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Further, in the Elective Papers which are Case Study based, the solutions have been worked out on the basis of certain assumptions/views derived from the facts given in the question or language used in the question. It may be possible to work out the solution to the case studies in a different manner based on the assumptions made or views taken.

PAPER-6B – FINANCIAL SERVICES AND CAPITAL MARKETS

The Question paper comprises three case study questions. The candidates are required to answer any two case study questions out of three.

Answers in respect of Multiple Choice Questions are to be indicated in capital letters, i.e. A or B or C or D as the case may be.

Case Study - 1

HRS Ltd. is an asset financing company with a proven track record and has been in the business of mainly providing finance to purchase trucks, tractors, farm equipment and commercial vehicles. In the past, it was financing used and new vehicles, but over the recent years, it prefers to concentrate on new vehicles only. Trucks form the major part of the financing business. There is a lot of competition in this field, but due to the increasing norms on pollution control and the decrease in the value of second hand vehicles, the company wants to strategically confine itself only to new vehicles in the coming years. HRS Limited mainly uses debt finance for its operations. The debt-equity ratio is in the range of 5:1 on an average. This is in line with the industry.

The company feels that in addition to truck financing, it can expand its business to finance smaller vehicles such as passenger cars and tempo travellers. The current expansion plan is described in the succeeding paragraphs:

There has been a recent entrant in the country wide market by a mobile application provider who has not only ushered in a revolution in the way cars are being hired by common man, but also in the manner of documentation of bookings, charges, cancellations and in the ownership of vehicles for such hire. This operator has also lured many entrepreneurs to successfully earn money either as drivers or as owners of self-driven cars and be engaged by users of the mobile app. This app has found immense success in the car segment and is also being considered for trucks for transport as well as connections from goods trains to factories so that companies can track the distribution of material and finished goods on an optimal cost.

While discussing with this app provider, HRS Ltd. has discovered a huge potential to finance vehicles to be demanded by virtue of the app users who may be new entrepreneurs, small transport companies, etc. Since the individual entrepreneurs may turn out to be risky and counterproductive for HRS for repossession in the event of failure to repay, the app provider, who has a wide data base and the recovery mechanism for fares realized, has agreed to be the co-borrower for the vehicles. Under such an arrangement, the vehicles financed will be hypothecated to HRS by the entrepreneur who is the principal borrower, fully guaranteed by the app provider. The app provider will also ensure that the used vehicle is also be handed over to another entrepreneur attached to him. Thus, only the repossessed vehicles will form the used vehicle financing segment. Agreements are proposed to be drafted with conditions for repossession within one month of default and redeployment of such vehicles for earning money, *by continuing to be hired. GPS system to be installed in the trucks will provide information to the delivery destination and the origin of loading so that better inventory management and production processes are ensured. Thus the whole new business is expected to have a huge success story, going by the success rate in the passenger car booking segment.*

In case the app provider or the app itself fails due to technical faults or user- unfriendly situation or in the event of fierce competition that this app provider may face, the large number of vehicles financed would have to be managed by another app provider or alternatives set up in-house. These could take some time.

In the near future, HRS Ltd. would like to cater to vehicle financing as in the earlier line of business, but mainly to the customers targeted through the app provider, who would be entrepreneurs in the categories of first time vehicle owners, repeat vehicle owners, small transport operators, etc. Thus, HRS is not deviating essentially from its vehicle financing activity.

HRS Ltd. has also accepted deposits from the public in the past through its country wide branches.

The financial information relating to HRS Ltd. is given in Tables 1 and 2. HRS Ltd. was promoted by HS Holdings Ltd. which has subscribed to 63% of the equity capital of HRS Ltd. There have been no negative pointers under any law on the company or its directors or management.

The company is professionally managed and has had qualified persons of repute heading the respective operations and the middle lever managers are also carefully chosen to be able to manage the country wide operations and to take decisions quickly and efficiently. The managers who have retired have done so only due to age reasons and there have been no adverse publicity in any media about any internal mismanagement or controversy.

The company proposes to issue ₹ 500 crores worth debentures comprising 50,00,000 debentures of ₹ 1,000 each face value, for a period of five years, the full value being payable on application. Most of this issue is to be used for redeeming an earlier issue which is due to mature during the next twelve months.

The company intends to patronize active trading and hence prefers to have tradability of even one debenture. There will be no option for the company to redeem earlier than the committed period nor does it allow the holder to claim redemption earlier than stipulated. Land and buildings worth ₹ 950 crores are the intended security for this offer. The debentures are proposed to be issued and redeemed at par. The rate of interest is fixed at 9.5% p.a. throughout the tenor and interest will be paid on the 30th day of June and December every year.

The company has fulfilled all the conditions under the various regulations and plans for the issue to open on 15th January, 2019 and remain open for only the minimum period required under law.

Choose the correct answers to the following questions: ***(2 Marks x 10 = 20 Marks)***

(1.1) This company is:

(A) required to disclose the debt service coverage ratio to SEBI every half year.

(B) required to disclose the debt service coverage ratio to SEBI every quarter.

(C) not required to disclose to SEBI the debt service coverage ratio except at the time of issuing the prospectus.

(D) not required to disclose to SEBI at any time any debt service coverage ratio.

(1.2) The following is true:

(A) The debenture trust deed must be signed with the debenture trustee and submitted to SEBI before every issue of debentures.

(B) The debenture trust deed can be signed with the debenture trustee after the issue of debentures.

(C) The debenture trust deed has to be signed only for and before the first issue of debentures. For subsequent different debenture issues the deed need not be signed if the trustee is unchanged.

(D) The debenture trust deed has to be signed with the debenture trustee and can be submitted to SEBI after the issue of debentures. There need not be submissions for every tranche.

(1.3) In case this company does not pay the debenture interest or the redemption amount on time, then

(A) The debenture trustee pays it on behalf of the company to the debenture holders and later recovers it from the company.

(B) The debenture trustee does not pay the holders any amount, but the debenture holders have recourse against the company by way of liquidating the assets based on which the debentures are secured.

(C) SEBI will wait for two months to lapse and suspend the trading of the debentures and enforce payment of interest.

(D) It can issue fresh debentures and use the proceeds for paying up the principal and interest overdue.

(1.4) If the redemption of debentures is drawing near and the company wants to use the funds it has set aside for redemption for some other purpose,

(A) It can, before the redemption becomes due, arrange for a fresh issue of debentures of any category and use the proceeds of issue to fund the redemption.

