20 One-Liners to Remember

Quick-fire facts for last-minute revision.

1. **Credit appraisal is the structured process a bank uses to judge whether a borrower can and will repay a loan.**
   This structured evaluation forms the basis for every loan sanction decision a bank makes.

2. **The 6 Cs of credit are Character, Capacity, Capital, Collateral, Conditions and Compliance.**
   These six pillars give a lender a complete, 360-degree view of borrower risk before sanction.

3. **Character assesses a borrower's integrity, track record and intention to repay, drawing on credit-bureau reports.**
   A strong credit history signals willingness to repay and feeds directly into the Character assessment.

4. **Capacity judges the cash-flow ability to service debt, based on income, profits and the debt-service coverage ratio.**
   Capacity focuses on whether operating cash flows can comfortably cover debt obligations.

5. **Capital refers to the promoter's own stake or net worth, where higher skin in the game lowers risk.**
   A larger promoter stake aligns incentives with the bank and reduces its downside risk.

6. **Collateral is the security offered as a fallback, assessed on realisable value and marketability.**
Collateral acts only as a cushion, not the primary basis on which a loan is sanctioned.

7. **Conditions cover the loan purpose along with the macro and industry environment, including interest-rate factors.**
Conditions capture external factors such as regulation and rates that can affect repayment.

8. **Compliance means adherence to KYC norms, statutory requirements and exposure limits.**
Compliance ensures the loan and borrower meet all regulatory and internal norms.

9. **RBI expects lending to rest primarily on repayment capacity and cash flows, with collateral as a cushion.**
This is a frequent CCP theory point: cash flow leads the sanction decision, security only cushions risk.

10. **MPBF stands for Maximum Permissible Bank Finance, based on the Tandon Committee methodology.**
MPBF caps how much working capital finance a bank can extend to a borrower.

11. **Working capital gap equals current assets minus current liabilities other than bank borrowing.**
This gap is the base figure both Tandon methods use to compute permissible bank finance.

12 **Under Tandon Method I, MPBF equals 75% of the working capital gap, with the promoter funding the rest.**

Method I is comparatively simple and generally suits smaller or newer borrowers.

13 **Under Tandon Method II, MPBF equals 75% of current assets minus other current liabilities.**

Method II applies a stricter margin test based on total current assets rather than the gap alone.

14 **Tandon Method II forces a 25% margin on current assets and yields a current ratio near 1.33:1.**

This higher margin requirement is why RBI long treated Method II as the working-capital benchmark.

15 **The turnover method for MPBF, based on the Nayak Committee approach, suits smaller MSME limits.**

This simplified method reduces documentation burden for smaller MSME borrowers.

16 **The cash-budget method for MPBF assesses peak deficit in monthly cash flows, suited to seasonal industries.**

This method fits businesses whose working-capital need swings with seasonal cash-flow patterns.

17 **Project appraisal tests technical, commercial, financial, managerial and economic feasibility.**

The CCP exam expects candidates to name and explain each of these five feasibility dimensions.

18 **Financial feasibility in project appraisal relies on projected cash flows, break-even point, IRR, NPV and DSCR.**

These metrics determine whether a project can service its debt and generate adequate returns.

19 **Sensitivity analysis stress-tests a project by varying assumptions like sales price, cost and capacity utilisation.**

It reveals how robust a project's returns are if key assumptions turn out less favourable than planned.

20 **Financial ratio families used in credit appraisal are liquidity, leverage, profitability, coverage and efficiency.**

Each ratio family reveals a different aspect of the borrower's financial health and risk.