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**AIWMI**

# CCRA-L2

*Certified Credit Research Analyst (CCRA Level 2)*

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## Question: 14

Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across India. The bank has been in business since 1971 and has about 40% branches in rural areas and about 75% of all branches are in

Western India. On the basis of the size, Auckland Ltd will be ranked at number 31 amongst 40 banks in India.

Although top management has appointment period of 5 years, generally they retire on each serving age of 60 years with an average tenure of only 2 years at the top job.

Profit and Loss Account

Particulars	FY11	FY12	FY13
Interest on advances bills	124,000	182,000	283,000
Interest on investments	15,000	18,000	14,000
Interest on balances with Banking Regulator and other inter-bank funds	1,100	1,000	1,700
Other interest income	40,000	49,000	54,000
Other Income	80,000	95,000	99,000
Total Income	260,100	345,000	451,700
Interest expenses	105,000	148,000	235,000
Operating expenses	23,000	28,000	32,000
Total expenditure	128,000	176,000	267,000
Operating Profit	155,100	197,000	216,700
Provisions	72,000	102,000	174,000
Profit before tax	83,100	95,000	42,700
Tax	16,600	19,000	8,500
Profit after Tax	66,500	76,000	34,200

Balance Sheet

Assets	March 31 2011	March 31 2012	March 31 2013
Cash and Balances with Reserve Bank of India	120,000	420,000	770,000
Balances with Banks and Money at Call and Short Notice	745,000	789,000	1194,000
Investments	598,000	689,000	1139,000
Advances	1432,000	1709,000	2485,000
Fixed Assets	223,000	234,000	245,000
Other Assets	567,000	670,000	970,000
TOTAL	3685,000	4511,000	6803,000

The rating wise break-up of assets for FY11 is as follows:

Rating	FY11
AAA	120,000
AA	530,000
A	220,000
BBB	150,000
BB and below	310,000
Unrated	102,000
Total	1432,000

Computer risk weighted assets for Auckland Ltd for FY11:

- A. 10,10,000 Million
- B. 13,24,500 Million
- C. 11,64,500 Million
- D. 11,60,000 Million

**Answer: C**

**Question: 15**

Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across India. The bank has been in business since 1971 and has about 40% branches in rural areas and about 75% of all branches are in

Western India. On the basis of the size, Auckland Ltd will be ranked at number 31 amongst 40 banks in India.

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Other Assets	567,000	670,000	970,000
TOTAL	3685,000	4511,000	6803,000

Liabilities	March 31 2011	March 31 2012	March 31 2013
Capital	31,000	31,000	42,000
Reserves and Surplus	294,000	370,000	1154,000
Deposits	2100,000	2120,000	2450,000
Borrowings	960,000	1590,000	2657,000
Other Liabilities and Provisions	300,000	400,000	500,000
TOTAL	3685,000	4511,000	6803,000

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Total	1432,000

During which year amongst the three, was the overall financial profile of bank most string?

- A. No change in three years
- B. FY13
- C. FY11
- D. FY12

**Answer: B**

**Question: 16**

Ms. Mary Brown is a credit rating analyst. She had prepared a detailed report on one of her client, FlyHigh

Airlines Ltd, a company operating chartered aircrafts in India. As she was heading for a meeting with her superior on the matter, coffee spilled over her set of prepared paper(s). As she was getting late for meeting, instead of preparing entire set she could recollect few numbers from her memory and reconstructed following partial financial table:

Period Ended	FY10	FY11	FY12
Working Results			
Total Income			
EBITDA			
Interest			
Depreciation	20.00	25.00	30.00
Effective Tax Rate	20%	24%	25%
PBT			
PAT			
Financial Position			
Net Worth	370.00	430.00	535.67
Total Debt	743.00		
Ratios			
Growth			
Growth in Total Income (%)		25%	15%
Growth in EBITDA (%)		30%	20%
Growth in PAT (%)		20%	
Profitability			
EBITDA Margins		32%	
PAT Margins			
RONW			
Solvency			
Overall Gearing Ratio		2.2	
Interest coverage ratio	3.2		3.1
Total Debt / EBITDA		4.5	5.2

An analyst comparing two competitors Comp Systems and Big Tables gathers the data below:

Cash Conversions Cycle:

Comp Systems: 18 days and Big Tables 32 days

Defense Interval Ratio:

Comp Systems: 50 and Big Tables: 20

What can the analyst conclude regarding the liquidity of these companies?

