# 20 True or False

Decide, then check the answer and reason below each statement.

### Question 1

**The 6 Cs of credit are Character, Capacity, Capital, Collateral, Conditions and Compliance.**

**TRUE**

These six factors together give a lender a complete view of a borrower's credit risk.

### Question 2

**Maximum Permissible Bank Finance (MPBF) is based on the Tandon Committee methodology.**

**TRUE**

The Tandon Committee gave Indian banking its enduring method for computing working-capital finance limits.

### Question 3

**Under Tandon Method I, MPBF equals 75% of the working capital gap.**

**TRUE**

Method I sets MPBF at 75% of the gap, requiring the promoter to fund the remaining 25%.

## Question 4

**RBI's supervisory expectation is that lending rests primarily on repayment capacity and cash flows, with collateral only as a cushion.**

TRUE

Cash-flow-based lending, with security as a secondary cushion, is RBI's stated supervisory expectation.

## Question 5

**The turnover method for computing bank finance follows the Nayak Committee approach and suits smaller MSME limits.**

TRUE

The Nayak Committee's turnover-based method simplifies working-capital assessment for smaller MSME borrowers.

## Question 6

**DSCR, the Debt-Service Coverage Ratio, is used to assess a project's ability to service its debt.**

TRUE

DSCR is a core coverage ratio used in project and term-loan appraisal to judge repayment ability.

### Question 7

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

TRUE

These five dimensions together form the standard feasibility framework for project appraisal.

### Question 8

**The working capital gap is calculated as current assets minus current liabilities other than bank borrowing.**

TRUE

This gap is the starting figure on which both Tandon MPBF methods are built.

### Question 9

**External credit rating agencies such as CRISIL, ICRA and CARE provide ratings used in Indian bank lending.**

TRUE

These agencies supply external ratings that influence risk weights alongside a bank's internal rating.

### Question 10

**Sensitivity analysis tests how a project's returns respond to changes in assumptions such as sales price or cost.**

**TRUE**

Sensitivity analysis stress-tests key assumptions to gauge how robust a project's projected returns really are.

### Question 11

**Under Tandon Method II, MPBF equals 90% of current assets minus other current liabilities.**

**FALSE**

Tandon Method II sets MPBF at 75% of current assets minus other current liabilities, not 90%.

### Question 12

**The 6 Cs of credit appraisal include Cash, Currency and Credit as three of the six factors.**

**FALSE**

The 6 Cs are Character, Capacity, Capital, Collateral, Conditions and Compliance, not Cash, Currency or Credit.

## Question 13

**RBI's supervisory expectation is that collateral should be the primary basis for sanctioning a loan, ahead of cash flow.**

**FALSE**

RBI expects repayment capacity and cash flows to lead the decision, with collateral acting only as a cushion.

## Question 14

**Tandon Method I calculates MPBF using total current assets alone, ignoring the working capital gap.**

**FALSE**

Method I bases MPBF on 75% of the working capital gap, not on current assets alone.

## Question 15

**The working capital gap equals current assets plus current liabilities other than bank borrowing.**

**FALSE**

The working capital gap is current assets minus current liabilities other than bank borrowing, not plus.

### Question 16

**DSCR is used only to measure short-term liquidity and has no role in assessing term-loan repayment capacity.**

**FALSE**

DSCR is specifically a coverage ratio central to assessing a borrower's capacity to service term-loan debt.

### Question 17

**Project appraisal considers only the financial feasibility of a project and ignores technical or managerial factors.**

**FALSE**

Project appraisal also covers technical, commercial, managerial and economic feasibility, not financial alone.

### Question 18

**Under Tandon Method II, the promoter is required to fund only 5% of current assets from long-term sources.**

**FALSE**

Tandon Method II requires the promoter to fund 25% of current assets from long-term sources.

## Question 19

**The cash-budget method for working capital finance is best suited to businesses with perfectly steady, non-seasonal cash flows.**

**FALSE**

The cash-budget method is designed for seasonal or project-style cash flows, not steady ones.

## Question 20

**Internal credit rating models have no bearing on a bank's capital charge under Basel norms.**

**FALSE**

A borrower's internal credit rating grade directly drives pricing, exposure limits and the bank's Basel capital charge.