

MBA-BF (520)

Credit Analysis and Advances

Credit Hours: 2

LH: 32

Course Objectives

The objectives of the course is to enhance the knowledge of students on Credit Analysis and Advances of banking business. The course is also enriching the students' understanding about various banking products on retail and corporate front, mater the risk and credit Processes followed by a banker. The course also gives emphasis on enhancing critical analytical skills needed to a banker while considering the qualitative and quantitative aspects of a client's proposal. The course also focuses light on Understanding of documentation and monitoring processes.

Course Description

This course is designed to discuss the general concept of Credit Analysis and Advances for the business students. It will equip students with a framework of understanding and analyzing the data by using various banking techniques regarding Credit and Advance analysis. Major topics include the Principles of Lending, Types of Borrowers, and Types of credit facilities, Credit appraisal and Credit Rating. Letter of Credit, Risk management in Banks, Documentations, Retail Loans and Financial statement analysis.

Learning Outcomes

Students who successfully complete this paper will be able to:

- develop key concepts of credit analysis from a micro perspective
- apply credit analysis to assess borrowers in real cases
- conceptualize various products and processes in retail & corporate lending organizations with team structure and key terms
- perform ratio analysis and cash flow analysis
- take decision on how, whom and what to lend, controlled, monitored and managed manner
- identify and work-out problem loans

- evaluate auto loans and housing loans

Unit I

5 LH

PRINCIPLES OF LENDING AND BORROWERS

Principles of Lending: Safety, Liquidity, Profitability, Purpose of Loan, Diversification Risk. Model Credit Policy: Importance, Contents, Exposure Norms,

Types of Borrowers: Individuals - Major, Minor, Married Women, Illiterate Persons, Agent, Attorney, Joint Borrowers, Family, Proprietorship Firms, Partnership Firms, Limited companies, Statutory Companies, Holding Companies, Government Companies, Private & Pubic Limited Companies, Registration of charges.

Unit II

5 LH

CREDIT FACILITIES

Cash Credit, Overdrafts, Demand Loan, Bills Finance - Drawee Bill Scheme, Bills Discounting. Credit Delivery Facilities, Modes of Delivery, Sole Banking Arrangement, Multiple Banking Arrangement, Consortium Lending, Syndication. Credit Thrust, Credit Priorities, Credit Acquisitions, and Statutory& Regulatory restrictions on Advances.

Unit III

4 LH

VEHICLES LOAN

Auto loans an overview in Nepal. Commercial vehicle loans, Two wheeler Loans, understanding usage-based categories-Personal usage, Commercial usage, Retail and strategic Customers, Load carriers, and Passengers Carriers. Market sourcing, Dealers and Direct market. Vehicle Loan Process: Risk Profiling- Assets and Customers Profiles and EMI. Post-Sanction process and modalities, Importance of insurance, Invoicing and assets verification, Monitoring of a Loan Contract.

Unit IV

4 LH

HOUSING FINANCE

Housing finance in Nepal an overview of home loan, its features and various players in it. Business model of home loans in Nepal, Key Terminologies related to home loans such as Loan amortization, Capitalization of interest, Loan to value ratio, Debt burden ratio (DBR), etc. Different types of Home loan products.

Unit V

4 LH

CREDIT APPRAISAL AND BANKS DEPOSIT

Credit Appraisal: Validation of proposal, Dimensions of Credit Appraisals, Six “C” s, Structuring of Loan documents, Credit Risk Rating, Credit Worthiness of Borrower, Purpose of Loan, Source of Repayment, and Collateral. Different Types of Deposit and Advances of Banks

Unit VI

3 LH

LETTER OF CREDIT AND LOAN COMMITMENTS

Concept of Letter of Credit (LC) and Types-Risks faced in Letter of Credit, Loan commitments, Un-funded lines of credit and their characteristics, Potential credit risk in loan commitments and un-funded lines of credit

Unit VI

2 LH

RISK MANAGEMENT IN BANKS

Types of Risks-Credit risk, operational risk, and market risk; Asset Liability Management(ALM)-Concept, organization and techniques (an overview).