- A. Both indicators suggest that Comp Systems is more liquid than Big Tables
- B. Both indicators suggest that Big Tables manages it/s cash better than Comp Systems
- C. Both indicators give contradictory results
- D. While Comp Systems is more liquid as per the Cash conversion cycle, Big Tables manages its cash better as indicated by a lower, hence better Defense Ratio

**Answer: C**

**Question: 17**

Ms. Mary Brown is a credit rating analyst. She had prepared a detailed report on one of her client, FlyHigh Airlines Ltd, a company operating chartered aircrafts in India. As she was heading for a meeting with her superior on the matter, coffee spilled over her set of prepared paper(s). As she was getting late for meeting, instead of preparing entire set she could recollect few numbers from her memory and reconstructed following partial financial table:

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Profitability			
EBITDA Margins		32%	
PAT Margins			
RONW			
Solvency			
Overall Gearing Ratio		2.2	
Interest coverage ratio	3.2		3.1
Total Debt / EBITDA		4.5	5.2

What is Total Income FY10 and FY12?

- A. FY10: INR400 Million; FY12:INR575 Million
- B. FY10: INR525.56 Million; FY12: INR755.49 Million
- C. Insufficient Information to compute
- D. FY10: INR656.94 Million; FY12: INR821.18 Million

**Answer: A**

**Question: 18**

Ms. Mary Brown is a credit rating analyst. She had prepared a detailed report on one of her client, FlyHigh Airlines Ltd, a company operating chartered aircrafts in India. As she was heading for a meeting with her superior on

the matter, coffee spilled over her set of prepared paper(s). As she was getting late for meeting, instead of preparing entire set she could recollect few numbers from her memory and reconstructed following partial financial table:

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Working Results			
Total Income			
EBITDA			
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Effective Tax Rate	20%	24%	25%
PBT			
PAT			
Financial Position			
Net Worth	370.00	430.00	535.67
Total Debt	743.00		
Ratios			
Growth			
Growth in Total Income (%)		25%	15%
Growth in EBITDA (%)		30%	20%
Growth in PAT (%)		20%	
Profitability			
EBITDA Margins		32%	
PAT Margins			
RONW			
Solvency			
Overall Gearing Ratio		2.2	
Interest coverage ratio	3.2		3.1
Total Debt / EBITDA		4.5	5.2

Compute growth in PAT for FY12?

- A. 25%
- B. 19%
- C. 22%
- D. 21%

**Answer: A**

**Question: 19**

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Working Results			
Total Income			
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PBT			
PAT			
Financial Position			
Net Worth	370.00	430.00	535.67
Total Debt	743.00		
Ratios			
Growth			
Growth in Total Income (%)		25%	15%
Growth in EBITDA (%)		30%	20%
Growth in PAT (%)		20%	
Profitability			
EBITDA Margins		32%	
PAT Margins			
RONW			
Solvency			
Overall Gearing Ratio		2.2	
Interest coverage ratio	3.2		3.1
Total Debt / EBITDA		4.5	5.2

PAT margins are highest in which of the years?

- A. FY12
- B. FY11
- C. FY10
- D. Equal in FY10 and FY12

**Answer: A**

**Question: 20**

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Working Results			
Total Income			
EBITDA			
Interest			
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Effective Tax Rate	20%	24%	25%
PBT			
PAT			
Financial Position			
Net Worth	370.00	430.00	535.67
Total Debt	743.00		
Ratios			
Growth			
Growth in Total Income (%)		25%	15%
Growth in EBITDA (%)		30%	20%
Growth in PAT (%)		20%	
Profitability			
EBITDA Margins		32%	
PAT Margins			
RONW			
Solvency			
Overall Gearing Ratio		2.2	
Interest coverage ratio	3.2		3.1
Total Debt / EBITDA		4.5	5.2

Compute Interest for FY10 and FY12?

