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QUESTION 1

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 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 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.

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

Correct Answer: A

QUESTION 2

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: Compute Interest for FY10 and FY12?



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. Insufficient Information to compute
- B. FY10: INR50.53 Million; FY12:INR81.38 Million
- C. FY10: INR161.71 Million; FY12: INR252.27 Million
- D. FY10: INR17.47 Million; FY12:INR782.03 Million

Correct Answer: C



QUESTION 3

The extension of a guarantee by company A to company B can lower the rating of _____

- A. Company B
- B. Both A and B
- C. Guarantee has no impact on ratings of company A and company B
- D. Company A

Correct Answer: A

QUESTION 4

Statement 1: The Yields on the MBS PTCs are normally higher than the yields on the corporate bonds of similar ratings.
Statement 2: The reason for difference in yields on the corporate bonds and similarly rated PTCs is on account of the optionality in the PTC, the unfamiliarity of the structure and uncertainties in respect of legal and structural issues.

Which of the above statements is correct?

- A. None of the statements
- B. Both the statements
- C. Only Statement 2 is correct
- D. Only Statement 1 is correct

Correct Answer: D

Reference: <https://books.google.com.pk/books?id=WTvNAAQBAJandpg=PA305andlpg=PA305anddq=The+Yields+on+the+MBS+PTCs+are+normally+higher+than+the+yields+on+the+corporate+bonds+of+similar+ratingsandsource=blandots=cdWVJkUPUCandsig=LXNpawMofH61opTbPnHkHoNc0landhl=enandsa=Xandved=2ahUKEwiSljpwd7eAhUMDsAKHbneBtsQ6AEwAHoE>

CAkQAQ#v=onepageandq=The%20Yields%20on%20the%20MBS%20PTCs%20are+%20normally%20higher%20than%20the%20yields%20on%20the%20corporate%20bonds%20of%20similar%20ratingsandf=false

QUESTION 5

Based on the Moody's KMV model which of the following is not correct?

A: Growth variables are important for default analysis. rapid growth will lead to lower probability of default and rapid decline will lead to higher probability of default.

B:

Activity ratios are relevant for default analysis. A large stock of inventories relative to sales will lead to a higher probability of default.



A.

Only Statement A is correct

B.

Both the statements are correct

C.

None of the statements is correct

D.

Only Statement B is correct

Correct Answer: D

Reference: https://books.google.com.pk/books?id=g8XgCwAAQBAJandpg=PA67andlpg=PA67anddq=Activity+r ratios+are+relevant+for+default+analysis.+A+large+stock+of+inventories+relative+to+sales+will+lead+to+a+higher+probability+of+defaultandsource=blandots=Q-6qbboNblandsig=iKGUJsn0wKNSvF7pZ5B_GEIw5Eandhl=enandsa=Xandved=2ahUKEwjsruKZwd7eAhUqB8AKHQFGAtAQ6AEwC3oECAsQAQ#v=onepageandq=Activity%20ratios%20are%20relevant%20for%20default%20analysis.%20A%20large%20stock%20of%20inventories%20relative%20to%20sales%20will%20lead%20to%20a%20higher%20probability%20of%20defaultandf=false

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