Term loans

1. A large textile manufacturing firm in Tirupur, which experiences seasonal high demand for cotton, approaches a bank for a loan. Instead of a standard one-year working capital facility, the firm needs a longer-term solution to finance bulk raw material purchases for the entire year to secure better pricing. Which financing solution would be most appropriate for the bank to offer in this exceptional circumstance?

A) A standard Term Loan, as the requirement is for a large fund infusion.

Ans

B) A Working Capital Term Loan (WCTL), because it is a term loan sanctioned specifically for funding current assets on a long-term basis.

C) A Deferred Payment Guarantee (DPG), as the company is purchasing goods and needs the bank to guarantee payment.

D) An enhanced short-term Working Capital Loan, renewable annually, to cover the operational expenses.

NFB

2. A construction company secures a Deferred Payment Guarantee (DPG) from its bank for the purchase of new machinery, with payments scheduled over five years. If the company successfully makes all payments to the supplier, what is the nature of the bank's involvement throughout the five-year period?

Contingent liability

A) It remains a fund-based exposure for the bank, as funds are earmarked for the guarantee.

B) It transitions from a non-fund based to a fund-based liability after the first installment is paid.

Ans

C) It remains a non-fund based facility for the entire duration, as the bank's own funds are not disbursed.

D) It is treated as a short-term liability similar to a working capital loan.

 Term loan

Project Finance

3. A rapidly growing logistics company plans to purchase five new trucks to expand its fleet. Simultaneously, the company's promoters are exploring a greenfield project to build and operate a large-scale warehouse. How should a lender approach the appraisal process for these two distinct financing needs?

A) Both requests should be combined under a single, comprehensive Project Finance Appraisal, evaluating the long-term feasibility of the entire business.

Ans

B) The truck purchase requires a simple Term Loan Appraisal focusing on DSCR, while the warehouse project demands a detailed Project Finance Appraisal covering techno-economic and managerial aspects.

C) The truck purchase requires a Project Finance Appraisal due to the scale, and the warehouse project requires a Term Loan Appraisal focused on projected cash flows.

D) Both needs should be evaluated using a Term Loan Appraisal, as they both involve the acquisition of fixed assets.

$$DSCR = \frac{PAT + Dep. + Annual\ int}{Annual\ (int + instalment)}$$

$$\boxed{2:1}$$

4. A bank is conducting a project appraisal for a new solar power plant. During the economic appraisal stage, the management wants to understand how fluctuations in government subsidies and energy tariffs could affect the project's profitability and long-term viability. Which analytical tool would be most crucial for this specific assessment?

A) Break-even Analysis, to determine the point at which the project starts making a profit.

B) Return on Investment (ROI) calculation, to measure the overall profitability through NPV and IRR.

Ans **C)** Sensitivity Analysis, to assess the impact of price and cost fluctuations on the project's viability.

D) Appraisal of Managerial Aspects, to evaluate the promoter's ability to handle contingencies.

5. When considering the financing of promoter's equity for an acquisition in the infrastructure sector, which of the following scenarios would be permissible according to regulatory guidelines?

A) Financing 60% of the acquisition cost for shares in a newly formed infrastructure SPV, secured by the acquired shares.

B) Financing 50% of the acquisition cost for shares in an existing, profitable infrastructure company, with the loan secured against the company's fixed assets.

C) Financing the acquisition of shares in an existing infrastructure company that has recently defaulted on a loan, provided the promoter brings in the other 50%.

D) Financing the acquisition of shares in an existing infrastructure company where the loan tenure is set at 10 years and approved by the credit manager.

Exposure norms

6. A bank has a total capital fund of ₹20,000 crores. It is approached by a single, non-infrastructure company for a loan and later by an infrastructure company for a separate project loan. According to prudential credit exposure limits, what is the maximum amount the bank can lend to the infrastructure company, assuming the board wishes to extend the facility to its fullest allowable extent?

A) ₹3,000 crores, which is the standard 15% limit for a single borrower.

B) ₹5,000 crores, which is the standard 25% limit for group borrowers.

C) ₹4,000 crores, representing the 15% base limit plus an additional 5% for infrastructure funding.

D) ₹5,000 crores, representing the 20% infrastructure limit plus an additional 5% with Board approval.

Loan → Asset

7. A consortium of banks finances a 20-year metro rail project primarily using funds from 5-year and 7-year fixed deposits. This creates a significant structural issue for the banks. What is the primary risk stemming from this situation, and what is the most appropriate mechanism described in the document to resolve it?

A) The primary risk is credit risk; it can be resolved by issuing an Inter-Institutional Guarantee.