Unit VIII

2 LH

DOCUMENTATION-CONCEPTUAL AND PRACTICAL ASPECTS

Documentation involved in the lending process according to various assets and profiles as per NRB directives. The liabilities of Borrowers and Lenders, Execution, Loan Agreement, Relevance to Pact of Agreement etc. Post sanction process, NPA and Recovery management as per NRB Directives. Legal Ways of Recovering Moneys

FINANCIAL STATEMENT ANALYSIS

Objectives, Introduction, Ratio Analysis, Liquidity Ratios, Turnover Ratios, Profitability Ratios, Leverage Ratios, Market Ratios, Elements of Cash Flow Statement , Non-Financial Analysis. Qualitative aspects of the clients.(This unit designed for Project and Case Analysis).

Suggested Readings

1. Uppal RK, Rimpi Kaur, Banking Sector Reforms in India, New Century Publications, New Delhi
2. Agarwal OP, Banking and Insurance, Himalaya Publishing House, Mumbai
3. VijayaragavanIyengar, Introduction to Banking, Excel Books, New Delhi
4. The Indian Institute of Bankers, Modern Banking, Mumbai
5. Indian Institute of Banking and Finance, Risk Management, Mumbai
6. Morton Glantz, Johnathan Mun, (Latest Eds.), The Banker's Handbook on Credit Risk Implementing Basel II, Academic Press is an imprint of Elsevier
7. Garrison, R.H., Noreen, E.H., & Brewer, P.C. (Latest Eds.), Managerial Accounting, New Delhi: Tata McGraw Hill Education Pvt. Ltd.
8. Hilton, R.W., Ramesh, G., &Madugula, J. (Latest Eds.), Managerial Accounting, New Delhi: Tata McGraw Hill Education Pvt. Ltd.
9. BAFIA (Nepal Rastra Bank)
10. All NRB Directives
11. Various Publications of NRB and Ministry of Finance Nepal
12. Commercial Bank Act Nepal
13. Nepal Rastra Bank Act

MBA – BF (518)

Financial Risk Management

Credit Hours: 2

LH: 32

Course Objectives

The basic purpose of this course is to develop a foundational concept of financial risk management and to acquaint the students with the tools, techniques, and processes of identifying, measuring and controlling risk exposure in an effective manner.

Course Description

The course offers an introduction into the evolving and expanding practice of financial risk management, including knowledge of the process of identifying, quantifying and managing various risk exposures. The course analyzes and discusses the various sources of risk, particularly market, credit, and operational risks.

Learning Outcomes

Students who successfully complete this paper will be able to:

- familiarize with the conceptual framework of financial risk management
- measure and hedge market risk
- measure and control operational risk
- measure and manage credit risk

Course Contents

The following topics have been selected for the course. Each topic will be explored in relation to existing literature, its relevance and practices in the Nepalese context.

Unit I

6 LH

Introduction to Financial Risk Management

Risk versus return for investors and companies. Approaches to managing risk. Scope of risk. Measuring risk. Calculating risk. Financial risk and actuarial risk. Types of financial risk. Managing financial risk.

Unit II

10 LH

Market Risk Management

Sources of market risk - Currency risk, Fixed income risk, Equity risk and Commodity risk. Measurement of market risk. Value at risk (VAR) measure - Concept, Parameters and Elements of VAR. Hedging linear and Nonlinear market risk.

Unit III

8 LH

Operational Risk Management

Importance of operational risk. Identifying operational risk. Assessing operational risk - Comparison of approaches and actuarial models. Managing operational risk - Capital allocation and Insurance, Mitigating operational risk and Conceptual issues.

Unit IV

8 LH

Credit Risk Management

Settlement risk. Overview of credit risk. Measuring credit risk. Credit risk diversification. Credit derivatives and structured products. Managing credit risk - Measuring the distribution of credit losses, Expected credit loss and credit VAR. Portfolio credit risk models.

