**JAIPURIA INSTITUTE OF MANAGEMENT, INDORE**

**PGDM**

**FOURTH TRIMESTER (Batch 2021-23)**

**END-TERM EXAMINATION, NOV-2022**

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| Course Name | **Banking operations and credit analysis (BOCA)** | Course Code | **40238** |
| Max. Time | **2 hours** | Max. Marks | **40** |

**INSTRUCTIONS:**

1. Please attempt ***any four*** questions. **If all 5 are attempted, the last answer would be ignored.** All questions carry equal marks.
2. Please use examples to substantiate your answers.

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**Q.1**. Mr. Anshuman Chatterjee is in the business of diamond jewellery with a large set-up at Mumbai. He has found a supplier of rough diamonds in Antwerp, Mr. Charles Gray, whose rates and terms are acceptable to both parties. It is a usual practice in diamond trading to permit a 120 days credit period to buyers.

However, Mr. Gray is uncertain about dealings with Indians and desires to have an arrangement by which payment of the diamonds is assured. He is also not very confident about the financial strength of Indian banks.

You are a credit officer with Coorg Bank Ltd., bankers of Mr. Anshuman. How will you help your client (Mr. Anshuman) to buy the rough diamonds from Mr. Charles Gray? Explain in detail, taking into consideration the following information –

1. Coorg Bank has no branches in Antwerp. However, your bank has correspondent banking relationship with HSBC in that city.
2. Mr. Gray is maintaining his account with Standard Chartered Bank, Antwerp.

 **(10 Marks)**

**Q.2.** Mr. Atul Jhavar, a prime customer of your bank, has been maintaining various accounts with your branch at Palasia, Indore. These include 3 savings bank accounts (in his name, his wife’s name and his son’s name), fixed deposit accounts aggregating Rs.15 crores and a current account titled `Vasu Real estates’ through which all his business transactions are being routed.

Mr. Jhavar is in the business of construction and sale of high-rise residential complexes and the volume of transactions in his current account are significantly high, the average monthly balance being to the tune of Rs.5 crores. There are usually 75 to 100 transactions in this account in a month, and a substantial amount of these are in the form of cash.

Your bank has been offering an interest rate of 5.5% on savings bank accounts as against an average of 2.5% - 3% being offered by most other banks. However, no interest is paid on the balances maintained in current accounts.

Mr. Jhavar has approached you with a request for closure of his current account and opening a savings account under the same name and title, i.e., `Vasu Real estates’ – as this will enable him to earn interest on the balances which he is not getting presently.

You are the Relationship Manager for Mr. Jhavar. Please advise him suitably on the following –

1. Whether his request can be acceded to or not, and the reasons for the same;
2. The advantages of continuing with the present arrangement

**(10 Marks)**

**Q.3.** The year is 1969. Except State Bank of India, all other commercial banks in India are operating in the private sector. Certain flaws in their practices have been noticed.

You are the Advisor to the PM on all economic and financial matters. She has asked you to come fully prepared with your suggestions to overcome the following problems being faced by the country –

(a) Security based lending by the commercial banks

(b) Disproportionate flow of credit to certain sectors while several other sectors are starved for funds.

A meeting with the cabinet ministers has been called, which is to be presided over by the PM herself. You have to convince the PM and her cabinet on the measures which would –

1. Ensure more effective control on the banking industry.

2. Rectify the two major problems mentioned above.

Submit your recommendations to the PM and the cabinet addressing the above issues and also highlight the consequences of `security based lending’**. (10 Marks)**

**Q.4**. Recently, you have been posted as an Instructor in your Bank’s Staff Academy. A batch of young probationary officers has reported for training in various aspects of credit appraisal. So far, they have only worked in areas of general banking and have no knowledge of lending.

You are required to orient these officers in a way which would make them aware about the importance of actions that need to be taken for granting loans. Therefore, your lecture should include the various aspects of pre-sanction, sanction and post-sanction procedures that are essential for the activity of credit analysis, sanction, disbursement and monitoring.

Prepare a lecture keeping the above in mind and present it with clarity and examples for easy understanding of the young probationers. **(10 Marks)**

**Q.5**. Mr. Karan Shrivastava has approached your bank with a request for a working capital loan in order to increase his sales turnover from the current level of Rs.800 lacs. His estimated level of assets and liabilities are as under **– (10 Marks)**

Current Assets Current Liabilities

Raw material – Rs.60 lacs Sundry creditors - Rs.20 lacs

Work-in-process – Rs.50 lacs Bills Payable - Rs.10 lac

 Finished Goods – Rs.70 lacs Short term loan from

Receivables – Rs.70 lacs friends & relatives - Rs.20 lacs

In this context, please answer the following –

1. What amount can be sanctioned to the borrower as working capital loan? Give reasons for your answer. (2)
2. What should be the estimated sales level if the operating cycle is of 3 months? Why? (2)
3. How should the balance of working capital gap be met? (1)
4. What should be the primary security for the loan, which type of charge will be created

on it and why? (1+1+1)

1. Which type of facility would be extended to Shri Jha for availing the working capital loan? (Cash Credit/ overdraft/ Term Loan/ Demand Loan) (1)
2. What would be the maximum period within which the loan would have to be repaid? (1)

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