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QUESTION 1

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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

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

Correct Answer: C

QUESTION 2

A coupon bond is trading at 110% of the USD 1000 par value. If the last interest payment was made one month ago and the coupon rate is 12%, the accrued interest on this bond is_____

- A. 110
- B. 100
- C. 120
- D. 10

Correct Answer: D

Reference: <http://www.faculty.umassd.edu/xtras/catls/resources/binarydoc/2288.pdf>

QUESTION 3

"Following 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.

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Major clients based out of	UK	USA	USA	UAE
Billing currency	GBP	INR	USD	USD

Particular	Beautiful	Handsome	Glowing	Glamorous
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Finance Cost	1	2	1	4
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Particular	Beautiful	Handsome	Glowing	Glamorous
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Liabilities				
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Term Loans	8	16	6	24
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following predictions about the IT Industry:

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- 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.
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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

Correct Answer: B

QUESTION 4

During FY13, Small Bazar, a leading retail company has sold three of its prime properties for a sum of USD 24 Million. The same had a carrying value of USD 30 Million.

Analyst had considered the same as operating income and considered it to be part of operating expenses. However, she realized her mistake and recorded the loss as non-operating loss. Which of the following ratio will not change despite the correction?

- A. EBITDA Margins
 - B. Interest Coverage
 - C. PAT Margins
 - D. Gross Profit Margin
- A. B, C and D
- B. A, B and C

C. B, C

D. All Ratios will change

Correct Answer: B

QUESTION 5

Case Facts as on March 31, 2012

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 om 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 rating analyst on September 30, 2015, on receipt of the high court order, what rating action you will take:

- A. Put ratings on rating watch.
- B. Change rating outlook for long term to negative.
- C. No action, wait for order if higher courts or hearing on November 30, 2015.
- D. Immediately downgrade ratings of SPV.

Correct Answer: A

QUESTION 6

Butterfly strategy is a combination of

- A. Ladder and Barbell on the same market sides
- B. Barbell and Bullet on the opposite market sides

C. Barbell and Bullet on the same market sides

D. Ladder and barbell on the opposite market sides

Correct Answer: B

Reference: https://books.google.com.pk/books?id=WTvNAAQBAJandpg=PA213andlpg=PA213anddq=Butterfly+strategy+is+a+combination+of+Barbell+and+Bullet+on+the+opposite+market+sidesandsource=blandots=cdWVJkVMRGandsig=XIB7YqySq5YDEUmEWusH5JCsjYandhl=enandsa=Xandved=2ahUKEwj3_pCrXN7eAhVkk8AKHYuDCwUQ6AEwBnoECAUQAQ#v=onepageandq=Butterfly%20strategy%20is%20a%20combination%20of%20Barbell%20and%20Bullet%20on%20the%20opposite%20market%20sidesandf=false

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RONW			
Solvency			
Overall Gearing Ratio		2.2	
Interest coverage ratio	3.2		3.1
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- 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

Correct Answer: C

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Based on your findings in the case of Glowing, how will you handle the same as a credit rating analyst:

- A. Be more cautious and skeptical on any information received from Glowing and give negative marks in management risk and use it as an overriding factor to lower the credit ratings.
- B. Any of the three.
- C. Deny taking up assignment for Glowing.
- D. One needs to check only the corporate governance aspect of the Glowing and the past same should not have any bearing on Glowing.

Correct Answer: D

QUESTION 9

Which of the following is not one of the C in the 5 C Model?

- A. Capacity
- B. Capital
- C. Covenants
- D. Conditions

Correct Answer: C

Reference: <https://www.investopedia.com/terms/f/five-c-credit.asp>

QUESTION 10

Satish Dhawan, a veteran fixed income trader is conducting interviews for the post of a junior fixed income trader. He

interviewed four candidates Adam, Balkrishnan, Catherine and Deepak and following are the answers to his questions.

Q-1: Tell something about Option Adjusted Spread

Adam: OAS is applicable only to bond which do not have any options attached to it. It is for the plain bonds.

