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QUESTION 1

"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.

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."

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

Correct Answer: B

QUESTION 2

Scott is a credit analyst with one of the credit rating agencies in India. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities:

Particulars	A Ltd	B Ltd	C Ltd	D Ltd
Total Income	2000	2400	3000	3500
EBITDA	500	550	650	460
Interest	100	100	125	130
Total Debt	1000	1400	1000	1500

From the data given below, calculate the standard deviation of the credit portfolio assuming that facility\\'s exposure is known with certainty, customer defaults and LGDs are independent of one another and LGDs are independent across borrower(s).

Credit Facility A ?Loss Equivalent Exposure of $60m, expected Default frequency of 1.5%, loss given default of 30%, Std Deviation of LGD ?5% and Correlation to portfolio ?0.10

Credit Facility B ?Loss Equivalent Exposure of $25m, expected Default frequency of 2%, loss given default of 12%, Std Deviation of LGD ?12% and Correlation to portfolio ?0.45

Credit Facility C ?Loss Equivalent Exposure of $15m, expected Default frequency of 5%, loss given default of 85%, Std Deviation of LGD ?18% and Correlation to portfolio ?0.22

A. US$6.88 million

B. US$ 1.16 million

C. US$ 1.66 million

D. US$ 0.10 million

Correct Answer: B

QUESTION 3

Scott is a credit analyst with one of the credit rating agencies in India. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities: Which of the following statements is incorrect?

Particulars	A Ltd	B Ltd	C Ltd	D Ltd
Total Income	2000	2400	3000	3500
EBITDA	500	550	650	460
Interest	100	100	125	130
Total Debt	1000	1400	1000	1500

A. B Ltd has higher EBITDA margins as compared to C Ltd.

B. D Ltd has higher EBITDA margins as competed to B Ltd.

C. C Ltd has worst total debt to EBITDA ratio.

D. B Ltd has worst interest coverage ratio.

Correct Answer: A

QUESTION 4

Which of the following is NOT a conceptual definition of credit risk on which credit models are based?

A. Default Mode Paradigm

B. Value-at-Risk paradigm

C. Mark-to-Market Paradigm

Correct Answer: B

Reference: http://www.bulentsenver.com/yeditepe/pdf/Credit%20Risk%20Modelling%20BIS49.pdf (page 9)

QUESTION 5

Which of the following statements concerning having a CEO serve as chairman of the board is most accurate? Having a CEO also serve as chairman is considered:

A. poor corporate governance practice as having the CEO server as chairman is an inherent conflict when determining management compensation.

B. good corporate governance practice as the CEO is the best person to provide the board with information about the company\\'s strategy and operations.

C. cannot be determined

D. poor corporate governance practice as having the CEO and chairman serve as separate positions ensures a properly-functioning board.

Correct Answer: D