**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. Shri Raman Dashottar is a prestigious customer of Bank of Baroda’s Vijaynagar branch, where you have recently been posted as an Officer-in-charge of Deposit accounts. Shri Dashottar retired as a General Manager of a leading steel company and has kept the majority of his retirement funds as fixed deposits with your bank. He is averse to investing in the stock market and prefers the lower but secured returns as interest on term deposits. The aggregate amount of his deposits is Rs.3.5 crores, which have been divided into term deposits and special term deposits of various amounts. His other investments are in gold and two flats, one of which he has rented out.

Recently, his youngest daughter – Purva’s marriage has been fixed. He has arranged for most of the expenses by obtaining payment of FDs of approximately Rs.1.5 crores on their maturity. Now, he needs some more funds for which he has approached your branch with a request for obtaining premature payment of a special term deposit (under the Reinvestment plan) of Rs.50 lacs. This FD was issued for a period of 5 years in October 2018 carrying interest @8% per annum compounded quarterly, and is due in October 2023.

Shri Dashottar needs an amount of Rs.25 lacs only for meeting the outstanding expenditure of marriage.

While you understand the genuineness of his request, you are also concerned about ensuring that your important customer’s requirement gets fulfilled through a deal beneficial to both him and the bank. As per the rules of your bank, in case of a premature withdrawal of FD, the rate applicable for calculating the interest would be 1% less than the rate applicable for the period for which the FD remained with the bank. In October 2018, the rate was 7% for FDs upto 4 years. Further, the bank allows the facility of Overdraft against FDs and charges 2% above the rate applicable on the FD for the period of loan, on the amount outstanding.

You learn from Shri Dashottar that his Life insurance policy of Rs.30 lacs would be maturing by end of September 2023.

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Please advise the best course of action to Shri Dashottar, taking into consideration the above details. Also explain why the solution put forward by you would be beneficial to the bank as well. (10)

Q.2. Mr. Pankaj Jhavar, a cotton merchant of Sendhwa, has been approached by Mr. James Fleming, a manufacturer of hosiery garments from Chicago for supplying 1700 high quality cotton bales in a single shipment. Mr. Fleming will be paying as per the rates quoted by Mr. Jhavar, but will be able to pay after a period of 180 days from the receipt of goods. Neither of the parties has ever traded with one another before, but is interested to undertake this transaction.

You are the Branch Manager of the Nimar Bank Ltd.’s Sendhwa branch, and Mr. Jhavar is one of your prime customers. You have to ensure that the interest of your customer is protected such that the payment is received as per the terms of the sale agreement, if goods are supplied according to the specifications stated by Mr. Fleming.

Please advise Mr. Jhavar about what he needs to do so that –

1. The payment is received without any delay
2. The terms and conditions of the purchase/sale cannot be amended arbitrarily without the consent of all parties concerned.
3. If required, Mr. Jhavar may be able to obtain payment even before the expiry of the credit period.

 The following information is available with you –

1. Mr. James Fleming is banking with Citi Bank, Chicago, which also has branches in India.
2. State Bank of India is having correspondent banking relationship with both Citi Bank as well as your bank. (10)

Q.3. Shri V.D. Rathi, an eminent economist with expertise in the field of Monetary & Credit Planning, has recently been nominated as a Deputy Governor of RBI. The country’s economy is currently witnessing a slowdown while inflationary trends are on the rise. As banks hold a significant portion of the country’s money supply, a meeting of RBI’s Central Board of Directors (CBOD) has been called to discuss the various measures that may be taken to put a check on the flow of credit from banks. The RBI Governor has assigned this work to Shri Rathi.

You are an Assistant Economist aiding Shri Rathi, who has directed you to prepare a Proposal recommending the use of the following three measures –

1. Bills Rediscounting Scheme
2. Repo rate
3. Variable Reserve requirements

Please draft a Note for being presented to the CBOD by Shri Rathi as to how the above tools may be effectively used to control credit being allocated by commercial banks. (10)

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Q.4. Khare, Ghodke & Associates is a leading company in the area of architecture, urban planning and infrastructure development. They have to their credit the designing of many renowned buildings, stadiums, bridges and flyovers. The firm has been maintaining their banking relations with the Race Course Road branch of your bank where you have been recently posted as Chief Manager (Credit).

The firm has decided to participate in the bid for allotment of work relating to construction of an expressway involving an amount of Rs.5000 crores. Due to their vast experience in this field, the firm fulfills the eligibility criterion required for participation. However, all participants are required to provide either a security deposit equivalent to 1% of the project cost or a Bank Guarantee of equivalent amount.

One of the directors, Shri C.K.Khare, has approached you for advice, as although the firm is financially strong, it does not want to tie down such a significant amount as security deposit.

Please explain to Shri Khare the procedure and benefits of a Bank Guarantee, along with the formalities that are required to be completed by the firm.

Simultaneously, also explain to him the meaning and consequences of `invocation’ of the Bank guarantee, and the precautions that the bank would be taking to restrict its liability under the said document. (10)

Q.5. Mr. Somdutt, a young man of 24 years who has just completed his MBA and recruited under campus placement – has joined as a Management Trainee with Deutsche Bank where you are a Senior Credit Analyst. He has been posted in your department for being acquainted with the process of credit analysis.

In his very first week of duty, he approaches you with the financial statements of a large corporate house, eager to compute and analyse various ratios. From a long experience, however, you know that the analysis of financial statements is only the quantitative part of the credit appraisal process and there are several other aspects that need an equal amount of consideration.

You therefore decide to invite him over for dinner on a weekend, and casually explain the multiple principles relating to a borrower’s activity, which have to be very carefully examined before lending.

Please provide details of your conversation with Mr. Somdutt through which you impress upon him the need and importance of this qualitative assessment. (10)

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