OPEN BOOK EXAMINATION

NEW SYLLABUS

341

Roll No.…………………

Time allowed : 3 hours *Maximum marks : 100*

Total number of questions : 6 *Total number of printed pages : 7*

NOTE *: Answer* ***ALL*** *Questions.*

1. Read the following details of ABC Ltd. carefully :

ABC Ltd. has applied for enhancement of both fund based and non-fund based credit limit to its bankers. This is a public limited company listed on both BSE and NSE. The management and affairs of the company are being looked after by a Board of directors. The Board comprises three whole-time directors and seven part-time directors. X (Chairman and Managing Director) has a long association with the electrical industry and he is also Chairman of the leading chamber of Original Equipment Manufacturers (OEM) in electrical industry. He has won national awards for his contribution in the industry. He is a graduate. Y, a whole-time director, is brother of X. He looks after the technical and manufacturing activities of the company. He is an engineer. Z is also a whole-time director and looks after marketing, business development and finance areas of the company. He is son of X.

Products

The company is one of the leading equipment manufacturers for electrical industry of the country and engaged in manufacturing LOW AND MEDIUM VOLTAGE equipments for distribution of electricity.

Marketing network

The company has a robust marketing and distribution network in the low and medium voltage electrical distribution industry. It comprises 20 branches and 30 representative offices covering length and breadth of the country with its headquarters in New Delhi. The branches are spread over in all major State capitals and big cities.

Distribution and service network

The company has more than 3,000 authorised dealers and 2,500 retail outlets across the country. The service set-ups are having well trained service engineers located at headquarters and all branches to provide efficient after-sales service.

Capital Structure (as on 31.3.2014)

The total paid-up capital of the company is ₹400 crore. The reserves and surplus of the company are ₹1,178 crore. The shareholding pattern of the company is as under :

Sl. No.	*Name of Shareholders*	*Size of Holding (₹ in crore)*	*% of Holding*
1	X	160	40
2	Y	40	10
3	Z	80	20
4	N. Pvt. Ltd.	40	10
5	Others	80	20
	Total	400	100

N. Pvt. Ltd. belongs to the promoters of ABC Ltd., whose shareholding pattern is as follows :

Sl. No.	*Name of Shareholders*	*Size of Holding (₹ in crore)*	*% of Holding*
1	X	40	40
2	Y	20	20
3	Z	40	40
	Total	100	100

X and Z are featuring as defaulters in the RBI list of defaulters. The company has clarified that X and Z are not related to the defaulting companies and it is only similarity in names. They did not put any affidavit from the directors at the time of documentation. The company has also confirmed that they do not have any court cases relating to financing initiated by any bank or other financial institution.

Corporate Governance

The company holds its Board meetings generally in Delhi. In the last year (2013), the Board met 4 times *i.e.* on 1st January, 2013, 30th June, 2013, 30th August, 2013 and 29th December, 2013. The proposal for further loan was approved by the Board in its meeting held on 4th April, 2014 where 7 directors out of 10 were present. All the whole-time directors were present at the meeting.

D has been appointed as the Chairman of the Audit Committee of the Board. The Chairman of the Audit Committee was not present at the last Annual General Meeting of the company held on 30th September, 2013.

 Contd ....

The company assigned a major contract to N. Pvt. Ltd. on 30th August, 2013 where 6 members of the Board were present, including all three whole-time directors. Minutes of the meeting reveal that none of the directors abstained from the deliberation while assigning contract to N. Pvt. Ltd.

The company is facing stress in its business operation due to slow down of the economy and particularly in electrical industry.

The Board decided to boost up its operations and it requires infusing more working capital to gear up the operations. In order to finance enhanced operation, the Board proposed to have its cash credit limit increased from ₹200 crore to ₹300 crore with a sub-limit of ₹50 crore for packing credit/packing credit in foreign currency/foreign demand bill of exchange/bill re-discounting. Sub-limit is required due to expected foreign orders from EU countries. The existing sanctioned limit is ₹200 crore. It was reported that the bank offers margin of 25% on cash credit/overdraft against book debts/packing credit/packing credit in foreign currency.

Bank interest for domestic credit is Base Rate + 2.50 (floating) totalling 13% rate of interest. For packing credit/foreign demand bill/foreign bill of exchange, the bank charges 11.25% as interest. Packing credit in foreign currency/bill re-discounting rate is 6-months LIBOR + 350 bps. In addition, there are 0.50% commitment and usance charges on letter of credit. The bank also charges normal commission on bank guarantee.

Details of Securities Proposed

Particulars	*Description*	*Value (₹ in crore)*	*Source and date of report*	*Nature of charge*
(a) Primary				
Working capital	Stock and book debts	300	Stock statement and ledger	1st Charge
Term loan	Fully automated plant with CNC equipment at Delhi	250	Valuation report dated 06.04.2014 of XYS Valuers	1st Charge
(b) Collateral				
Land and building	Property at New Delhi	500	Valuation Report dated 6.4.2014 of XYS Valuers	1st Charge
Plant and machinery	Fully automated plant with CNC equipments on which 1st charge is held with term lenders	250	Valuation Report dated 6.4.2014 of XYS Valuers	2nd Charge

The company is not willing to give any personal guarantee by its whole-time promoter directors.