Suggested Readings

- Philippe Jorion. *Financial Risk Manager Handbook*.
- John Hull. *Options, Futures and Other Derivatives*.
- Peter Christofersen. *Elements of Financial Risk Management*.
- Jonathan Mun. *Modeling Risk: Applying Monte Carlo Simulation, Real options Analysis, Forecasting and Optimization Techniques*.
- John Marthinsen. *Rish Takers: Uses and Abuses of Financial Derivatives*.
- Allen, Steve L. *Financial Risk Management: A Practitioner's Guide to Managing Market and Credit Risk*

MBA-BF (519)

Financial Decision Analysis

Credits: 2

LH: 32

Course Objectives

This course aims to provide an understanding of the concept and principles of financing structure and thus develop analytical skill particularly in taking appropriate financing decision.

Course Description

The course covers specific area of financial decision making. The course begins with an introduction to capital structure theory and acquaints students with skills of analyzing different types of short term, intermediate term and long term sources of funds for making financial decision. Then it deals with various aspects of dividend decisions.

Learning Outcomes

Students who successfully complete this paper will be able to:

- familiarize with the conceptual framework of capital structure theory.
- compare cost and benefits of different sources of short term financing.
- examine term loan as a source of financing and analyze leasing versus purchasing of assets for making decision.
- evaluate long term debt, preferred stock and common stock as sources of long term financing.
- explain different aspects of dividend decisions

Course Details

Unit I

LH 5

Capital Structure Theory

Introduction; Approaches to capital structure: NI approach, NOI approach, and traditional approach; Modigliani and Miller position: Arbitrage argument; Corporate and personal taxes; Effect of bankruptcy costs and agency costs; Pecking order theory; Empirical evidence concerning capital structure.

Unit II

LH 7

Short Term Financing Decision

Sources of short term financing, unsecured sources -Trade credit, Accruals, Commercial paper. Secured sources- Bank loans, Inventory financing, Account receivable financing; Costs of sources of short-term financing.

Unit III

LH 7

Intermediate Financing

Term loans: characteristics of bank term loan, terms of loan, loan installment and repayment schedule; Lease financing: significance, types of leasing (operating, financial, sales and lease back, direct), determination of lease rent by lesser; Leasing versus owning decision (present value cost and IRR method of analysis)

Unit IV

LH 8

Long Term Financing

Rights of holders of common stock; Nature of voting rights: cumulative and non-cumulative voting; Preemptive right; Use of rights in financing: value of rights and effect on shareholders wealth. Characteristics and instruments of long term debt, decision on the use of long term debt, Characteristics and use of preferred stock financing. Refunding decision of debt and preferred stock under present value approach

Unit V

LH 5

Dividend Decision

Factors affecting dividend policy, Dividend Payment Procedure, Dividend payout scheme, Dividend policy and value of firm, cliental effect, Dividend versus stock repurchases Dividend distribution practices in Nepal.

Suggested Readings

1. Van Horne, James C., Financial Management and Policy: PHI, New Delhi
2. Weston, J. Fred and Thomas E. Copeland, Managerial Finance: The Dryden Press, NY
3. Copeland, T.E., Weston, J.F., Shastri, K., & Katz, J.M., Financial Theory and Corporate Policy: Pearson, New Delhi

MBA-BF (521)

Investment Management and Security Analysis

Credits: 2

LH: 32

Course Objectives

The basic purpose of this course is to provide the students with knowledge of principles and theories of investment and develop analytical skills for appraisal of securities and management of investible funds from the viewpoint of investors particularly in the context of Nepal.

Course Description

This course provides a broad overview of investment environment, trading of securities in financial market, mutual fund and other investment companies, capital allocation and optional risky portfolios, equilibrium in capital market and market efficiency, fixed income securities analysis, common stock analysis, economic and industry analysis and active portfolio management. This course also provides an overview of these topics in the context of Nepal.

Learning Outcomes

Students who successfully complete this paper will be able to:

- understand investment opportunities and investment environment.
- familiarize with financial market and trading system of securities.
- construct risky and complete portfolios given the risk aversion of investors
- use CAPM and APT approach in making investment decision
- analyze security in terms of risk and return.
- evaluate portfolio performance.