(B) Only the shortfall between the redemption amount and the funds set aside can be raised by a fresh issue of debentures before the due date of redemption.

(C) Only the same type of debentures can be issued afresh for funding the redemption.

(D) It cannot use the fresh issue proceeds to fund the redemption of debentures.

(1.5) For the purpose of paying interest for the first half year, the date from which the interest is to be reckoned is:

(A) from the date of allotment

(B) from the date of application

(C) from the date of deemed allotment

(D) from the record date.

(1.6) A company

(A) can list its debentures only if it has listed its equity shares in the exchange.

(B) can list its debentures even without listing its equity shares.

(C) has to list its debentures if it has listed its equity shares.

(D) is itself a listed entity and hence all its securities are tradeable on the exchange.

(1.7) Some debenture-holders of this company have not updated their addresses and their bank account numbers. Hence the interest payments sent to their bank accounts have been returned unpaid. There has not been any response to intimations from the company. Redemption is due next year. Then, for this year, the company

(A) can use this amount for other purposes such as redemption of other debentures or to provide for the redemption to these debenture-holders themselves.

(B) can write back this amount from interest expenses.

(C) cannot use this amount for any other purpose, but retain it in unpaid interest account until redemption is due.

(D) cannot use it for any other purpose but transfer it to Investor Protection Fund, treating the amount as unclaimed interest.

(1.8) The company had an earlier issue of debentures of ₹ 500 crores which is due for redemption in eleven months from now. Those debentures were secured by fixed assets consisting of land and building then worth ₹ 750 crores. The value of the land and building has now risen substantially to ₹ 950 crores and the company therefore proposes to secure these debentures also with the same assets. The current issue size is ₹ 500 crores.

(A) The same assets cannot be used for securing another issue of debentures unless the earlier issue has been redeemed in full.

(B) The cost of the underlying assets is what has to be considered for security. Hence once offered as security, it cannot be taken again as security.

(C) The company has to provide for the coverage of the shortfall in the security of ₹ 50 crores before it can issue.

(D) The company can go ahead and use the same assets for coverage of the next issue also.

(1.9) The following is true of the debenture issue given in the case study:

(A) The promoters of the company should subscribe to at least 20 per cent of the face value of the debentures viz. ₹ 100 crores worth debentures and to have a lock in period of 3 years.

(B) The promoters should subscribe to the market value of the debentures to the extent of 20 per cent of the issue value and then retain it for at least 3 years.

(C) The promoters should not subscribe to the debenture issue at all.

(D) The promoters are not required to subscribe any value, but they may do so to the extent they wish to invest or for underwriting purpose and they have no lock in period, their subscription not being compulsory.

(1.10) The company had NSE as the designated stock exchange in the earlier issue of the ₹ 500 crore debentures due for redemption in eleven months from now. BSE listing was also done. Then, the following is true:

(A) NSE has to be the designated stock exchange for this issue also. BSE listing has to be done as earlier.

(B) There can be listing on any other exchange also, but NSE has to be the designated exchange.

(C) Any recognized stock exchange can be designated for this issue. Further listing of this issue in any other exchange is optional.

(D) NSE has to be the designated exchange. Listing on BSE or other stock exchange can be optional.

(1.11) You are an analyst at a credit rating agency and are part of the team involved in the rating process of the company. Prepare a report to your director indicating:

(a) assessment of risks;

(b) rating that you would consider appropriate along with a short note on CAMEL criteria considered. *(5 marks)*

(1.12) Assuming that you are the company's senior official liaising with the investment banker to get the prospectus successfully through, how would you present the draft prospectus to SEBI for approval in accordance with the regulations prevailing as on date?

(You are required to present only the following portions of the prospectus in your answer):

(a) Introduction of the issue (the portion in capital letters forming the first paragraph relating to the issue)

(b) Credit Rating, assuming independent of your answer to (1.1) that a good rating has been given by CRISIL and India Research and Ratings

(c) Minimum Subscription

(d) *General Risks*

(e) *Issue Details*

(f) *Listing*

(g) *Objects of the Issue and Interim use of the funds*

(h) *Debt Equity Ratio (pre and post issue)*

(i) *Regulatory authorities for the Company.* *(15 marks)*

(1.13) *Write a short note on the potential benefits on the proposed new unit of business.* *(5 marks)*

Table -1

	Statement of Profit and Loss		***(Figs. in ₹ lacs)***				
	Particulars		***For the year ended March 31,***				
			2018	***2017***	***2016***	***2015***	***2014***
A	Revenue						
(i)	Revenue from Operations		122000	108000	102800	86300	78800
(ii)	Other Income		750	20	30	70	80
	Total Revenue		***122750***	***108020***	***102830***	***86370***	***78880***
B	Expenses						
(i)	Finance Costs		53700	51800	50500	43800	39000
(ii)	Depreciation and amortisation		360	330	360	400	290
(iii)	Provision and Write offs		31200	24400	21000	12900	11400
(iv)	Employee Costs		7150	5500	5800	4300	4000
(v)	Other Expenses		7000	6500	7200	6530	5410
	Total Expenses		***99410***	***88530***	***84860***	***67930***	***60100***
C	Profits before tax (A - B)		23340	19490	17970	18440	18780
D	Tax Expense after adjustment for deferred tax		800	6600	6000	6050	5600
E	Profit after tax from continuing operations (C - D)		22540	12890	11970	12390	13180
F	No. of o/s shares (lakhs)	327					
G	EPS -Basic		68.93	39.42	36.61	37.89	40.31
H	EPS - Diluted		68.93	39.42	36.61	37.89	40.31

