

Roll No.

OPEN BOOK EXAMINATION

Time allowed : 3 hours

Maximum marks : 100

Total number of questions : 6

Total number of printed pages : 8

NOTE : (1) Answer **ALL** Questions.

(2) Working notes should form part of the answer.

1. Case Study :

Smart Agro Foods Ltd. is a listed entity at BSE and NSE. It started its operations since September, 2015. The Company is engaged in the business of trading of agriculture commodities. It was enjoying a working capital cash credit limit of ₹ 100 lakh and from West Bank Ltd.

In the month of January, 2017, the company decided to expand its business activity and to undertake the manufacturing and processing of agro commodities. The expansion plan included manufacturing of tomato catch-up, bakery biscuits & cakes and packaged sweets of Rasgulla & Gulabjamun. For this ambitious expansion plan the company came out with IPO in June, 2017 to raise the money for purchase of land and erection of factory site at Telangana, Jadhpur and Bikaner. The issue was successfully completed and the company purchased the land and erected the factory buildings at the above three places.

: 2 :

To meet out the cost of plant and working capital at these places the company availed consortium loans from three banks, including the present banker. The various credit facilities sanctioned by the consortium of three banks in April, 2019 were as under :

(₹ in Lakh.)

Credit Facility	West Bank Ltd.	Jodhpur Bank Ltd.	Bikaner Bank Ltd.	Total
Cash Credit (existing)	100	---	---	100
New Cash Credit Limit	75 (For Tomato Catch-up Division)	50 (For Bakery and Cake Division)	50 (For Sweets Division)	175
Term Loan (For Purchasing of Automatic Plant for Manufacturing)	40 (For Tamoto Catch-up Division)	25 (For Bakery and Cake Division)	30 (For Sweets Division)	95
Total	215	75	80	370

: 3 :

The company has offered the following securities for its cash and term loan to the bankers :

(₹ in Lakh.)

Security	West Bank Ltd.	Jodhpur Bank Ltd.	Bikaner Bank Ltd.
Hypothecation of Book Debts	200#	60#	65#
Hypothecation of Plant & Machinery	40	50+25=75	50+30=80
Value of Land and Building	1200 (At Telangana Industrial Area where Tomato Ketch-up is manufactured)	1500 (At Jodhpur Industrial Area where Baker and cakes are manufactured)	1000 (At Bikaner Industrial Area where Sweets are manufactured)
# It represents the average of the book debts during the FY 2019-20.			

The company's performance during the FY 2019-20 was satisfactory. However, with the beginning of the FY 2020-21 the manufacturing activity got slow down due to nationwide closure on account of COVID-19 and migration of the workers. On account of this the company was not able to pay the instalments of the term loans to all the three bankers as well as the transactions in the cash credit account were also stopped and the company was not able to service the interest charged in the cash credit account. As a result, the accounts were classified by the bankers as Non-performing accounts (NPA).

The West Bank Ltd. is the Consortium Leader. By the end of the June, 2020 quarter the accounts of the company were showing problems. From July, 2020 to Sept., 2020 the company could not deposit the EMI of term loan, no stock statements were submitted in cash credit accounts and no interest on outstanding amount of cash credit could be deposited. The accounts were classified as Sub-standard in the books of all the banks.

The bankers insisted for recovery of the dues. The company pleaded that security pledged/hypothecated/mortgaged with the bankers is much more than the amount outstanding in the various loan accounts. The bankers did not accept the plea, continuously pressurised the company to pay the dues of the bankers else will take legal recourses available under various laws such as, Recovery of Debts and Bankruptcy Act, 1993, Insolvency and Bankruptcy Code, 2016 (IBC) and Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI).

Based on the above facts, answer the following questions :

(a) Explain the meaning of Non-Performing Accounts (NPA). When banks can classify the Term loans and Cash credit accounts as Non-Performing Accounts (NPA) ?

(8 marks)

(b) In the above question, the bankers have classified the accounts as Sub-standard. Explain the classification of NPAs. What is meant by re-structuring of Bank Loans ?

