NAROTTAM MORARJEE INSTITUTE OF SHIPPING
MUMBAI

Examination Paper – March 2019

Fellowship/Post Graduate Diploma in Shipping Management – Final Year

SHIPPING ECONOMICS & SHIPPING FINANCE
PART II - SHIPPING FINANCE

08.03.2019 **Total 50 Marks** **Time: 1.5 Hours.**

NOTE: Answers to questions in Part I and Part II should be written in separate answer books.
Attempt any five questions. Each question carries 10 marks.

Q1 What is the importance of documents under the Letter of Credit transaction. Explain the various transport documents in detail. (10 marks)

Q2 A) Explain what is risk and what are important components of the Risk Management Policy (4 marks)

Q2 B) Explain 3 risks faced by participants in international financial markets and the hedging technique for same. (6 marks)

Q3 Explain any 5 of the following; (10 marks) :

1. Direct rate.
2. Indirect rate.
3. Cross rate.
4. Spot deal.
5. Forward deal.
6. Ready deal.
7. Buying rate.
8. Selling rate.

Q 4 Explain the importance of Balance of Payment for a country and the various components of the Balance of Payment account of a country with examples. (10 marks)

Q 5 Equity as a source of financing ship acquisitions in the prevailing market, discuss. (10 marks)

Q 6 A) Measures taken by government to control the disequilibrium due to Balance of Payment deficit (5 marks)

Q 6 B) Write short notes on any two: (5 marks) :

i. IMF.
ii. ADB.
iii. BIS.
iv. Exim Bank.

Contd..... PTO ...2/-

Q 7 A) Write short notes on any two of the following: (6 marks):

1. Sight and acceptance LC.
2. Standby LC.
3. Back to Back LC.
4. Irrevocable LC.

Q 7 B) Write short notes on any two of the following with respect to Letter of Credit: (4 marks)

1. Risk covering documents.
2. Official documents.
3. Regulatory documents.

Q 8 A) What are the various aspects to be considered by a shipping company before making a ship acquisition decision and why? (5 marks)

Q 8 B) What are the steps involved in secondhand ship acquisition (5 marks)

Q 9 Explain in detail any two of the following: (10 marks)

1. Leasing finance.
2. Mezzanine finance.
3. Deferred payment guarantee.
4. Consortium finance.

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MUMBAI

EXAMINATION – MARCH 2019

SUBJECT : SF

Q	1	2	3	4	5	6	7	8	9	10	11	12	Total
M			10	9		10	9	8					46

WRITE BELOW

3

1 Direct Rate. It is a method of quoting foreign exchange rates. A particular currency is quoted in terms of number of units of another currency

eg 1 USDollar = 70.02 Indian Rupees.

The principal to be followed when quoting direct rates is Buy Low - Sell High

2 Indirect Rate It is a method of quoting foreign exchange rates. Rates are quoted as number of units of one currency that are equal to number of units of another currency

e.g 1 India Rupee = 0.02 US Dollars.

The principal to be followed in quoting indirect rates is Buy High - Sell Low.

3 Cross Rates. This rate of quoting foreign currency is used when one currency is to be converted into another currency by using an intermediate currency as the two currencies involved in the foreign exchange cannot be directly exchanged

eg Canadian dollar to Indian Rupee

The US Dollar is used as an intermediate currency in both currency exchanges.
~~Canda~~ Canadian dollar is converted to USD and vice versa
India Rupee is converted to USDollar and vice versa.

4 4 Spot deal is a quotation of foreign exchange in value of date and agreed price A spot deal occurs when the date of settlement is two days after the date of transaction, at the agreed rate.

If T = Transaction date
2 = ~~Spo~~ settlement date

Spot deal = T + 2

5 Forward deal is a quotation of foreign exchange in value of date and agreed price A forward deal occurs when the date of settlement is three days or thereafter the date of transaction, at the agreed rate

If: T = Transaction date
3 = Settlement date

Forward deal = T + 3

6 Ready deal is a quotation of foreign exchange contract in value of ~~of~~ date and agreed price. A ready, cash or settlement deal

is on the same date as the date of transaction. at the agreed rate
T = Transaction date
0 = settlement date.

Ready deal = T + 0

4 Balance of Payments are double entry system of cash inflows and cash outflow (receipts and payments of the residents of a country against the world. The entry system results in a surplus deficit or equitability in the resulting B.O.P. This surplus or deficit is very valuable to international investors and players to access their needs or abstainence of needs to invest in a country. The B.O.P is representative of the financial stability of a country and defines with investing in a country is lucrative or not. It is used as a credibility measure of a nation. This results in investment or dis-investment in a country which leads to increase or decrease in trade and subsequently a booming or collapsing economy respectively. It is important as a surplus BOP brings in investment, gives a nation EXIM traders financial source to conduct and expand their trade endeavours.