Balkishna: In bonds with embedded options, AS reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

Catherine: Sincespreads are calculated to know the level of credit risk in the bound, OAS is difference between in the Z spread and price of a call option for a callable bond.

Deepark: For callable bond OAS will be lower than Z Spread.

Q-2: This is a spread that must be added to the benchmark zero rate curve in a parallel shift so that the sum of the risky bond's discounted cash flows equals its current market price. Which Spread I am talking about?

Adam: Z Spread

Balkrishna: Nominal Spread Catherine: Option Adjusted Spread Deepark: Asset Swap Spread

Q-3: What do you know about Interpolated spread and yield spread?

Adam: Yield spread is the difference between the YTM of a risky bond and the YTM of an on-the-run treasury benchmark bond whose maturity is closest, but not identical to that of risky bond. Interpolated spread is the spread between the YTM of risky bond and the YTM of same maturity treasury benchmark, which is interpolated from the two nearest on-the-run treasury securities.

Balkrishna: Interpolated spread is preferred to yield spread because the latter has the maturity mismatch, which leads to error if the yield curve is not flat and the benchmark security changes over time, leading to inconsistency.

Catherine: Interpolated spread takes account the shape of the benchmark yield curve and therefore better than yield spread.

Deepak: Both Interpolated Spread and Yield Spread rely on YTM which suffers from drawbacks and inconsistencies such as the assumption of flat yield curve and reinvestment at YTM itself.

Then Satish gave following information related to the benchmark YTM:

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

There is a 10.25% risky bond with a maturity of 4.75 year(s). Its current price is INR105.31, which corresponds to YTM of 9.22%. Compute Interpolated Spread from the information provided in the vignette:

- A. 0.20%
- B. 0.21%
- C. 0.24%
- D. 0.22%

Correct Answer: C

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An investor decides to invest in the bond futures and has an outlook that the term structure curve would steepen. What should be his trading strategy?

A. Sell futures on short-maturity underlying, Buy futures on long-maturity underlying

B. Buy futures on short-maturity underlying, Buy futures on long-maturity underlying and Sell futures on middle-maturity underlying

C. Buy futures on short-maturity underlying, Sell futures on long-maturity underlying.

D. Sell futures on short-maturity underlying, Sell futures on long-maturity underlying and Buy futures on middle-maturity underlying.

Correct Answer: A

QUESTION 12

If XYZ Ltd. incurs (with purchase and installation of machinery) using cash, which of the following ratios will remain unchanged, if all other things remain constant?

A. None of the three

B. Asset Turnover ratio

C. Current Ratio

D. Quick Ratio

Correct Answer: C

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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

Correct Answer: C

QUESTION 14

The _____ cycle is the length of time between the company's outflow on raw materials and the manufacturing expenses and the inflow of cash from the sale of goods.

- A. Cash flow mismatch
- B. Money
- C. Running
- D. Operating

Correct Answer: D

Reference: <https://books.google.com.pk/books?id=WTvNAgAAQBAJandpg=PA407andlpg=PA407anddq=credit+cycle+is+the+length+of+time+between+the+company+s+outflow+on+raw+materials+and+the+manufacturing+expenses+and+the+inflow+of+cash+from+the+sale+of+goodsandsource=blandots=cdWVJkURXDanddsig=qMKOpz5Q6EormgDXh9hCHWQSShIandhl=enandsa=Xandved=2ahUKEwiY1PjXwt7eAhUJK8AKHbLZB3UQ6AEwCXoECACQAQ#v=onepageanddq=credit%20cycle%20is%20the%20length%20of%20time%20between%20the%20company+s%20outflow%20on%20raw%20materials%20and%20the%20manufacturing%20expenses%20and%20the%20inflow%20of%20cash%20from%20the%20sale%20of%20goodsandf=false>

QUESTION 15

The most important metric for a bank is the Net Interest Income (NII) which is the difference between ____ income and ____ expense.

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

Correct Answer: C

Reference: <https://economictimes.indiatimes.com/definition/net-interest-income-nii>

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