(i) Explain with reasons, how you would deal with each of the following accounts: -

- A court attachment order prohibiting the bank from paying away any money on constituent's Cash Credit Account in debit balance where sufficient drawing power is available, is received.
- An attachment order is received from the Income Tax Office for Rs. 8000 in the name of Mr. A. A has only one joint a/c with B & C, payable to former & survivor, which shows a balance of Rs 12000.

(ii) 'Fundamental principles on which credit is generally based are the 4 Cs'- Elucidate.

Q.2 (5 marks)

How does the Letter of Credit play significant role in financing of foreign trade? Explain the liability of banker issuing the Letter of Credit.

Qs.3 (6 marks)

You are the credit appraiser of the Small Finance Bank a prop. Firm viz , M/s Low Princeton Chappal Industry who have submitted the following projections while applying for a term loan assistance of Rs. 260.00 Lacs. You have informed that your bank looks for a minimum DSCR of 1.85 every year and average DSCR of 1.80 while appraising the term loan proposals and that the same will be considered accordingly.

The net profit in the table has been arrived at, after charging depreciation of Rs71.20 lacs every year.

Rupees in Lacs

Year	Net profit for the year	Interest on term loan during the year	Repayment of term loan in the year(principal amount)
1	86.68	76.56	44.00
2	139.08	70.56	72.00
3	144.08	60.48	72.00
4	76.80	26.40	72.00

Appraise the client's request keeping in mind the bank's policy of minimum DSCR (Calculate up to 2 decimal places only).

Qs.4 (6 marks)

You are planning to approach your bankers for credit facilities with the following

Figure/summary of your balance sheet. However, the banker has also requested you to calculate various information and ratios etc for two years along with credit application so that the discussions with bankers are meaningful. The following are the summary figures of the balances sheet with additional information for two years are as follows:

In Lacs

Liabilities	Amount- 1 st year	Amount- 2 nd year	Assets	Amount- 1 st year	Amount 2 nd year
Capital	25	25	securities	2	4
Reserves	10	10	Investments in other firms	6	10
Unsecured Loans	13	15	Land & Bldg	18	22
Term Loan from Banks	12	10	Plant & Machinery	14	12
Bank working Capital Limits	28	32	Other fixed assets	8	6
Creditors	12	08	Stock	24	8
			Receivables	22	32
			Other current assets	6	6
Total	100	100	Total	100	100

Sales is 220 in year 1 and 250 in year 2

Profits are 6 in year one and 5 in year 2

Some of the analysis suggested by the bankers is required to be done by you as follows: Please comment:

1. Please observe whether the current Ratio during the second year when compared to the first year has improved or deteriorated
2. What is the turnover of the stocks in both the years? Whether improved or deteriorated.
3. What are the long term sources available in the second year
4. Has the net working capital gone up or come down in the second year as compared to first year and by how much

Qs.5 (10 marks)

Small Shoe Company has approached you, a banker, requesting for enhancement of its working capital limits of Rs.140 Crores to Rs. 170 Crores. You, in the capacity of Banker to Small Shoe Company, have been presented with the following info for the purpose of credit appraisal:

Details of current assets and liabilities as on March 31, 2018 is as follows:

SN	Balance Sheet Items	Rupees in Crores
1	Cash with Bank	12.48
2	Cash Credit account (against Stock) (Debit Balance)	140.32

3	Trade Creditors	66.52
4	Book Debts older than 12 months now non realizable	17.84
5	Stock of Raw Material	114.92
6	Other short term liabilities	5.20
7	Stock in Process	4.00
8	Finished Goods Stock	81.84
9	Advance received from purchasers	27.92
10	Advance paid to suppliers	100.48
11	Book Debts above 6 months and below 12 months	0.00
12	Sundry Creditors for raw materials purchased	50.00
13	FD maturing in 3 months	14.32
14	Interest accrued on FD but not paid	19.40
15	Provision for Dividend	11.20
16	Book Debts below 6 months considered good	142.00

You are expected to appraise client's request with the help of Net Working Capital, working capital gap, Current Ratio and Second method of calculating maximum permissible bank finance as per Tandon committee norms. Kindly appraise client's request and decide if the enhancement request from the client may be accepted.

Qs.6 (6 marks)

As the training Manager in a large bank you have to instruct the Management Trainees on the types of loans and the importance of various charges and securities while handling the credit portfolio.

Please inform them the types of loans, various charges and types of securities that a banker obtains while allowing the credit facilities to various borrowers.