<u>Mr S C Mathur, DGM, IDBI Bank</u>

<u>November 17, 2014 for the course Corporate Finance (Sec. A & B)</u>

<u>Topic : Corporate Banking & Credit Analysis</u>

Mr. S C Mathur, DGM of IDBI Bank visited IMT Nagpur on November 17, 2014 to address the first year students (Sec. A & B) as a apart of industry interaction programme for the Corporate Finance Course taught by Prof. D.N Panigrahi. He has vast experience of over 3 decades in bank management, especially Corporate Banking and Project Finance, initially with IDBI in its Development Bank avtar and thereafter with IDBI bank in its Universal Bank avtar. The topic of the session was Corporate Banking and Credit Analysis.

Mr. Mathur provided the student managers insights on what constitute corporate banking and the credit analysis process of banks to meet the various funding needs of the corporate sector.

The lecture began by defining the term Corporate. Next, the question “Why does a company borrow money?” was addressed. There are various reasons for a company to borrow money. The lesser money a company invests from owned capital and the more he borrows and invests into the business, it is likely to generate more returns on equity [provided the rate of interest on borrowed capital (cost of debt) is lower than the overall return on investment (ROI)]. Here he explained the concepts of financial leverage, trading on thin equity and its merits and demerits. He also highlighted that leverage is a double edged sword. Banks should lend to corporate based on their debt repaying capacity as well as the nature of the industry, position in the industry life cycle etc.

The discussion then moved to the eligibility criteria of a corporate to get a loan sanctioned. A bank analyses the industry, sector, market competition, stage of the industry life cycle and product life cycle, company’s financials, security coverage and management quality etc. of the corporate and then decides the company’s eligibility for the loan and quantum of loan. Apart from these fundamental factors, a banker should have a knowledge domain of Indian Contract Act 1872, Companies Act 2013, Accounting and Financial Analysis, Banking Regulations and RBI Guidelines and SEBI Regulations.

After this point, he explained the definitions of project and infrastructure project in simple terms. Then he dwelt on the classification of credit needs of a corporate on the basis of long term needs, short term needs, working capital (fund based and non-fund based). The concepts of working capital cycle, working capital, working capital gap and maximum permissible bank finance were highlighted next. He also discussed the concepts of just-in-time inventory which is widely being followed in Japan.

Loan Products such as book debts, inventory limits, bills purchased/discounted/negotiated, receivable buyout, non-fund based limits like letter of credit and bank guarantee, plain vanilla term loan and corporate loans were also discussed.

The next topic of discussion was the credit analysis and sanction process that involved a detailed procedure of submitting a formal loan application along with the annual reports of previous 3 years, certified copy of Article and Memorandum of Association, latest copy of external rating report, projected financials, a note on performance of group companies and products, declarations signed by MD, discussion with CFO, plant visit, stock audit report, preparation of sanction memorandum, internal risk rating, risk based pricing, issue of Lol, consortium meeting, joint/separate documentation and finally release of limits.

Project appraisal and long term funding was explored next. The final topic that was analysed was that of innovations in banking that consisted of cash management services that used Finacle, customization of loan products, technological advancements in the payment system (RTGS, NEFT) and international remittances of funds by SWIFT.

The lecture was very insightful as a lot of concepts studied in the classroom could be related to the practical world.