	Nominal Value of equity share (₹/share)		*10*	*10*	*10*	*10*	*10*

Table-2

State of Assets and Liabilities		***(Figures ₹ Lacs)***				
Particulars		***For the year ended March 31,***				
	Liabilities	***2018***	***2017***	***2016***	***2015***	***2014***
A	*Shareholders' Funds*					
	Share Capital	*3270*	*3270*	*3270*	*3270*	*3270*
	Reserves and Surplus	*120610*	*110000*	*99300*	*90000*	*80500*
	Total Shareholders' Funds	***123880***	***113270***	***102570***	***93270***	***83770***
B	*Non-Current Liabilities*					
	Long Term Borrowings	*400000*	*335000*	*300000*	*290000*	*220000*
	Other Long Term Liabilities	*16000*	*14000*	*12000*	*11000*	*9000*
	Long Term Provisions	*55000*	*38000*	*25000*	*16000*	*12500*
	Total non-current liabilities	***471000***	***387000***	***337000***	***317000***	***241500***
C	*Current Liabilities*					
	Short term borrowings	*75000*	*50000*	*33000*	*26000*	*29000*
	Total Outstanding dues of creditors other than micro enterprises	*2200*	*1340*	*1180*	*750*	*850*
	Other Current Liabilities	*200000*	*180000*	*195000*	*120000*	*115000*
	Short term provisions	*4000*	*3900*	*5000*	*4100*	*2900*
	Total Current Liabilities	***281200***	***235240***	***234180***	***150850***	***147750***
D	*Total Equity and Liabilities (A+B+C)*	***876080***	***735510***	***673750***	***561120***	***473020***
	Assets					
E	*Fixed assets*					
	Property, Plant and Equipment	*1100*	*8200*	*9900*	*9850*	*9890*
	Intangible Assets	*20*	*18*	*14*	*12*	*16*
	Non-Current investments	*15000*	*14500*	*12500*	*11500*	*7000*
	Deferred Tax Assets (Net)	*4300*	*3600*	*3000*	*2500*	*2400*

	Long Term Loans and Advances	*580000*	*475000*	*440000*	*350000*	*275000*
	Total Non-Current Assets	***600420***	***501318***	***465414***	***373862***	***294306***
F	*Current Assets*					
	Current Investments	*105*	*520*	*1040*	*22130*	*20350*
	Cash and Bank Balances	*36500*	*44400*	*23600*	*47500*	*70800*
	Short term loans and advances	*238430*	*188687*	*183186*	*117003*	*86764*
	Other Current Assets	*625*	*585*	*510*	*625*	*800*
	Total current Assets	***275660***	***234192***	***208336***	***187258***	***178714***
	Total Assets (E+F)	***876080***	***735510***	***673550***	***561120***	***473020***

Answer to Case Study 1

(1.1) (D)

(1.2) (D)

(1.3) (B)

(1.4) (A)

(1.5) (C)

(1.6) (B)

(1.7) (C)

(1.8) (D) OR (A)

(1.9) (C)

(1.10) (C)

(1.11) Report to the Director, CRISIL

(a) Assessment of Risks

The various types of risks of HRS Ltd. and their assessments have been briefly discussed in the following paragraphs:

(i) **Business Risk –** The Company is banking its hopes on clients to be generated by a single app provider. Though the provider of the app has been successful in the small car segment, it is not certain whether it will succeed with truck operators since most of them may be illiterate and unable to use smart phones necessary for the App.

(ii) **Strategic Risk** – This is high in this business development. Many drivers delegate their duties to someone else. If they are going to be tracked by GPS, they may not switch on their phones and take refuge under the pretext of non-connectivity. They may have to skip rests and may be given stringent targets of travel, which they may try to achieve by driving without sleeping which may lead to accidents. Driver's and the small transport operators' electronic and mobile skills may not runon par with App provider and chances of a huge flop may be highlighted.

(iii) **Solvency, Liquidity and Default Risk –** Although the Debt Equity ratio of HRS Ltd. is in accordance with industry line i.e. 5 :1, it is still quite high. The company has further proposed an issue of ₹ 500 crore which will be utilized for redeeming an earlier issue of debentures. This may lead to default risk if the company fails to pay the interest and the principal amount.

However, due to concessional rates being prevalent in the micro finance segment from the SME companies and this market being tapped from such consumers, there is likely to be stiff competition and transfers of loans to the micro segment.

Further, for the year ended 31st March, 2018, current liabilities of the company are more than its current assets. It means that the company has got a tight liquidity position. This is a red flag which the company has to manage wisely.

(iv) **Operating Risk**- The Company has installed GPS System for providing information to delivery destination and origin of loading for better inventory management and production process. This will reduce the company's operating risk to a large extent.

Moreover, the company has made an arrangement for a backup under which if the existing app provider fails, the large number of vehicles financed would be managed by another app provider. Thus, the company has managed it's operating risk well.

(v) **Legal Risk**–It has been mentioned in the case study itself that there have been no negative pointers under any law on the company or its directors or management. So, it seems that the company has managed its legal risk well.

(vi) **Compliance Risk–**The Company has fulfilled all the conditions under the various regulations for the proposed debenture issue which is an indication that the company has managed it's compliance risk well.

Moreover, with Traffic Rules by drivers, GST rules for transit of goods by the owners of goods in transit and the truck owners (borrowers), HRS's control on the location of assets hypothecated to it and traceability of borrowers and consequent disclosure compliances by HRS itself are at stake if things do not operate smoothly. There may be also be increase in compliance costs by ensuring that insurance of not only the assets but also third party insurances are in place and the progress of claims and detention of vehicles resulting in non-utilization may have an adverse effect in repayment of the borrowings.

(vii) **Reputation Risk –**The Company has also managed it's reputation risk well as there have been no adverse publicity in any media about any internal mismanagement or controversy.

(b) Note on appropriate rating and consideration of CAMEL criteria

The most appropriate rating would be Moderate Safety.

Consideration of CAMEL criteria

(i) **Capital** – For the year ended 31st March, 2018, the Company's reserves and surplus is ₹ 120610 lakhs as compared to its share capital which is ₹ 3270 lakh. The company has a proposed borrowing i.e. debenture issue of ₹ 500 crore. However, company's debt-equity ratio of 5:1 is already highinspite of the fact it is in accordance with industry standards. And, the proposed debenture may affect its solvency position.

(ii) **Assets** – The proposed issue will not lead to any major asset expansion as most of the amount raised will be utilized for redemption of old debt. And, company's fixed assets comprising of property, plant and equipment showed a sudden decline from the year 2017 to 2018. However, intangible assets have increased. Further, company's non-current investments are manifesting a steep increase due to upsurge in company financing of vehicles.

Moreover, the company is accepting deposits from the public and hence is an NBFC PD and is also a systematically important NBFC with asset base crossing ₹ 500 crore. It has to comply with the RBI's capital adequacy ratios and other similar to banking requirements of returns and compliances, thereby monitored on par with a bank.

(iii) **Management** – The company is professionally managed and has had qualified persons of repute heading the respective operations and the middle level managers are also carefully chosen to be able to manage the country wide operations and to take decisions quickly and efficiently.