The select financial indicators of the company for last 2 years, estimates for current year and projection for next year are as under :

Financial Indicators

(₹ in crores)

Particulars	*31.03.2012 (Audited)*	*31.03.2013 (Audited)*	*31.03.2014 (Estimated)*	*31.03.2015 (Projected)*
Shareholders' funds :				
Share capital	400	400	400	400
Reserve and surplus	1,020	1,149	1,178	1,256
Non-current liabilities :				
Long-term loans from banks/FIs	400	360	320	280
Current liabilities and provisions :				
Current liabilities	450	510	610	800
Total	2,270	2,419	2,508	2,736
Non-current assets :				
Land	200	200	200	200
Furniture and fittings	81	83	75	77
Building	270	243	219	197
Plant and machinery	340	289	246	294
Investments	400	400	400	400
Current assets :				
Current assets	979	1,204	1,368	1,568
Total	2,270	2,419	2,508	2,736
Sales	1,800	1,700	1,810	1,860
Other income	200	190	210	250
Total income	2,000	1,890	2,020	2,110
Total expenditure before depreciation, interest and tax	1,700	1,750	1,800	1,850
Profit before depreciation, interest and tax (PBDIT)	300	140	220	260
Depreciation	99	87	76	82
Interest (*tentative*)	41	36	33	30
Net profit before tax/loss	160	17	111	148
Net profit after tax/loss	106	11	73	98

(₹ *in crores*)

Particulars	*31.03.2012 (Audited)*	*31.03.2013 (Audited)*	*31.03.2014 (Estimated)*	*31.03.2015 (Projected)*
Capital employed	1,820	1,909	1,898	1,936
Fund based credit from bank	200	200	200	300
Net profit as a % of capital employed	5.82%	0.58%	3.85%	5.06%
Ratios				
Current ratio	2.18	2.36	2.24	1.96
Debt-equity ratio	0.28	0.23	0.20	0.17
Profit before depreciation, interest and tax (PBDIT) as a % of sales	16.67	8.24	12.15	13.98
Net profit as a % of sales	5.89%	0.65%	4.03%	5.27%
Term debt/ PBDIT	1.33	2.57	1.45	1.08
Inventory turnover (*days*)	45	45	45	45
Debtors velocity (*days*)	30	30	30	30
Creditors velocity (*days*)	60	45	45	45
Cost of sales to net sales	0.94	1.03	0.99	0.99

Note : The company has a policy of charging depreciation on WDV basis. Any purchase after the middle of year is charged with depreciation at half rate.

Keeping the above details in view, prepare a Proposal Assessment Report covering the following for Credit Approval Committee of the bank :

(i) Major factors deciding the credit enhancement.

(10 marks)

(ii) Shareholding structure of the company and perceived risk from bank's point of view.

(10 marks)

(iii) Governance practices of the company *vis-a-vis* requirement of the Companies Act, 1956.

(10 marks)

(iv) Financial position of the company indicating the company capacity to pay the enhanced working capital loan, if approved.

(10 marks)

(v) A report consolidating the (i) to (iv) above and final recommendation to approve or disapprove the credit limit enhancement proposal.

(10 marks)

2. (a) The increasing non-performing assets (NPAs) and the time consuming legal process of loan recovery prompted enactment of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002. Describe the important provisions of this Act having a bearing on NPAs. Is it justified to use the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 as a tool in management of NPAs ? Has this Act helped in quicker recovery of loan and reducing NPAs ?

(15 marks)

(b) Return on capital employed (ROCE) is one of the important financial analysis tools which provides information about the earning power of a firm. In this context, discuss the 'DU PONT MODEL' of financial analysis. Support your answer with two examples one with poor ROCE and other with positive ROCE.

(15 marks)

3. As per the Basel Norms, bank's risks are broadly classified into credit risk, market risk and operational risk. Write a short overview of the risk management structure of a bank and its important features.

(5 marks)

4. 'Banking Ombudsman' was created for quick and honest redressal of grievances of customers. How effective it has been over the years in redressing the grievances ? Does it create a healthier and ethical customer relationship ?

(5 marks)

5. The Reserve Bank of India reportedly imposed fines totalling ₹49.5 crore on 22 private and public sector banks in July, 2013 for violating KYC/anti-money laundering norms. In order to avoid such recurrence, what policy framework do you suggest for banks ?

(5 marks)

6. A wants to transfer funds electronically to B in Brussels and C in Kolkata respectively. A lives in Mumbai and he has a bank account there. Advise 'A' about right modes of transfer of funds and explain to him various features of electronic funds transfer.

(5 marks)

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