- A. Insufficient Information to compute
- B. FY10: INR50.53 Million; FY12:INR81.38 Million
- C. FY10: INR161.71 Million; FY12: INR252.27 Million
- D. FY10: INR17.47 Million; FY12:INR782.03 Million

**Answer: A**

### Question: 21

âFollowing four entities operate in the Indian IT and BPO space. They all are into same segment of providing off-shore analytical services. They all operate on the labour cost-arbitrage in India and the countries of their clients. Following information pertains for the year ended March 31, 2013.

Particular	Beautiful	Handsome	Glowing	Glamorous
Number of Employees	300	450	700	1200
Major clients based out of	UK	USA	USA	UAE
Billing currency	GBP	INR	USD	USD

Particular	Beautiful	Handsome	Glowing	Glamorous
Revenue	36	72	116	188
Employee Cost	16	22	44	88
Other Delivery Cost	2	3	4	6
Administrative and Selling Cost	2	3	3	5
Finance Cost	1	2	1	4
Depreciation	2	6	6	9
Taxes	2	8	9	12

Particular	Beautiful	Handsome	Glowing	Glamorous
Assets				
Fixed Assets	10	24	24	37
Short Term Investments	3	7	6	8
Debtors	6	18	22	48
Total	19	49	52	93
Liabilities				
Equity				
Share Capital	2	8	12	10
Reserves and Surplus	5	12	24	43
Term Loans	8	16	6	24
Working Capital Borrowings	4	11	9	12
Creditors	0	2	1	4
Total	19	49	52	93

The year FY13, was typically a good year for Indian IT companies. For FY14, the economic analysts have given following predictions about the IT Industry:

- A) It is expected that INR will appreciate sharply against other USD.
- B) Given high inflation and attrition in IT Industry in India, the wages of IT sector employees will increase more sharply than Inflation and general wage rise in country.
- C) US Congress will be passing a bill which restricts the outsourcing to third world countries like India.

While analyzing the four entities, you come across following findings related to Glowing:

Glowing is promoted by Mr.M R Bhutta, who has earlier promoted two other business ventures, He started with ABC Entertainment Ltd in 1996 and was promoter and MD of the company. ABC was a listed entity and

its share price had sharp movements at the time of stock market scam in late 1990s. In 1999, Mr.Bhutta sold his entire stake and resigned from the post of MD. The stock price declined by about 90% in coming days and has never recovered. Later on in 2003, Mr.Bhutta again promoted a new business, Klear Publications Ltd (KCL) an in the business of magazine publication. The entity had come out with a successful IPO and raised money from public. Thereafter it ran into troubles and reported losses. In 2009, Mr.Bhutta went on to exit this business as well by selling stake to other promoter(s). There have been reports in both instances with allegations that promoters have siphoned off money from listed entities to other group entities, however, nothing has been proved in any court.â

Which of the following risks do not exist for Indian IT industry?

- A. Raw material price risk, Exchange rate Risk
- B. Interest rate risk, Skilled Manpower Risk
- C. Exchange Rate Risk, Interest rate risk
- D. Domestic and international regulatory risk, technological risk

**Answer: B**

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Depreciation	2	6	6	9
Taxes	2	8	9	12

Particular	Beautiful	Handsome	Glowing	Glamorous
Assets				
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Which entity is best in terms of overall gearing ratio and net gearing ratio respectively:

- A. Glowing and Beautiful
- B. Handsome and Handsome
- C. Glamorous and Glowing
- D. Glamorous and Glamorous

**Answer: C**

**Question: 23**

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Based solely on Total Debt to EBITDA and Interest Coverage, which of the four entities is best amongst the four respectively:

- A. Glamorous and Glamorous
- B. Glamorous and Glowing
- C. Glowing and Beautiful
- D. Glamorous and Glamorous

**Answer: B**

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