(iv) **Earnings –** Company's revenue has been steadily increasing which is giving an indication that it will be able to service its debts properly. However, it also depends upon the company liquidity position.

(v) **Liquidity –** The Company's liquidity position is tight. This is manifested in company's declining cash position especially its current assets which is reducing steeply in comparison to its current liabilities.

Thus, I would recommend an investment grade rating to this security as Moderate Safety and put the company on watch for any possible revision since the new line of financing can either be very successful or a total failure.

(1.12) INTRODUCTION:

PUBLIC ISSUE BY HRS LIMITED "COMPANY OR ISSUER OF 5,00,000 9.5% SECURED REDEEMABLE NON-CONVERTIBLE DEBENTURE OF FACE VALUE OF RS. 1000 EACH AT PAR ("NCD"), FOR AN AMOUNT AGGREGATING UP TO RS.500 CRORES. THIS ISSUE IS BEING MADE PURSUANT TO THE PROVISIONS OF SECURITIES AND EXCHANGE BOARD OF INDIA (ISSUE AND LISTING OF DEBT SECURITIES) REGULATIONS, 2008 AS AMENDED

(THE "DEBT REGULATIONS"). THE COMPANIES ACT 2013 AND THE RULES MADE THEREUNDER AS AMENDED AND TO THE EXTENT NOTIFIED.

CREDIT RATING

The NCDs proposed to be issued under this Issue have been rated 'CRISIL AA+/Stable' by CRISIL for an amount of up to ₹ 500 Crores vide its letter dated September 8th 2018 and 'IND AA+: Outlook Stable' by India Ratings and Research for an amount of up to ₹ 500 crores vide its letter dated June 8, 2018. The rating of the NCDs by CRISIL and India Rating and Research indicate that instruments with this rating are considered to have high degree of safety regarding the timely servicing of financial obligations and carry very low credit risk. The ratings provided by CRISIL and/or India Ratings and Research may be suspended, withdrawn or revised at any time by the assigning rating agency and should be evaluated independently of any other rating. These ratings are not a recommendation to buy, sell or hold securities and investors should take their own decision. Please refer to Annexure A for the rationale for the above ratings.

LISTING

The NCDs offered through this Draft Prospectus are proposed to be listed on the BSE Limited ("BSE") and the National Stock Exchange of India Limited ("NSE"). Our company has obtained an 'in-principle' approval for the Issue from the BSE vide their letter dated… and from the NSE vide their letter dated…. For the purposes of the Issue, BSE shall be the Designated Stock Exchange.

An application has been made to the NSE and the BSE for permission to deal in and for an official quotation of our NCDs. BSE has been appointed as the Designated Stock Exchange. If permissions to deal in and for an official quotation of our NCDs are not granted by NSE and/or BSE, our Company will forthwith repay, without interest, all moneys received from the Applicants in pursuance of their Draft Prospectus.

Our Company shall ensure that all steps for the completion of the necessary formalities for listing and commencement of trading at all the Stock Exchanges mentioned above are taken within 12 Working days from the date of closure of the relevant Issue.

For the avoidance of doubt, it is hereby clarified that in the event of non-subscriptions to any one or more of the Series, such NCDs with Series shall not be listed.

MINIMUM SUBSCRIPTION

In terms of the Debt Regulations for an issuer undertaking a public issue for debt securities the minimum subscription for a public issue of debt securities shall be 75% of the Issue. If our Company does not receive the minimum subscription of 75% of the Issue (as specified in the relevant) as specified in Prospects within the prescribed time lines under Companies Act and any rules thereto, the entire subscription amount shall be refunded to the Applicants within 12 Days from the date of closure of the Issue. In the event there is a delay by the issuer in making the aforesaid refund, our Company will pay interest at the rate of 15% per annum for the delayed period.

Under Section 39(3) of the Companies Act, 2013 and read with Rule 11(2) of the Companies (Prospectus and Allotment of Securities) Rule 2014 if the stated minimum subscription amount is not received within the specified period, the application money received is to be credited only to the bank account from which the subscription was remitted. To the extent possible, where the required information for making such refunds is available with our Company and/or Registrar, refunds will be made to the account prescribed. However, where our Company and/or Registrar does not have the necessary information for making such refunds, our Company and/or Registrar will follow the guidelines prescribed by SEBI in this regard including its circular (bearing CIR/IMD/DF-1/20/2012) dated July 27, 2012.

GENERAL RISKS

For taking an investment decision, investors must rely on their own examination of the issuer and the issue, including the risk involved. Specific attention of the investors is invited to the portion of the prospectus titled “Risk Factors” and “Material Developments”. This draft prospectus has not been and will not be approved by any regulatory authority in India, including the Securities and Exchange Board of India (SEBI), the Reserve Bank of India (RBI), the Registrar of Companies or any stock exchange in India.

Issuer Details:

Issuer	**HRS Ltd**
Type of Instrument	Secured Redeemable Non-Convertible Debentures
Mode of Issue	Public Issue
Insurance Mode	Physical and Demat
Call Option	Nil
Put Option	Nil
Coupon Rate	9.5%
Default Interest Rate	Delay in allotment, refunds, listing dematerialised credit, execution of debenture trust deed, payment of interest, redemption of principal amount beyond the time limits prescribed under applicable statutory and/ or regulatory requirements at such rates as stipulated/ prescribed under applicable laws.
Tenor	5 years
Redemption Date/Maturity Date	15th January 2024
Face Value	₹ 1000 per NCD
Issue Price	₹ 1000 per NCD
Redemption Premium/ Discount	Nil: Redemption is at par
Market Lot	One NCD

Pay-in-date	Application Date. The entire issue price is payable on application
Trading Mode	Dematerialised form only
Issue Opening Date	15th January 2019
Issue Closing Date	17th January 2019
Record Date	Fifteen days prior to the interest payment date and redemption date
Interest Payment Dates	30th June and 30th December every year
Securities and Asset Cover	The principal amount of the NCDs to be issued along with the interest due on the outstanding shall be secured by way of exclusive charge on specific immovable property. Our company will create appropriate security (by way of mortgage) in favour of the Debenture Trustee of the NCD holders on the assets adequate to ensure 100% asset cover for the NCDs (along with interest due thereon).

OBJECTS OF THE ISSUE

75% of the net proceeds: Not less than 75% is to be used to fund the redemption of debentures issued earlier. The debentures are due for redemption in 12 months' time. Until then the company reserves the right to keep the amounts of the issue in Government securities to earn income.

