AIWMI CCRA-L2 Practice Questions

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Question 1

Question Type: MultipleChoice

Which of the following statement is false?

Options:

A- DEF Ltd. has received a speculative grade rating as its outstanding rating is B+
B- Non-Convertible debenture of PQR Ltd. has a speculative rating since its outstanding rating is C
C- ABC Ltd. short term is BBB- for its commercial paper
D- XYZ has an investment grade rating as his outstanding rating is A1

Answer:

B

Question 2

Question Type: MultipleChoice

Mark Construction Company (MCC) has bagged a contract for construction of a large dam and hydro power project on river Shivna in Madhya Pradesh (MP). The project is also of relevance from the irrigation perspective due to its location and as per the agreement MCC will have to undertake construction of web of canals, approach road to dam, power house and other ancillary units. MCC is promoted by Mr. Thomas Mark, who is a MP from the ruling party which recently formed government in MP. Historically, MCC has been engaged into construction of rural roads, small bridges and railway platforms on contract basis for the Government. MCC will have a separate special purpose vehicle (SPV) floated for this venture.

The hydro power project comes under the public private partnership scheme of the Government of MP, where in the private partner builds owns operates and transfers (BOOT) the hydro power plant. The detailed terms of the hydro power project agreement are as follows:

1. The construction of the dam, canals and hydro power plant shall be undertaken by the contractor. The

Government of MP will have to acquire land which will submerge on construction of dam and shall rehabilitate the owners of land.

2. MCC shall have right to operate the hydro power project from date of commencement of commercial operations (DCCO) for a period of 20 years and shall transfer the project to Government thereafter. Further,

SPV shall be tax exempt for a period of five years from DCCO i.e. FY17-FY21.

3. The power project is of 600 megawatts (MW) shall comprise 4 units of 150 MW each. The estimated cost of project is about INR3, 500 Million to be spent over a period of 4 year(s) the project is estimated to be commercially operational by April 1, 2016 with two units operational on same day and one unit each will be operational on April 1, 2017 and April 1, 2018.

4. Means of finance:

Means of Finance	INR Million
Government Aid (To be classified as Equity)	500
Equity	900
Debt	2100

Means of Finance INR Million

Government Aid (To be classified as Equity) 500Equity 900 Debt 2100

5. Amount if expenditure estimated in various years is as follows:

				Funding		
Cost of Project	INR Million		Debt	Govt Aid	Equity	Total
FY13 (April to march)	700		0	250	450	700
FY14	1200		500	250	450	1200
FY15	1200		1200	-		1200
FY15	400		400	-		400

Debt shall bear a fixed rate of interest of 10% and all interest till DCCO shall be added to the principal. The expected principal along with capitalized interest is expected to be INR2, 400 Million (i.e.INR2100 Million debt plus INR300 Million capitalized interest). The repayment of the same shall be in 12 equated annual installments starting from FY17.

Brief projections for the period of FY17 to FY21 are given below:

Particular	FY17	FY18	FY19	FY20	FY21
Revenue from Power sale	600	900	1200	1320	1452
EBITDA %	72%	68%	65%	60%	60%
Interest Cost	240.00	220.00	200.00	180.00	160.00
Depreciation	175.00	175.00	175.00	175.00	175.00
PAT	17.00	217.00	405.00	437.00	536.20

Developments as on March 31, 2015

The project manager for the SPV made following comments at a press conferee on March 31, 2015:

As you all are aware, we were running bang on schedule till we last met on December 21, 2014. From today we are just left with one more year to complete the project in time. However, the flash floods which struck our dam site on this March 15, 2015 have created havoc in the region. I shall not point out the loss of lives in the region as you all are well aware of those. Our project has also been badly hit due to the same and we have been assessing the damage over the last

one week. After analyzing damage, we have made changes in project schedule. Now we will be making only one unit of 150 MW operational on April 1, 2016 and 1 unit each will be added in each of subsequent year(s).

Development as on September 30, 2015

Post the flash floods, lot of environmentalists started raising issues of changes in environment due to construction of large number of dams. A few Public Interest Litigations (PILs) have been filed in various courts.

Honorable High Court of MP on September 27, 2015, banned construction of any dams in the region and banned permissions for new dams till next hearing scheduled on November 30, 2015. MCC in its press release has indicated that they will apply to the higher court on the matter.

As a credit analyst on March 31, 2012, which of the following sets of risks are you going to put in your credit appraisal note?