B) The primary risk is a liquidity mismatch; it can be resolved through Take-Out Financing, where an institution like IDFC refinances the loan after a few years.

C) The primary risk is regulatory risk; it can be managed by getting additional approvals from the RBI.

D) The primary risk is operational risk; it should be managed by setting up a stricter monitoring mechanism.

8. In the context of large-scale infrastructure financing, what is the crucial difference between Take-Out Financing and Liquidity Support provided by an institution like IDFC or SBI?

A) Take-Out Financing involves the complete transfer of the loan asset and credit risk, while Liquidity Support is a refinancing commitment where the original bank retains the credit risk.

B) Liquidity Support transfers credit risk but not the loan asset, whereas Take-Out Financing transfers both.

C) Take-Out Financing is used for short-term projects, while Liquidity Support is designed for long-term projects exceeding 20 years.

D) In Take-Out Financing, the bank pays a fee to IDFC, while in Liquidity Support, IDFC pays a fee to the bank for the right to refinance.

9. A bank is approached to issue an Inter-Institutional Guarantee favoring another lending institution for a large highway project. According to RBI guidelines, what specific condition must the guaranteeing bank itself fulfill to be eligible to provide this guarantee?

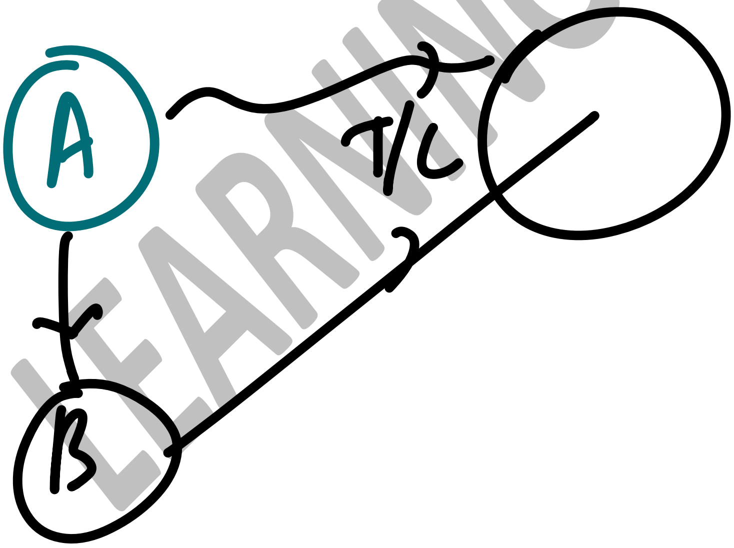
A) The bank must have a capital adequacy ratio above the regulatory minimum.

B) The bank must take the lead in the consortium financing the project.

Ans

C) The bank must have an investment of at least 5% in the total project cost.

D) The bank must secure a counter-guarantee from the project's promoters.



10. When a bank appraises a loan for a Deferred Payment Guarantee (DPG), the process is critically important because a borrower default transforms the nature of the bank's exposure. Which statement most accurately reflects the appraisal standard and risk profile for a DPG? NFB

A) The appraisal is less rigorous than a term loan appraisal because it is initially a non-fund based facility.

B) The key financial indicator for a DPG appraisal is the Liquidity Ratio, similar to a working capital loan.

C) The appraisal criteria and risk level are considered similar to that of a term loan, focusing on repayment capacity.

D) The primary risk is market risk, as the value of the asset being purchased could decline.

11. A state government provides a sovereign guarantee for a large, complex infrastructure project to be undertaken by a Special Purpose Vehicle (SPV). How should the lending banks view this government guarantee during their project appraisal process?

A) The guarantee serves as a complete substitute for credit appraisal, allowing the banks to fast-track the loan approval without detailed due diligence.

B) The guarantee eliminates the need for a technical and economic feasibility study, as the government has already vetted the project.

C) The guarantee is a significant credit enhancement, but it does not replace the need for the banks to conduct their own thorough credit appraisal and due diligence.

D) The guarantee allows the bank to bypass the prudential exposure limits for the project since the risk is backed by the state.

12. A startup IT company in Bangalore secures a ₹50 lakh term loan to set up its new office. The company has a few initial contracts but expects its revenue to grow substantially after the first year. What would be the most logical repayment structure for the bank to design for this loan?

A) A fixed EMI schedule starting from the first month, based on the total loan amount and tenure, similar to a personal loan.

B) A repayment schedule with uniform quarterly payments, as this is standard for term loans.

C) A customized repayment schedule with smaller EMIs in the first year and progressively larger EMIs in subsequent years, aligned with the company's projected revenue growth.

D) A bullet repayment at the end of the loan tenure, where only interest is serviced annually.