25% of the net proceeds: Not more than 25% for any other general corporate purpose.

REGULATORS OF THE COMPANY

The company is a Non-Banking Financial Company accepting deposits as is evident from its activities of asset financing and acceptance of deposits. Hence it is governed by RBI regarding capital adequacy norms (of 15%) and periodic reporting. Since its net worth is more than 500 crores, it is a Systemically Important NBFC and classified as an AFC (Asset Financing Company).

Being a company, it is also regulated by the Companies Act 2013 for operational and procedural monitoring. Having its shares and debenture listed, it is also subject to SEBI Regulations regarding issue compliances and listing obligations.

DEBT EQUITY RATIO

	Pre – Issue	**Post Issue**
Total Debt	471000	521000
Equity Shareholder's Fund	123880	123880
Debt/Equity Ratio	3.80	4.20

(1.13) Potential benefits of the proposed new unit of business are as follows:

(i) Under the new proposal, vehicles financed will be hypothecated to HRS by the entrepreneur who is the principal borrower, fully guaranteed by the app provider. So, if the principle borrower fails to make the payment to HRS Ltd., the app provider will step in and make good the loss.

(ii) The used vehicle will also be handed over to another entrepreneur attached to him. Thus, only the repossessed vehicles will form the used vehicle financing segment.

(iii) Agreements are proposed to be drafted with conditions for repossession within one month of default and redeployment of such vehicles for earning money, by continuing to be hired.

(iv) The Company has installed GPS System for providing information to delivery destination and origin of loading for better inventory management and production process.

(v) The company has made an arrangement for a backup under which if the existing app provider fails, the large number of vehicles financed would be managed by another app provider.

<u>Case Study - 2</u>

The expansion project of BON BON Limited which is under finalization is expected to consist of:

	₹ Lakhs
Capital assets	*200*
Working capital	*300*
Total	***500***

The initial scheme of raising project finance is:

11% Long Term Debt	*135*
12% Bank borrowings for working capital.	*225*
Internal accruals	*140*
Total	***500***

Extracts from the Balance Sheet of the Company as at the end of the last financial year are given in Annexure 1.

The Company's risk-free rate is 9%, market return 14% and relevant company assets beta is estimated at 1.5.

The Company has approached you, a financial and management consultant, to review the above numbers. They have also given you additional information about the project which is given in the Annexure 2.

Upon an initial study of the given information, the first thought that strikes you is that Adjusted Present Value (APV) should be calculated to test whether the project is worth undertaking; also, that the plan of financing should be re-cast.

Choose the correct answers to the following questions: ***(2 Marks x 10 = 20 Marks)***

(2.1) Gross working capital means

(A) total value of inventories and securities

(B) cash and items convertible into cash at short notice

(C) total current assets

(D) total value of fixed and current assets

(2.2) Negative working capital means

(A) when current assets are less than current liabilities

(B) the outstanding short term loans of an organisation

(C) bank overdraft taken by an institution

(D) the amount of current liabilities

(2.3) Adjusted present value method is used to

(A) determine the validity of a project

(B) decide the present value of a business

(C) measure the value of the inventories

(D) determine the current value of receivables.

(2.4) Determine which of the following is not part of bank financing:

(A) term loans

(B) packing credit

(C) overdraft

(D) commercial paper

(2.5) Bill discounting deals with

(A) accounts receivables

(B) inventories

(C) fixed assets

(D) goodwill

(2.6) Which one of the following does not fall within the scope of credit rating?

(A) Opinion in regard to a debt instrument

(B) Opinion based on an evaluation of business risks

(C) Opinion on the probability of meeting the interest and principal obligations of a business

(D) Opinion on a holding company, its subsidiaries and associates

(2.7) Which of the following is incorrect as regards the functioning of an investment banker?

(A) they help in raising capital for the client

(B) they take deposits from their customers

(C) they act as an intermediary for their customers in relation to their dealings

(D) they earn an underwriting commission as part of business.

(2.8) In connection with a public issue of shares, merchant bankers are responsible to follow the regulations prescribed by

(A) RBI

(B) SEBI

(C) IRDAI

(D) Insolvency Board of India

(2.9) Which one of the following does not form part of treasury management?

(A) cash management

(B) management of interest, currency and commodity risks

(C) inventory control

(D) liquidity planning and control

(2.10) Factoring concerns itself with the management of

(A) fixed assets

(B) accounts receivable

(C) stock in trade

(D) accounts payable

In the light of the information supplied above, answer the following:

(2.11) What is Adjusted Present Value (APV) in the context of project feasibility? Calculate the APV for the above project and state your view on acceptability. *(4 marks)*

(2.12) Is the debt option as proposed viable for the company? Would you suggest any other alternative? (4 marks)

(2.13) State what changes you would like to recommend to the project financing plans, briefly explaining each change. (4 marks)

(2.14) Rewrite and show the project financials after taking into account the changes you recommend. (18 marks)

ANNEXURE 1

BON BON LIMITED

BALANCE SHEET SUMMARY- ACTUALS FOR THE LAST TWO YEARS

Year ended 31st March (In Rs Lakhs)

	2018	**2017**
Share Capital :		
Shares of ₹10 each	50	50
Reserves	200	140
11% Long Term Debt	250	300
12% Bank borrowings	120	125
Total	**620**	**615**
Fixed assets	140	150
Net Current assets	480	465
Total	**620**	**615**

ANNEXURE 2

PROJECT CASH FLOWS & OTHER DETAILS

Amounts in ₹ Lakhs

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Sales:					
Domestic	540	780	1320	1500	1350
Exports	360	520	880	1000	900
Total	**900**	**1300**	**2200**	**2500**	**2250**
Profit before depreciation	180	350	400	500	450
Less:					
Depreciation	38	38	38	38	38
Interest:					
LT Debt	8	14	12	9	6

Short term debt	*7*	*27*	*27*	*27*	*27*
Profit before Tax	*127*	*271*	*323*	*426*	*379*
Less: tax	*44*	*95*	*113*	*149*	*133*
Profit after Tax	*83*	*176*	*210*	*277*	*246*
Cash in-flow:					
PAT + Dep+ Int	*136*	*255*	*287*	*351*	*317*
Terminal in flow:					
Capital assets					*10*
Working capital assets					*300*
Total	***136***	***255***	***287***	***351***	***627***

