



# CCRA<sup>Q&As</sup>

Certified Credit Research Analyst

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**QUESTION 1**

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

Two credit analysts are discussing the DM-approach to credit risk modeling. They make the following statements:

Analyst A: A portfolio's standard deviation of credit losses can be determined by considering the standard deviation of credit losses of individual exposures in the portfolio and summing them all up.

Analyst B: I do not fully agree with that. Apart from individual standard deviations, one also needs to consider the correlation of the exposure with the rest of the portfolio so as to account for diversification effects. Higher correlations among credit exposures will lead to higher standard deviation of the overall portfolio.

A. Only Analyst A is correct

B. Both are correct

C. Only Analyst B is correct

D. Both are incorrect

Correct Answer: C

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**QUESTION 2**

Change in priority ranking of reference obligations is:

A. Obligation acceleration

B. Obligation default

C. Restructuring

D. Repudiation

Correct Answer: C

Reference: [https://books.google.com.pk/books?id=NDvNagAAQBAJandpg=PA279andlpg=PA279anddq=credit+Change+in+priority+ranking+of+reference+obligations+isandsource=blandots=L0YrHy6KrWandsig=NZErE0eK\\_DnEL1UOYW3y7vZ2ogandhl=enandsa=Xandved=2ahUKEwi38JF\\_t3eAhXHAsAKHSKIIBE4Q6AEwAHoECAkQAQ#v=onepageandq=credit%20Change%20in%20priority%20ranking%20of%20reference%20obligations%20isandf=false](https://books.google.com.pk/books?id=NDvNagAAQBAJandpg=PA279andlpg=PA279anddq=credit+Change+in+priority+ranking+of+reference+obligations+isandsource=blandots=L0YrHy6KrWandsig=NZErE0eK_DnEL1UOYW3y7vZ2ogandhl=enandsa=Xandved=2ahUKEwi38JF_t3eAhXHAsAKHSKIIBE4Q6AEwAHoECAkQAQ#v=onepageandq=credit%20Change%20in%20priority%20ranking%20of%20reference%20obligations%20isandf=false)

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**QUESTION 3**

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 corresponds to YTM of 9.22%. The following are the benchmark YTM.

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

Following are the relevance of Industry Analysis:

Statement 1: Evaluating Industry risk is the first and foremost step for top down approach of analysis.

Statement 2: Industry Analysis is relevant for analyzing the industry life cycle, which is highly important from the perspective of an investor or lender.

State which is/are correct?

- A. Both are incorrect
- B. Both are correct
- C. Only Statement 2 is correct
- D. Only Statement 1 is correct

Correct Answer: B

**QUESTION 4**

"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) and 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."

What will be impact of on the predictions A and B of the economic analysts, on companies:

- A. Handsome: No Impact on sales; Margins may squeeze; Glowing: INR Sales may decline; margins may squeeze.
- B. Handsome: INR Sales may increase; margins may squeeze; Glowing: INR Sales will increase; margins may squeeze.
- C. Handsome: INR Sales may decline; margins may squeeze; Glowing: INR Sales may decline; margins may squeeze.
- D. Handsome: No Impact on sales; Margins may squeeze; Glowing: No Impact on sales; Margins may squeeze.

Correct Answer: B

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## QUESTION 5

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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

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