CCRA Q&As

Certified Credit Research Analyst

Pass AIWMI CCRA Exam with 100% Guarantee

Free Download Real Questions & Answers **PDF** and **VCE** file from:

https://www.leads4pass.com/ccra.html

100% Passing Guarantee
100% Money Back Assurance

Following Questions and Answers are all new published by AIWMI Official Exam Center

QUESTION 1

If you yield curve is humped and the medium rates drop, what will happen to the yield curve?

A. It will move from negative to positive

B. It will shift up in a uniform fashion

C. It will become steeper

D. It will flatten

Correct Answer: C

QUESTION 2

In an industry there are only 20 firms and each of them has equal share. Compute Herfindahl Hirschman Index and state the level of concentration in the industry.

A. HHI = 500; High Concentration

B. HHI = 8000; low Concentration

C. HHI = 8000; High Concentration

D. HHI = 500; Low Concentration

Correct Answer: D

Reference: https://www.investopedia.com/terms/h/hhi.asp

QUESTION 3

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: PAT margins are highest in which of the years?

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

A. FY12

B. FY11

C. FY10

D. Equal in FY10 and FY12

Correct Answer: A

QUESTION 4

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

Which of the four entities has best interest coverage ratios?

A. C Ltd

B. D Ltd

C. A Ltd

D. B Ltd

Correct Answer: D

QUESTION 5

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 6

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

QUESTION 7

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: Which of the following statements is incorrect?

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

A. B Ltd has higher EBITDA margins as compared to C Ltd.

B. D Ltd has higher EBITDA margins as competed to B Ltd.

C. C Ltd has worst total debt to EBITDA ratio.

D. B Ltd has worst interest coverage ratio.

Correct Answer: A

QUESTION 8

"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."

Which entity is best in terms of overall gearing ratio and net gearing ratio respectively:

A. Glowing and Beautiful

B. Handsome and Handsome

C. Glamorous and Glowing

D. Glamorous and Glamorous

Correct Answer: C

QUESTION 9

Case Facts as on March 31, 2012

Mark Construction Company (MCC) has bagged a contract for construction of a large dam and hydro power project on river Shivna in Madhya Pradesh (MP). The project is also of relevance from the irrigation perspective due to its location and as per the agreement MCC will have to undertake construction of web of canals, approach road to dam, power house and other ancillary units. MCC is promoted by Mr. Thomas Mark, who is a MP from the ruling party which recently formed government in MP. Historically, MCC has been engaged into construction of rural roads, small bridges and railway platforms on contract basis for the Government. MCC will have a separate special purpose vehicle (SPV) floated for this venture.

The hydro power project comes under the public private partnership scheme of the Government of MP, where in the private partner builds owns operates and transfers (BOOT) the hydro power plant. The detailed terms of the hydro power project agreement are as follows:

1.

The construction of the dam, canals and hydro power plant shall be undertaken by the contractor. The Government of MP will have to acquire land which will submerge on construction of dam and shall rehabilitate the owners of land.

2.

MCC shall have right to operate the hydro power project from date of commencement of commercial operations (DCCO) for a period of 20 years and shall transfer the project to Government thereafter. Further, SPV shall be tax exempt for a period of five years from DCCO i.e. FY17-FY21.

3.

The power project is of 600 megawatts (MW) shall comprise 4 units of 150 MW each. The estimated cost of project is about INR3, 500 Million to be spent over a period of 4 year(s) the project is estimated to be commercially operational by April 1, 2016 with two units operational om same day and one unit each will be operational on April 1, 2017 and April 1, 2018.

4.

Means of finance:

Means of Finance	INR Million
Government Aid (To be classified as Equity)	500
Equity	900
Debt	2100

Means of Finance INR Million Government Aid (To be classified as Equity) 500Equity 900 Debt 2100 5. Amount if expenditure estimated in various years is as follows: Funding Cost of Project INR Million Debt Govt Aid Equity Total FY13 (April to march) 700 0 250 450 700 FY14 1200 500 250 450 1200 FY15 1200 1200 - 1200 FY15 400 400 - 400

Debt shall bear a fixed rate of interest of 10% and all interest till DCCO shall be added to the principal. The expected principal along with capitalized interest is expected to be INR2, 400 Million (i.e.INR2100 Million debt plus INR300 Million capitalized interest). The repayment of the same shall be in 12 equated annual installments starting from FY17.