PROJECT- INTEREST WORKINGS

Amounts in ₹ Lakhs

	Year 1	***Year 2***	***Year 3***	***Year 4***	***Year 5***
LT Debt:					
Amount outstanding at the start of the year	*-*	*135.00*	*121.50*	*94.50*	*67.50*
Additions during the year	*135.00*				
Repayment during the year	*-*	*13.50*	*27.00*	*27.00*	*27.00*
Amount outstanding end of the year	*135.00*	*121.50*	*94.50*	*67.50*	*40.50*
Interest at 11% on average outstanding	*7.43*	*14.11*	*11.88*	*8.91*	*5.94*
Rounded off	*8.00*	*14.00*	*12.00*	*9.00*	*6.00*
WC borrowing:					
Amount outstanding at the start of the year	*112.50*	*225.00*	*225.00*	*225.00*	*225.00*
Interest at 12%	*6.75*	*27.00*	*27.00*	*27.00*	*27.00*

Answer

(2.1) (C)

(2.2) (A)

(2.3) (A)

(2.4) (D)

(2.5) (A)

(2.6) (D)

(2.7) (B)

(2.8) (B)

(2.9) (C)

(2.10) (B)

(2.11) What is APV & Its Use

If in an exercise of project viability analysis, a scheme of financing its assumed and the cash flows are then calculated, it would imply that the investment decision and the financing decision are integrated. Such a course of analysis could lead to justification of an otherwise risky project because of choice of finance.

It would be ideal to assess financing decision and investment decision separately. It is here that the APV technique comes in handy. The APV helps to look at justification of the project based on a cut-off rate that is not influenced by debt and tax shield; it also helps to identify and isolate the impact of debt financing.

CALCULATION OF ADJSUTED PRESENT VALUE (APV)

Working

1. **Cost of Equity using CAPM**

   Re = Rf + β (Rm – Rf)

   = 9% + 1.5% + (14% - 9%)

   = 16.5%

   APV = Base NPV + PV of Tax Benefit of Debt

2. **Calculation of Base NPV**

   Cash Inflow from the project

	Year 1	Year 2	Year 3	Year 4	Year 5
Profit before Depreciation	180	350	400	500	450
Less: Depreciation	38	38	38	38	38
	142	312	362	462	412
Less: Tax	50	109	127	162	144
	92	203	235	300	268
Add: Depreciation	38	38	38	38	38
Cash Flow	130	241	273	338	306
PV @ 16.5%	0.858	0.737	0.632	0.543	0.466
PV	112	178	173	184	143

Total PV of Inflows = 790

PV of Cash Outflows = 500

Base NPV = 290

3. Present Value of Impact of Financing

	Year 1	Year 2	Year 3	Year 4	Year 5
Interest:					
LT Debt	8	14	12	9	6
Short Term Debt	7	27	27	27	27
	15	41	39	36	33
Tax Saving @ 35%	5.25	14.35	13.65	12.6	11.55
PV Factor @ 9%	0.917	0.842	0.772	0.708	0.650
PV	4.81	12.08	10.54	8.92	7.51

Total PV of Tax saving from debt = 43.86

Now, APV = Base NPV + PV of Tax Benefit from Debt

= 290 + 43.86 = 333.86 lakhs

Alternatively, above PV of Tax Saving can also be computed at Cost of Debt which is as follows:

$$\frac{135}{135+225} \times 0.11 + \frac{225}{135+225} \times 0.12$$

$$= \frac{135}{360} \times 0.11 + \frac{225}{360} \times 0.12$$

= 0.04125 + 0.075 = 0.11625 or say 11.63%

	Year 1	Year 2	Year 3	Year 4	Year 5
Interest:					
LT Debt	8	14	12	9	6
Short Term Debt	7	27	27	27	27
	15	41	39	36	33
Tax Saving @ 35%	5.25	14.35	13.65	12.6	11.55
PV Factor @ 11.63%	0.896	0.802	0.719	0.644	0.577
PV	4.70	11.51	9.81	8.11	6.66

Total PV of Tax saving from debt = 40.79

Thus, APV = 290 + 40.79 = ₹ 330.79 lakhs.

As the APV of the expansion project of BON BON Limited is positive, the project can be accepted.

(2.12) Viability of the proposed debt option:

The present LT debt/equity ratio of the company is

250/ (50 +200), that is, 1.

It will be good to maintain this ratio.

With the proposed financing option the ratio will change as:

(250 + 135) / (50 + 200 + 140) = 0.99

Hence the proposed LT debt option is quite viable and need not be changed.

(2.13) Suggested Modifications:

(i) In place of the previous proposal of financing the expansion project by issuing 11% Long Term Debt of ₹ 135 lakhs, the project is now proposed to be financed by the issuance of Equity Share Capital of ₹ 135 lakhs.

The reason is simple. Previous proposal leads to increasing the debt equity ratio of the company which will unnecessarily enhance the interest burden of the company.

(ii) It would be prudent to continue with the previous proposal of meeting the working capital needs of the company through the 12% Bank borrowing.

The reason is that it would not be wise or feasible to finance the working capital requirements of the company with equity share capital which is a long term financing option.

(2.14) After taking into account the recommended changes as above in 2.13, the project financials are as follows:

PROJECT CASH FLOWS AND OTHER DETAILS

Amounts in ₹ Lakhs

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
Sales:					
Domestic	540	780	1320	1500	1350
Exports	360	520	880	1000	900
Total	**900**	**1300**	**2200**	**2500**	**2250**
Profit before depreciation	180	350	400	500	450
Less:					
Depreciation	38	38	38	38	38
Interest on short term debt	7	27	27	27	27

Profit before Tax	135	285	335	435	385
Less: Tax @ 35%	47	100	117	152	135
Profit after Tax	88	185	218	283	250
Cash in-flow:					
PAT + Dep + Interest	**133**	**250**	**283**	**348**	**315**
Terminal in-flow:					
Capital assets					10
Working capital assets					300
Total	**133**	**250**	**283**	**348**	**625**

Cash Inflow from the project*

	Year 1	**Year 2**	**Year 3**	**Year 4**	**Year 5**
Profit before Depreciation	180	350	400	500	450
Less: Depreciation	38	38	38	38	38
	142	312	362	462	412
Less: Tax	50	109	127	162	144
	92	203	235	300	268
Add: Depreciation	38	38	38	38	38
Cash Flow	130	241	273	338	306
PV @ 16.5%	0.858	0.737	0.632	0.543	0.466
PV	112	178	173	184	143

Total PV of Inflows = 790

PV of Cash Outflows = 500

Base NPV = 290

*** In this case, Net Present Value is same as calculated under 2.11 because the interest factor has not been considered here as it an evaluation of expansion project.**

PROJECT – INTEREST WORKINGS

Amounts in ₹ Lakhs

Particulars	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**
WC Borrowings:					
Amount outstanding at the start of the year	112.5	225	225	225	225
Interest at 12%	6.75	27	27	27	27

Case Study - 3

The details relating to repo/reverse repo transactions are given in Tables 1 and 2.