P2P exams

Options:

A- Off-take risk, Cost and Time over run risk, lack of management experience in such big projects.
B- Lack of management experience in large projects, Exchange rate risks, Cost and time over run risks.
C- Cost and Time over run risk, lack of management experience in such big projects.
D- Obsolete technology risk, political risks and Cost and time over run risks

Answer:

C

Question 3

Question Type: MultipleChoice

P2P exams

Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across Indi

a. 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 ach sieving 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:

Options:

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

Answer:

C

Question 4

Question Type: MultipleChoice

Z spreads in Callable bonds include:

Options:

A- Does not include premium for credit risk and call option price for prepayment risk.
B- Premium for credit risk and call option price for prepayment risk in included.
C- Premium for credit risk is only included.
D- Premium for call option price for prepayment risk os only included.

Answer:

B

Question 5

Question Type: MultipleChoice

In an industry there are only 20 firms and each of them has equal share. Compute Herfindahl Hirschman Index

and state the level of concentration in the industry.

Options:

A- HHI = 500; High Concentration
B- HHI = 8000; low Concentration
C- HHI = 8000; High Concentration
D- HHI = 500; Low Concentration

Answer:

D

Question 6

Question Type: MultipleChoice

Change in priority ranking of reference obligations is:

Options:

A- Obligation acceleration
B- Obligation default
C- Restructuring
D- Repudiation

Answer:

C

Question 7

Question Type: MultipleChoice

The most important metric for a bank is the Net Interest Income (NII) which is the difference between___income and___expense.

Options:

A- Interest; Total
B- Interest; Fee
C- Interest; Interest
D- Total; Total

P2P exams

Answer:

C

Question 8

Question Type: MultipleChoice

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 Indi

a. 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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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

What is Total Income FY10 and FY12?

Options:

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 9

Question Type: MultipleChoice

The following information pertains to bonds:

Bond	Initial Maturity	Spread from G-Sec (bps)		
		January 2013	April 2013	July 2013
Bond A	10 Years	94	97	89
Bond B	10 Years	102	103	93
Bond C	10 Years	370	530	560
Bond D	10 Years	115	130	110
Bond E	10 Years	10	15	7

Further following information is available about a particular bond 'Bond F'

There is a 10.25% risky bond with a maturity of 2.25% year(s) its current price is INR105.31, which ccorresponds to YTM of 9.22%. The following are the benchmark YTMs.

Maturity(yrs)	1	2	3	4	5
YTM	8.22	8.52	8.88	8.98	9.02

Assume that the general market rates have increased. An issuer, Revolution Ltd has plans to roll over its existing commercial paper and forth coming reset dates for its floating rate bonds are very near. Which of the following ratios for revolution will get impacted?

Options:

A- Interest Coverage and Return on assets
B- DSCR, and Return on Assets
C- DSCR, Interest Coverage and Return on assets
D- DSCR and interest Coverage

Answer:

A

Question 10

Question Type: MultipleChoice

The following information pertains to bonds:

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Assuming the G-Sec has not changed from the time January 2013 to April 2013, what can you predict about the changes bond price and change in issues borrowing rates:

Options:

A- Decrease and Increase
B- Increase and Increase
C- Decrease and Decrease
D- Increase and Decrease

Answer:

D

Question 11

Question Type: MultipleChoice

Awesome Mobile Ltd is a leading mobile seller who manufactures mobile phone under own brand Awesome.

Which option best is the biggest business risk for Awesome?

Options:

A- Technology Risk
B- Branding risk
C- Raw material price risk
D- Competition

Answer:

C

Question 12

Question Type: MultipleChoice

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On receiving the credit proposal, the banker informed the company that in FY17 the DSCR is below unity, which is not acceptable to bank. Which of the following is correct?

Options:

A- Had the cash accruals be more by INR50 Million, DSCR would have been unity. SPV can provide an implicit credit enhancement for the same from MCC.
B- Had the cash accruals be more by INR8 Million, DSCR would have been unity. SPV can provide an implicit credit enhancement for the same from MCC.
C- Had the cash accruals be more by INR8 Million, DSCR would have been unity, SPV can provide an explicit credit enhancement for the same from MCC.
D- Had the cash accruals be more by INR12 Million, DSCR would have been unity. SPV can provide an explicit credit enhancement for the same from MCC.

Answer:

C

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