Course Details

Unit I

LH 1

The Investment Environment

Types of investment; investment process; financial markets and the economy; ongoing trends of investment; and investment environment in Nepal.

Unit II **LH 4**

Financial Market and Trading of Securities

Market and Instruments: the money market and capital market; equities securities; stock and bond market indexes. Trading of Securities: issue of securities; trading of securities; markets for trading securities—trading on exchanges, trading on the OTC market; trading costs; buying on margin; short sales; and regulation of securities markets.

Unit III **LH 3**

Mutual Funds and Other Investment Companies

Investment companies; types of investment companies; mutual funds; costs of investing in mutual funds; mutual fund investment performance; and mutual funds in Nepal.

Unit IV **LH 8**

Risk Aversion, Capital Allocation and Risky Portfolios

Risk Aversion: risk and risk aversion; capital allocation across risky and risk-free portfolios; portfolios of one risky and a risk-free asset; the capital market line; portfolio of two risky assets. Optimal Risky Portfolios: diversification and portfolio risk; the Markowitz portfolio selection model.

Unit V **LH 8**

Equilibrium in Capital Market

The Capital Asset Pricing Model: introduction; security market line; practicality of the CAPM; extensions of the CAPM. Arbitrage Pricing Theory: arbitrage opportunities and profits; the APT and well-diversified portfolios; a multifactor APT.

Unit VI **LH 6**

Securities Analysis

Fixed-income Securities Analysis: bond characteristics; bond pricing and default risk; bond yields; bond prices over time; the term structure of interest rates: the term structure under certainty; measuring the term structure; interest rate uncertainty and forward rates. Common Stock Analysis: Technical analysis and Fundamental analysis

Unit VII **LH 2**

Portfolio Performance Evaluation

Measuring investment returns; the conventional theory of performance evaluation; performance measurement with changing portfolio composition; market timing; evaluating performance evaluation; and performance attribution procedures.

References

1. Bodie, Z., Kane, A., Alan, M. J. & Mohanty, P. (2015). Investments (10th ed). New Delhi: Tata McGraw Hill.
2. Reilly, F. K. & Keith, C.B. (2012). Investment analysis and portfolio management (10th ed). New Delhi: Cengage Learning (India) Private Limited.
3. Sharpe, W.F., Gordon, J.A., & Jeffery, V.B. (1998). Investments (6 th ed). New Delhi: Prentice Hall of India Ltd.

MBA-BF (522) Project Appraisal and Valuation

Credit hour: 2

LH 32

Course Objectives

The main objective of the study is to provide comprehensive knowledge on project appraisal and valuation to the MBA-Banking and Finance students. Similarly, this course will equip students with the underlying concepts in the field of project appraisal and valuation. Furthermore, this course will have all the elements that would go into reviewing a potential investment opportunity. It is not a detailed course in one category, such as financial accounting, but it ties economic appraisal and valuation analysis together. Moreover, this course takes the path to evaluating the opportunity to its fullest after one has gone through basics of strategy, finance, and accounting. It is aimed at students who expect at some point in their careers to evaluate the performance, prospects, and value of a business.

Course Description

This module has been designed around the core areas of project planning, investment appraisal, social cost-benefit analysis, project risk, distributional effects, valuation and impact assessment. It covers both private and public sector investment and appraisal techniques. The techniques of project financial and economic analysis and impact assessment are becoming increasingly important as methods for choosing between projects where resources, both financial and human,

are limited. The use of recognized assessment techniques for project proposals has become mandatory as part of the selection and justification process for projects funded by the international financial institutions. However, while financial and economic issues relating to resource allocation for projects, development programmes and policies are all important, policy makers and development banks and institutions are increasingly concerned with other issues – including the environmental, social, gender, health, poverty and welfare impacts of projects. This course covers project appraisal and evaluation, investment appraisal techniques, social-cost benefit analysis, valuation basics, risk and uncertainty analysis in project appraisal, distributional issues and social cost, environmental and social impact assessment (ESIA) and project monitoring and appraisal system in Nepal.