Table 1:

Details	***7.5% 2025 G-Sec***	***GoI 91 day T Bill maturing on 31-01-2019***	***9% Corporate Bond maturing on 8th July, 2020***
	I	*II*	*III*
Market value per security on 15/11/2018 (₹)	*96.9000*	*98.6000*	*99.5000*
Market value per security on reversal date (₹)	*96.9485*	*98.6493*	*99.5498*

Table 2:

Common Parameters	
Repo Period	*7 days*
Repo Commencement Date	*16th November, 2018*
Coupon Dates	*8th January and 8th July every year*
Face Value of security	*₹ 100*
Day Count Convention	*30/360 for coupons and actual/365 for repos*
Repo Interest Rate	*6.5%*
Value of securities	*To be calculated to four decimal places*
Number of securities	*To be rounded off to the next higher integer*

Assume all entities in this case study are Indian entities.

Answer the following questions: ***(2 Marks x 10 = 20 Marks)***

(3.1) The following is true:

- *(A) Repos can be traded on a recognized stock exchange.*
- *(B) Repos are solely privately traded transactions between a borrower and a lender and are reversed between the parties at a pre-determined date.*
- *(C) Repos are entered into between two parties, one of whom should be a banking entity.*
- *(D) Repos must have RBI as one entity.*

(3.2) In India, repos shall be undertaken for

- *(A) a minimum period of three days*
- *(B) a minimum period of one day*

(C) a maximum period of 270 days

(D) for a maximum period of one month, subject to renewal every month, upto 270 days.

(3.3) If 'E' is an entity that wishes to participate in repo/reverse repo transaction under LAF (Liquidity Adjustment Facility); then the following is true:

(A) Securities under Columns I, II and III are eligible, provided Column III is listed.

(B) Securities only under Columns I and II are eligible.

(C) Entity 'E' itself is not eligible if it is not a banking company.

(D) 'E' cannot borrow funds under LAF even if it is a banking company, irrespective of the securities' eligibility.

(3.4) The following is not true: (consider 'E' to be an eligible entity)

(A) Any regulated entity can participate in a repo transaction.

(B) Exim Bank can buy or sell repos from/to entity 'E'.

(C) An unlisted company can never participate in a repo transaction.

(D) Any entity approved by RBI can participate in a repo transaction.

(3.5) Suppose entity 'E' is an eligible entity and wants to enter into a repo transaction with Bank 'B' for market value of T bills and CDs of ₹ 500 crores and ₹ 200 crores respectively, then, the amount of borrowing can be (in ₹ Crores)

(A) 98% of 500 + 98% of 200

(B) 500 + 98% of 200

(C) 98% of 500 + 200

(D) 500 + 200

(3.6) The following is true of the coupon interest on column I of Table 1 securities assuming E is the receiver of funds in the first leg of the agreement and 'K' is the other party :

(A) Interest from 8-7-18 to 16-11-18 accrues to 'E'. Interest from 16-11-18 to the date of reversal accrues to K.

(B) K will receive the interest and it is entitled to retain 7 days' interest and has to pay 'E' the balance interest on receiving the interest.

(C) K is not entitled to any portion of the interest. On receipt of the coupon interest amount, it has to hand it over to 'E'.

(D) No interest is handed over by K. The repo repayment is adjusted for interest due to 'E' for the 7 day period.

(3.7) On 16-11-2018, when 'E' sells the securities under repo to K,

(A) E sells at the prevailing market related price (say 'x') and repurchases on reversal date at the same price (x).

(B) E can sell at x, but repurchase has to be at market related price on repurchase date (say 'y') and y can be different from x.

(C) Repurchase will have to be at x plus the repo interest for the duration of the first leg.

(D) 'E' can sell at an amount agreed to by the repo agreement, say 'z' which can be different from 'x' and has to repurchase it at 'z' plus interest for the repo period.

(3.8) Suppose that 'E' had made a bid for a term repo of 14-day tenor under the LAF through a variable rate auction mechanism, then

(A) 'E' can be any entity that accepts deposits.

(B) 'E' can be any entity, provided it is regulated by SEBI

(C) E has to be a scheduled commercial bank

(D) E can be an NBFC, RRB or a commercial bank, provided RBI regulates it.

(3.9) Assuming that 'E' is an eligible participant in a variable rate term reverse repo of 7 days, for E to be a successful bidder, it should have bid a rate

(A) below the cut off rate

(B) at or above the prevailing reverse repo rate

(C) at or above the cut off rate

(D) at or above the reverse repo rate.

(3.10) The following is in ascending order:

(A) Bank rate, reverse repo rate, repo rate.

(B) Bank rate, repo rate, reverse repo rate

(C) Repo rate, reverse repo rate, bank rate

(D) Reverse repo rate, repo rate, bank rate

Answer the following questions:

(3.11) Suppose entity 'E' wants to raise funds based on the above securities (in table 1), under a ready forward agreement by selling and simultaneously agreeing to repurchase after 7 days and that 'E' wants your computations on a per security basis for each of the given securities, show the following values: consideration for the first leg of the transaction and the consideration for the second leg showing clearly in your tabulation, who pays what amounts to whom on which dates under the repo deal based on a per security basis. Assume that 'E' has adequate number of each type of security for the purpose. Consider 'K' as the other party. *(10 marks)*

(3.12) Discuss the impact of the above transaction on the coupon interests on the securities on the due dates and in the intervening period of the repo/reverse repo. What happens if the coupon date falls in the repo period? (4 marks)

(3.13) Which entity owns the securities and for what period? Discuss from the start date to reversal date, assuming that 'E' is one party and the other is 'K'. (2 marks)

(3.14) How many securities will it have to offer in order to raise an amount of ₹ 5 crores? You may assume a haircut of 2% for the corporate bonds only. (4 marks)

