Vendor: AIWMI

Exam Code: CCRA

Exam Name: Certified Credit Research Analyst

Version: Demo

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."

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: INRSales may increase; margins may squeeze; Glowing: INRSales 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

QUESTION 2

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
YTM	8.22	8.52	8.88	8.98	9.02

Who amongst the four candidates is correct regarding OAS?

A. Only Catherine

B. Only Deepak

C. Only Adam and Catherine

D. Only Deepak and Catherine

Correct Answer: C

QUESTION 3

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_DnEL 1UOYW3y7vZ2ogandhl=enandsa=Xandved=2ahUKEwi38JF_t3eAhXHAsAKHSKIBE4Q6AEwAHoECAkQAQ#v=onepa geandq=credit%20Change%20in%20priority% 20ranking%20of%20reference%20obligations%20isandf=false

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QUESTION 4

Following is information related banks:

Auckland Ltd is a public sector bank operating with about 120 branches across India. The bank has been

in business since 1971 and has about 40% branches in rural areas and about 75% of all branches are in Western India. On the basis of the size, Auckland Ltd will be ranked at number 31 amongst 40 banks in India. Although top management has appointment period of 5 years, generally they retire on ach sieving age of 60 years with an average tenure of only 2 years at the top job.

Profit and Loss Account

Particulars	FY11	FY12	FY13
Interest on advances bills	124,000	182.000	283,000
Interest on investments	15,000	18,000	14,000
Interest on balances with Banking Regulator and other inter-bank funds	1, 100	1,000	1,700
Other interest income	40,000	49,000	54,000
Other Income	80,000	95,000	99,000
Total Income	260,100	345,000	451,700
Interest expenses	105,000	148,000	235,000
Operating expenses	23,000	28,000	32,000
Total expenditure	128,000	176,000	267,000
Operating Profit	155,100	197,000	216,700
Provisions	72,000	102,000	174,000
Profit before tax	83,100	95,000	42,700
Tax	16,600	19,000	8,500
Profit after Tax	66,500	76,000	34,200

Balance Sheet

Assets	March 31 2011	March 31 2012	March 31 2013
Cash and Balances with Reserve Bank of India	120,000	420,000	770,000
Balances with Banks and Money at Call and Short Notice	745,000	789,000	1194,000
Investments	598,000	689,000	1139,000
Advances	1432,000	1709,000	2485,000
Fixed Assets	223,000	234,000	245,000
Other Assets	567,000	670,000	970,000
TOTAL	3685,000	4511,000	6803,000

Liabilities	March 31 2011	March 31 2012	March 31 2013
Capital	31,000	31,000	42,000
Reserves and Surplus	294,000	370,000	1154,000
Deposits	2100,000	2120,000	2450,000
Borrowings	960,000	1590,000	2657,000
Other Liabilities and Provisions	300,000	400,000	500,000
TOTAL	3685,000	4511,000	6803,000

The rating wise break-up of assets for FY11 is as follows:

Rating	FY11
AAA	120,000
AA	530,000
A BBB	220,000 150,000
BB and below	310,000
Unrated	102,000
Total	1432,000

During which year amongst the three, was the overall financial profile of bank most string?

A. No change in three years

B. FY13

C. FY11

D. FY12

Correct Answer: B

QUESTION 5

Which of the following statement is false?

A. DEF Ltd. has received a speculative grade rating as its outstanding rating is B+

B. Non-Convertible debenture of PQR Ltd. has a speculative rating since its outstanding rating is C

C. ABC Ltd. short term is BBB- for its commercial paper

D. XYZ has an investment grade rating as his outstanding rating is A1

Correct Answer: B

QUESTION 6

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 YTMs.

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 7

If XYZ Ltd. incurs (with purchase and installation of machinery) using cash, which of the following ratios will remain unchanged, if all other things remain constant?

A. None of the three

B. Asset Turnover ratio

C. Current Ratio

D. Quick Ratio

Correct Answer: C

QUESTION 8

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

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QUESTION 9

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

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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

Which of the modified statement of Balkrishna will be a correct statement?

A. In bonds with embedded options, Nominal Spread reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

B. In bonds with embedded options, spread reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

C. None of the three.

D. In bonds with embedded options, Z Spread reflects not only the credit risk but also reflects prepayment risk over and above the benchmark.

Correct Answer: A

QUESTION 10

Risk in CDS price is reflective of

A. increase in probability of default

B. increase in interest rates

C. decrease in probability of default

D. increase in recovery rates

Correct Answer: A

QUESTION 11

During FY13, Small Bazar, a leading retail company has sold three of its prime properties for a sum of USD 24 Million. The same had a carrying value of USD 30 Million.

Analyst had considered the same as operating income and considered it to be part of operating expenses. However, she realized her mistake and recorded the loss as non-operating loss. Which of the following ratio will not change despite the correction?

A. EBITDA Margins

B. Interest Coverage

C. PAT Margins

D. Gross Profit Margin

A. B, C and D

B. A, B and C

C. B, C

D. All Ratios will change

Correct Answer: B

QUESTION 12

An increase in the salaries of the bank employees due to new bank employee pay commission implemented by the Central Government will lead to deterioration of which of the following ratios:

A: Cost to Income Ratio

B: Net Interest Margin

C:

Core Spread

A.

Only A

B.

A B and C

C.

Only B

D.

Only C

Correct Answer: A