Brief projections for the period of FY17 to FY21 are given below:

Particular	FY17	FY18	FY19	FY20	FY21
Revenue from Power sale	600	900	1200	1320	1452
EBITDA %	72%	68%	65%	60%	60%
Interest Cost	240.00	220.00	200.00	180.00	160.00
Depreciation	175.00	175.00	175.00	175.00	175.00
PAT	17.00	217.00	405.00	437.00	536.20

Developments as on March 31, 2015

The project manager for the SPV made following comments at a press conferee on March 31, 2015:

As you all are aware, we were running bang on schedule till we last met on December 21, 2014. From today we are just left with one more year to complete the project in time. However, the flash floods which struck our dam site on this March 15, 2015 have created havoc in the region. I shall not point out the loss of lives in the region as you all are well aware of those. Our project has also been badly hit due to the same and we have been assessing the damage over the last one week. After analyzing damage, we have made changes in project schedule. Now we will be making only one unit of 150 MW operational on April 1, 2016 and 1 unit each will be added in each of subsequent year(s).

Development as on September 30, 2015 Post the flash floods, lot of environmentalists started raising issues of changes in environment due to construction of large number of dams. A few Public Interest Litigations (PILs) have been filed in various courts.

Honorable High Court of MP on September 27, 2015, banned construction of any dams in the region and banned permissions for new dams till next hearing scheduled on November 30, 2015. MCC in its press release has indicated that they will apply to the higher court on the matter.

On receiving the credit proposal, the banker informed the company that in FY17 the DSCR is below unity, which is not acceptable to bank. Which of the following is correct?

A. Had the cash accruals be more by INR50 Million, DSCR would have been unity. SPV can provide an implicit credit enhancement for the same from MCC.

B. Had the cash accruals be more by INR8 Million, DSCR would have been unity. SPV can provide an implicit credit enhancement for the same from MCC.

C. Had the cash accruals be more by INR8 Million, DSCR would have been unity, SPV can provide an explicit credit enhancement for the same from MCC.

D. Had the cash accruals be more by INR12 Million, DSCR would have been unity. SPV can provide an explicit credit enhancement for the same from MCC.

Correct Answer: C

QUESTION 10

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

Compute interpolated spread for Bond F based on the information provided in the vignette:

A. 1.64%

B. 0.43%

C. 0.61%

D. 1.46%

Correct Answer: A

QUESTION 11

The ________ cycle is the length of time between the company\\'s outflow on raw materials and the manufacturing expenses and the inflow of cash from the sale of goods.

A. Cash flow mismatch

B. Money

C. Running

D. Operating

Correct Answer: D

Reference: https://books.google.com.pk/books?id=WTvNAgAAQBAJandpg=PA407andlpg=PA407anddq=credit +cycle+is+the+length+of+time+between+the+company\\'s+outflow+on+raw+materials+and+the +manufacturing+expenses+and+the +inflow+of+cash+from+the+sale+of +goodsandsource=blandots=cdWVJkURXDan dsig=qMKOpz5Q6EormgDXh9hCHWQSsHIandhl=enandsa=Xandved=2a hUKEwiY1PjXwt7eAhUJK8AKHbLZB3UQ6AEwCXoECAcQAQ#v=onepageandq=credit%20cycle% 20is% 20the%20length%20of%20time%20between%20the%20company\\'s%20outflow%20on%20raw% 20materials%20and%20the%20manufacturing%20expenses%20and%20the%20inflow%20of%20cash% 20from%20the%20sale%20of% 20goodsandf=false

QUESTION 12

Loss assets should be written off. If loss assets are permitted to remain in the books for any reason, ______percent of the outstanding should be provided for.

A. 150

B. 75

C. 100

D. 50

Correct Answer: C

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

QUESTION 13

Which of the following is false in case of credit enhancements?

A. It reduces the default risk of the borrowing entity for the lender, thereby deteriorating the overall credit worthiness of the borrower

B. Credit enhancement could be implicit or explicit

C. Credit enhancement is a mechanism whereby external cash flows is extended by an entity which has a stringer credit profile, so that it benefits the fund raising entity

Correct Answer: A

QUESTION 14

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

What is Total Income FY10 and FY12?

A. FY10: INR400 Million; FY12:INR575 Million

B. FY10: INR525.56 Million; FY12: INR755.49 Million

C. Insufficient Information to compute

D. FY10: INR656.94 Million; FY12: INR821.18 Million

Correct Answer: A

QUESTION 15

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

There is an 8.75% risky bond with a maturity of 2.75% year(s). Its current price is INR102.31, which corresponds to YTM of 8.52%. Compute Yield Spread from the information provided in the vignette:

A. 0.13%

B. 0.00%

C. 0.36%

D. 0.27%

Correct Answer: C