(3.15) Suppose 'E' is an entity having to obey the prescribed capital adequacy norms of RBI, discuss the implication of the above transaction in terms of the CRR (Cash Reserve Ratio) and SLR (Statutory Liquidity Ratio) requirements. (4 marks)

(3.16) In case 'E' is a company and under conditions-as per (1) above, if there is another company 'B' who is willing to lend the funds to 'E' on a longer repo period, say 6 months and at a lower rate of 5.75%, will there be any violation of any regulation if 'E' agrees to such an offer? Discuss. (4 marks)

(3.17) Suppose that RBI conducts a seven day term repo auction and 'E' participates in the term repo auction, then, will 'E' have more funds or lesser funds if it is successful in the auction ? Explain briefly. *(2 marks)*

Answer

(3.1) (A)

(3.2) (A)

(3.3) (C)

(3.4) (C)

(3.5) (B)

(3.6) (B) or (C)

(3.7) (D)

(3.8) (C)

(3.9) (A) or (C)

(3.10) (D)

(3.11)

Detail for Entity "E			
"Securities that are available for offer as collateral	7.5% 2025 G Sec	GoI 91 day Treasury Bill maturing on 31st Jan 2019	8% Corporate Bonds maturing on 8th July, 2020
Face Value per security	100	100	100
Market value of security on 15/11/18	96.9000	98.6000	99.5000
Repo period (days)	7	7	7
Repo commencement date	16th November 2018		
Repo interest rate	6.50%	6.50%	6.50%
Haircut			0.02
Market value of security on reversal date	96.94845	98.6493	99.5498
No of securities for a borrowing of ₹ 5 crores, round off to the next higher integer	516000	507100	502510
Compute the following per security:			
Broken period	132	0	132
Broken period interest (first leg) on 16/11/18	2.75000	0.0000	3.3000
Considerations for the first leg (K will pay E)	99.6500	98.6000	100.8100
Repo interest	0.1242	0.1229	0.1257
Consideration for the second leg (E will pay K)	99.7742	98.7229	100.9357

Alternative Solution

<u>7.5% 2025 G-Sec</u>

(i) **Dirty Price** = Clean Price + Interest Accrued

= ₹ 96.9000 + ₹ 100 x 7.5/100 x 132/365

= 99.6500

(ii) **First Leg (Start Proceed)**

= Nominal Value x (Dirty Price/100 x 100 – Haircut/100)

= 100 x (99.65/100 x 100 – 0/100)

= ₹ 99.65

(iii) **Second Leg (Repayment of Maturity)**

= Start Proceed x (1 + Repo Rate x No. of Days/365)

= ₹ 99.65 x (1 + 0.065 x 7/365)

= ₹ 99.7742

GOI 91 day T Bill

(i) Dirty Price = Clean Price + Interest Accrued

Dirty Price = ₹ 98.6000 + 0 = ₹ 98.6000

(ii) First Leg (Start Proceed)

₹ 98.6000

(iii) Second Leg (Repayment of Maturity)

₹ 98.6000 x (1 + 0.065 x 7/365)

= ₹ 98.7229

9% Corporate Bond maturing on 8th July, 2020

(i) Dirty Price = 99.5000 + 100 x 9/100 x 132/365 = ₹ 102.80

(ii) First Leg (Start Proceed)

= ₹ 102.80 (100 – 2/100)

= ₹ 100.8100

(iii) Second Leg (Repayment of Maturity)

₹ 100.8100 x (1+ 0.065 x 7/365)

= ₹ 100.9357

Table showing values, parties and date of Repo Transactions

	First Leg	Second Leg	Pay	Receives	Date
7.5% 2025 G-Sec	₹ 99.6500	----	K	E	16/11/2018
	----	₹ 99.7742	E	K	23/11/2018
GOI 91 day T Bill	₹ 98.6000	----	K	E	16/11/2018
	----	₹ 98.7229	E	K	23/11/2018
9% Corporate Bond	₹ 100.8100	----	K	E	16/11/2018
	----	₹ 100.9357	E	K	23/11/2018

(3.12) The repo seller is the borrower of funds and the securities are accounted for by E as the owner of the securities, though they are handed over to the buyer of the repo (lender of funds). As per the terms of the repo, the intervening period's coupon interest belongs to the original owner of the securities and has to be accrued by E. On the coupon date, though the other party (repo buyer) will receive the interest, it has to hand over the interest to the repo seller 'E' on the date of receipt of the coupon interest. The repo terms provide only for the repo interest during the period. The first leg of the repo has as consideration also the broken period interest up to the date of the repo from the last coupon date. The interest for the second leg is on the amount borrowed plus the broken period interest and this is the amount paid by the borrower 'Ë' to K. For E, values of interest on amount borrowed.

Thus, there will be no impact of the above transaction on the coupon interests on the securities on the due dates and in the intervening period of the repo/reverse repo.

If the coupon date falls in the repo period, it will be received by the buyer of securities. It is similar to the concept of cum-dividend price of share where if the coupon date falls in the repo period, it belongs to the buyer of securities.

(3.13) E is the seller of the repos, borrower of the funds and sells the securities, but due to the repurchase agreement, it continues to show them as its investments, reflecting its continued economic interest in the securities in the repo period. Securities are physically handed over to the lender of funds, K, who is the buyer of the repo. E will mark them to market, classify them as per norms and enjoy the coupon interest in the repo period. K is merely a lender of funds, holder of the securities physically and on record of the security issuer, but has no right to part with the security or enjoy it's interest.

(3.14) (i) Securities to be offered to raise an amount of ₹ 5 crore in case of 7.5% 2025 G-Sec

= ₹ 5 crores/₹ 96.9000 = 516000

(ii) Securities to be offered to raise an amount of ₹ 5 crore in case of GOI 91 day T Bill

= ₹ 5 crores/₹ 98.6000 = 507100

(iii) Securities to be offered to raise an amount of ₹ 5 crore in case of 9% Corporate Bond maturing on 8th July, 2020

= ₹ 5 crores/₹ 99.5000 = 502510

(3.15) Funds borrowed on column I and II securities will be exempt from CRR/SLR computation. However, for III, these borrowed funds shall be reckoned as liabilities for the CRR and SLR.

(3.16) There is no violation regarding the duration. But RBI stipulates that no party shall enter into repos below the repo rates prescribed by RBI from time to time and without the minimum haircuts prescribed by RBI.

(3.17) It seems that E will have more funds if it is successful in the auction.