Learning Outcomes

At the completion of this course paper students should be able to:

- define and describe project appraisal and evaluation, an activity often referred to as project assessment.
- recognize the investment appraisal techniques that are used in the private sector.
- explain and analyze the theoretical and applied background to social cost-benefit analysis.
- discuss the basics of valuation and recognize its application in Nepalese context.
- analyze the impact of risk and uncertainty within the context of project appraisal.
- analyze some of the important issues associated with the impacts of projects on the distribution of income in country and how SCBA may be used to take these distributional issues into account.
- assess the environmental and social impact assessment (ESIA) of project.
- assess the practice of project appraisal in Nepalese context and in international development agencies.

Course Contents

The following issues or topics have been selected for the course. Each issue or topic will be explored in relation to existing literature, its relevance and practices in the Nepalese context.

Unit I

LH 2

Project Appraisal and Evaluation

Concept, the Project Cycle, Process of Project Planning, Project Planning Techniques, Project Quality Factors and Basic Needs, the Measurement of Project Performance

Unit II

LH 2

Investment Appraisal Techniques

Introduction, Cash Flow Analysis, Private Sector Appraisal Techniques

Unit III

LH 4

Social Cost-Benefit Analysis

Introduction, Basic Steps in Social Cost-Benefit Analysis, The Social Discount Rate, Applications of Cost-Benefit Analysis, Standings, Value Assumptions, and Legitimacy of cost-benefit analysis, The strengths and Limitations of Social Cost-Benefit Analysis, SCBA(Social Cost Benefit Analysis) in Developing Countries (Focus on Nepalese Context)

Unit IV

LH 7

Valuation Basics

Approaches to Valuation, Valuation Using Multiples, Strategy-Finance-Valuation Trilogy, Real Options & Brand Valuation, Identifying frequently made errors in Valuation, Sector Analysis and Case Studies, Application of valuation in Nepalese Context

Unit V

LH 4

Risk and Uncertainty Analysis in Project Appraisal

Introduction, Risk and Uncertainty, Techniques for Risk Analysis, Uncertainty, Risk and Large Projects, and Risk Analysis

Unit VI

LH 4

Distributional Issues and Social Cost-Benefit Analysis

Introduction, Measurement of Income Distribution, Theoretical Basis for Welfare or Distributional Weighting, Regional Weights, Multi-Criteria Analysis

Unit VII

LH 4

Environmental and Social Impact Assessment (ESIA)

Introduction, Laying the Foundation, Impact Assessment, Reporting and Decision-Making, ESIA tools, Emerging forms of assessment, Impact Mitigation/Enhancement and Monitoring

Unit VIII

LH 5

Project Monitoring and Appraisal System in Nepal

Concept of project Monitoring, methods of monitoring, appraisal system adopted by Nepalese government, financial institutions and NGOs, project valuation and appraisal methods adopted by UN system selected in banking and financial institutions, reviewing of UNIDO, OECD, ADB, World Bank project evaluation techniques.

Suggested Readings

Boardman, A. E. (2014). *Cost-benefit analysis: Concepts and practice*. Boston: Pearson.

Boardman, A. E., Greenburg, D. H., Vinning, A. R., & Weimer, D. L. (2001.). *Cost-Benefit Analysis* (2nd ed.). Boston: Pearson Education, Prentice Hall.

Glasson, J., Therivel, R., & Chadwick, A. (2005). *Introduction to environmental impact assessment*. London: Routledge.

Maylor, H. (2010). *Project management*. Harlow, England: Financial Times Prentice Hall.

Damodaran, A. (2006). *Damodaran on valuation: Security analysis for investment and corporate finance*. Hoboken, NJ: John Wiley & Sons.

Damodaran, A. (2002). *Investment valuation: Tools and techniques for determining the value of any asset*. New York: Wiley.

Curry, S and Weiss, J. (2002) *Project Analysis in Developing Countries*. The Macmillan Press Ltd.

Agrawal, G.R. (2003). *Project Management in Nepal*. Kathmandu: M.K. Publishers and Distributors.