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CCRA-L2 Exam

CCRA-L2 Certified Credit Research Analyst Level 2 Exam

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DEMO
VERSION (LIMITED CONTENT)

Questions
& Answers

Version: 8.0

Question: 1

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 on 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) 500 Equity 900 Debt 2100

5. Amount if expenditure estimated in various years is as follows:

Cost of Project	INR Million	Debt	Funding			Total
			Govt Aid	Equity		
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.

As a credit analyst on March 31, 2012, which of the following sets of risks are you going to put in your credit appraisal note?

- A. Off-take risk, Cost and Time over run risk, lack of management experience in such big projects.
- B. Lack of management experience in large projects, Exchange rate risks, Cost and time over run risks.
- C. Cost and Time over run risk, lack of management experience in such big projects.
- D. Obsolete technology risk, political risks and Cost and time over run risks

Answer: C

Question: 2

Mark Construction Company (MCC) has bagged a contract for construction of a large dam and hydro power project on river Shiva 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

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Based on the initial projections, do scenario analysis assuming only 75% capacity is utilized in FY17 and FY18 and thereby revenues will be proportionally reduced.

Compute DSCR under such scenario for FY17 and FY18, assuming other things remain constant?

- A. FY17: 0.85; FY18: 1.26
- B. FY17: 0.74; FY18: 1.09
- C. FY17:1.35; FY18: 2.09
- D. FY17:0.98; FY18: 1.46

Answer: A

Question: 3

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.

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After the developments of March 31, 2015, assuming revenues are directly linked to the power production and the EBITDA margins remain intact for the year, as were projected, compute the revised interest coverage ratio dfor FY17 and FY18?

- A. FY17: 0.90; FY18: 1.85
- B. FY17: 1.85; FY18: 2.93
- C. FY17: 0.49; FY18: 0.97
- D. FY17: 1.80; FY18: 2.78

Answer: B

Question: 4

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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.

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As a credit rating analyst on September 30, 2015, on receipt of the high court order, what rating action you will take:

- A. Put ratings on rating watch.
- B. Change rating outlook for long term to negative.
- C. No action, wait for order if higher courts or hearing on November 30, 2015.
- D. Immediately downgrade ratings of SPV.

Answer: A

Question: 5

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:

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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.

Answer: C

Question: 6

Scott is a credit analyst with one of the credit rating agencies in Indi

a. 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

Answer: D

Question: 7

Scott is a credit analyst with one of the credit rating agencies in Indi

a. He was looking in Oil and Gas Industry companies and has presented brief financials for following 4 entities:

Two credit analysts are discussing the DM-approach to credit risk modeling. They make the following statements:

Analyst A: A portfolio's standard deviation of credit losses can be determined by considering the standard deviation of credit losses of individual exposures in the portfolio and summing them all up.

Analyst B: I do not fully agree with that. Apart from individual standard deviations, one also needs to consider the correlation of the exposure with the rest of the portfolio so as to account for diversification effects. Higher correlations among credit exposures will lead to higher standard deviation of the overall portfolio.

- A. Only Analyst A is correct
- B. Both are correct
- C. Only Analyst B is correct
- D. Both are incorrect

Answer: C

Question: 8

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Total Income	2000	2400	3000	3500
EBITDA	500	550	650	460
Interest	100	100	125	130
Total Debt	1000	1400	1000	1500

Giving equal weightage to all three ratios, determine which of the above entities should be rated highest on a relative scale.

- A. C Ltd
- B. A Ltd
- C. D Ltd
- D. B Ltd

Answer: A

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