13. A bank is conducting a managerial appraisal for a manufacturing project. Which of the following questions is the most critical component of this specific appraisal step, as outlined in the guidelines?

A) What is the projected Return on Investment (ROI) and Internal Rate of Return (IRR) for the project?

B) What are the arrangements for waste disposal and pollution control from the manufacturing process?

Ans

C) What is the financial stake of the promoters in the project and what is their ability to bring in additional funds during contingencies?

D) What is the break-even point at which the project will start generating a profit?

14. Due to the high capital investment and long gestation periods typical of infrastructure projects, their financing structure is unique. Which of the following combinations of features is most characteristic of infrastructure project financing?

A) ~~Low Debt-Equity Ratio,~~ short payback period, and funding primarily through short-term loans.

B) High Debt-Equity Ratio, extended payback period, and exposure to regulatory risks.

C) Low exposure to regulatory risks, a quick revenue generation cycle, and a low Debt-Equity Ratio.

D) High Debt-Equity Ratio, short payback period, and funding through Public-Private Partnerships (PPP).

15. A bank exceeds its prudential credit exposure limit for a group of borrowers to fund a critical infrastructure project, an action permissible with board approval. What is the mandatory follow-up action the bank must take in this situation?

A) The bank must secure 100% collateral for the amount exceeding the limit.

B) The bank must apply for special permission from the RBI within 30 days.

approval from BoD, provisionary

C) The bank must disclose the fact that the limits were exceeded in its published financial statements.

D) The bank must transfer the excess portion of the loan to another institution via Take-Out Financing.

16. A transport business approaches a bank for a term loan to buy two new trucks. Which appraisal method and key financial metric would the bank primarily use to evaluate this proposal?

A) Project Finance Appraisal, with a focus on Internal Rate of Return (IRR).

Ans **B)** Term Loan Appraisal, with a focus on the Debt Service Coverage Ratio (DSCR).

C) Working Capital Loan Appraisal, with a focus on Liquidity Ratios.

D) Economic Appraisal, with a focus on Sensitivity Analysis.

17. What is the primary purpose of a Working Capital Loan, and how does its duration and key assessment metric differ from a Term Loan?

A) It is used for acquiring fixed assets for a duration of 3-15 years, and its viability is checked using the DSCR.

B) It is used for short-term operational needs like paying salaries for a duration of up to one year, and its viability is assessed using Liquidity Ratios.

C) It is used for day-to-day operations for a long-term duration of 3-15 years, and its viability is assessed using Liquidity Ratios.

D) It is used for acquiring long-term assets like infrastructure for a duration of up to one year, and its viability is checked using ROI and IRR.

18. A bank is financing a large port development project, which is being executed through a Special Purpose Vehicle (SPV). What is the bank's responsibility regarding the SPV as part of its appraisal process?

A) The bank can rely on the creditworthiness of the parent company and does not need to assess the SPV independently.

B) The bank must primarily assess the government guarantees provided to the SPV.

C) The bank must assess the stability and creditworthiness of the SPV itself, as it is a distinct legal entity.

D) The bank's assessment is limited to ensuring the SPV has been legally incorporated.

19. A bank's board of directors is reviewing its administrative arrangements for infrastructure project financing. To ensure compliance with RBI guidelines and prevent project failures, which objective is most critical for the bank to achieve through these arrangements?

A) To ensure that the interest rate charged is the highest possible to compensate for the high risk.

B) To ensure that project funds are disbursed in a single lump sum at the beginning to avoid delays.

C) To establish a robust monitoring mechanism to track project progress and ensure funds are used properly.

D) To limit financing only to projects that have a Public-Private Partnership (PPP) structure.

20. During the technical appraisal of a proposed greenfield manufacturing plant, what would be a primary area of focus for the appraisal team?

A) Evaluating the past financial performance and credentials of the company's promoters.

B) Calculating the project's Net Present Value (NPV) and Payback Period.

C) Assessing the suitability of the project's location and the availability of raw materials and infrastructure.

D) Analyzing the form of business organization (e.g., Partnership vs. Pvt. Ltd.).

21. A bank's exposure to a group of connected companies is currently at 24% of its capital funds. The group now requests additional funding for a new infrastructure project. According to prudential guidelines, under what specific circumstance can the bank consider this additional request?

A) The bank cannot consider the request as it is already close to the 25% group exposure limit.

B) The bank can automatically extend the limit by another 5% because the new funding is for an infrastructure project.

C) The bank may consider exceeding the 25% limit, but this requires specific approval from the bank's Board of Directors.

D) The bank can only consider the request if the group pledges additional security equivalent to 100% of the new loan amount.