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QUESTION 1

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

Compute growth in PAT for FY12?

A. 25%

B. 19%

C. 22%

D. 21%

Correct Answer: B

QUESTION 2

Provisioning Coverage Ratio (PCR) is essentially the ratio of provisioning to ______ and indicates the extent of funds a bank has kept aside to cover loan losses.

A. total loan portfolio

B. gross non-performing assets

C. total assets

Correct Answer: B

Reference: https://currentaffairs.gktoday.in/tags/provision-coverage-ratio

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:

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

QUESTION 4

Which of the following are types of bank guarantee?

A. Deferred and Term

B. Financial and Performance

C. Usance and Sight

Correct Answer: B

Reference https://www.hdfcbank.com/sme/trade-services/letters-of-credit-and-bank-guarantees

QUESTION 5

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 YTMs:

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

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

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