(6+2 marks)

: 5 :

(c) If in the above case, the company is able to pay the EMI of term loan and maintain transactions, pay interest and submit stock statements in the account with West Bank Ltd. only and for other two banks, it could not pay the EMI and interest :

(i) In such a situation, whether the West Bank Ltd. should classify the accounts as NPA since other bankers have classified the account as NPA ?

(ii) What would be your answer, if only term loan EMI with West Bank Ltd. are paid by the company and the Cash Credit accounts remains irregular. Whether in that case only the CC accounts be classified as NPA or whole of the credit facility should be classified as NPA ?

(iii) The company pleaded that the Security tendered to the banks amounts to much higher than of the outstanding in the loans accounts.

(2+3+3 marks)

(d) How the NPA is to be recognised in :

(i) Cash Credit account and

(ii) Term Loans Account ?

(4+4 marks)

(e) If any loan or advances is classified as NPA, what provisions have to made by the bankers in their books and how to treat such provisions ?

(8 marks)

: 6 :

2. (a) When the RBI can remove managerial and other persons from the services of the Bank ?

(b) Whether RBI has powers to supersede the Board of directors of a Banking Company ? If so, what are the powers and duties of Administrator ?

(6 marks each)

3. (a) From the following data, calculate the amount to be credited in the Customer's account. Sight Bill tendered for USD 5,00,000 on 10th November, 2020 drawn under the Letter of Credit issued by the UK Bank.

Interbank USD Rate : 73.2600

Exchange Margin : 0.10%

Interest Rate : 7%

Interest Period : 15 Days

Rounding off to nearest multiples of 0.0025.

(b) What is position of a Chief Compliance Officer (CCO) in a Bank and also describe his duties and responsibilities ?

(6 marks each)

4. (a) Banks have full autonomy to adopt any lending practices. They may provide loans and advances to any Sector or any Industry. Write a brief note on statutory restrictions on lending under Banking Regulation Act, 1949.

(6 marks)

: 7 :

(b) From the following information, calculate :

(i) Market Value at given YTM and

(ii) Duration of the Bond.

Bond Face Value ₹ 1,000/-.

Coupon : 7%.

Maturity : 5 Years

YTM : 9%.

Present Value Interest Factor for an Annuity @ 7% / 5 Years = 4.1002.

Present Value Interest Factor for Single Cash Flows @ 7%.

1st Year	0.9346
2nd Year	0.8734
3rd Year	0.8163
4th Year	0.7629
5th Year	0.7130

(6 marks)

5. (a) Describe the definition of Adjusted Net Worth (ANW) and Risk Management as per the revised Guidelines issued by the RBI in August, 2020 for Core Investment Companies.

(6 marks)

- (b) 'Time Deposits of Bank' and 'Certificate of Deposits' are one and the same. Do you agree with it ? If your answer is 'YES' mention the points of similarity and if your answer is 'NO' mention the points which differentiate a 'Certificate of Deposits' from 'Time Deposits of Bank'.

(3 marks)

- (c) On the basis of the following information, calculate the Discounted Value of Certificate Deposit.

Face Value ₹ 50,00,000/-.

Number of Days : 91 Days.

Rate of Interest : 7%.

(3 marks)

6. (a) Ms. Rashmi, after completed Bachelor's Degree in Dental Surgery, want to open a Dental Clinic. For establishing dental clinic, she needs some funds for purchasing of necessary equipment and furniture and other establishment. The estimated amount may be around ₹ 7 lakh for Dental Clinic. She somewhere heard about the MUDRA, but do not know much about it. She approached the Bank branch to avail the credit facility.

How the Bank branch will consider the proposal of Ms. Rashmi and under which scheme she can be financed and what are the benefits of the Scheme.

- (b) "The Documents taken by Banks for a Credit Facility do not have perpetual life". Explain the statement in detail and what are the various modes to revive the Loan documents.

(6 marks each)