The components of the BOP are
Current Account + Capital Account + Reserves = BOP (Balance of Payment)

Current Account includes

~~Instn~~ Such as capital goods, consumer goods, machinery, technical equipment, consultancy, ship repair works etc service by banking, insurance, transportation interest, receipts, inward foreign travel, inward student fees

Import of goods and service

Import of other transactions are considered ~~such~~ as debits.

Such as import of capital goods, consumer goods machinery, technical equipment services by banking insurance transportation, consultancy fees ship repair works, service fees, outward foreign travel, outward student fees

Capital Account is due to the transactions involving transfer of asset and liabilities due to investment and borrowing these could be over seas borrowing, Overseas lending Payment of Interest and allowance Sales of assets, Investment by Foreign Institution Investors in the equity market Investment by Foreign Direct Investors in the development sector, change in gold reserves or change in foreign exchange reserves.

~~Any~~ inward remitances are considered credits.

Any outward remittances are considered as debits.

Reserves are caused due to financial deficits or Foreign Exchange Issues. They

6 A Measures taken by the government to control a disequilibrium due to BOP are
1 Government to control its expenditure.
2 Import of goods is to be controlled
3 Export of goods is to be encouraged
4 Investment of capital into the country is to be encouraged
5 Employment must be increased.
Economic measures need to be adopted for the Economic growth of the country.

6 B IMF
1 International monetary form was formed for monetary cooperation
2 To stabilise exchange rates
3 For settlement and solving issues pertaining to due
4 To remove government and exchange controls on foreign currency and to allow the growth of trade
5 To find solutions for Balance of Payment crises.
The functioning can be summed up as
It deals with macro economics and its field of responsibility.
~~Allocatio~~ Collection and Allocation of assets
Advice to its member ~~of~~ on their monetary issues
Contigency Settlement
It gives access to members to purchase currency in times of contingency. This is according to an IMF decission and is on a as and when required bases.

SDR
[illegible]

to their quota in IMF SDRs are a country's right and is part of their Foreign exchange Reserves. SDR can be acquired without exchange of currency or gold.

Settlement of BOP

It lends money to countries to solve their BOP crisis in the medium term with longer terms allowable for full solution.

6 B iv) EXIM, established in 1982

EXIM Bank is the premier financial organisation in the country. It coordinates with other banks in the EXIM trade and coordinates international.

~~It~~ It has developed linkages with developing countries.

It finances, facilitates and promotes Indian foreign trade

It assists Indian EXIM traders in financing for manufacture and export of goods

It provides finance at different stages of export from the project development, manufacturing, production and delivery stage

It provides consultancy and legal services to deal with dues

It provides,

Export Credit

Import lines of credit

Credit ... [illegible]

WRITE BELOW

currency
It gives finance for deemed export.
It does refinancing for other Commercial institution such
~~as~~ Bill of Export Rediscounting and
~~Credit in~~ Refinancing of previous taken export credit
It is called the Export Import Bank of India

7 1 Irrevocable L/C ~~The~~
This is a type of letter of credit where the terms and condition of the letter of credit cannot be changed without the consideration of the exporter. This avoids the risk of delivery as conditions cannot be changed and ~~goods~~ payments have to be made to the exporter.

2 Back to Back L/C
This is a type of letter of Credit where the exporter ~~requests~~ requests his bank (exporter's bank) to grant a letter of credit to his suppliers on the basis of the actual ~~bill~~ letter of credit. This results in the issuance of inland letter of credit.

10

2

7 B

5) Risk Covering documents.
These are insurance documents where an insurer agrees to cover the risk of the insured for a particular value.
It is used to cover losses of damages
It should cover all risk
It should be equivalent to 110 percent of CIF value
It should be in the same currency as the LC
It should mention the ports of call, shipment and destination details.
It should contain the letter of credit's description of goods

7 B3 Official documents
These are required for official purposes usually in stipulated forms. They include
Certificate of Origin which lets a country know of the origin of the goods and allows them to make decisions in case goods are not acceptable from a particular country.
Health and inspection certificates
Specific certificates such as Halal certificates in a country's specific format.

WRITE BELOW

8 A The various aspects of consideration in ship acquisition are

1 The requirement of a specific tonnage to suit the trade
2 The present conditions of the market rates and the charter rates as this will be relevant to the earnings and profitability / loss to the company
3 The availability of continued employment of the vessel as this will allow the freight revenues to flow into the company
4 The availability of market possibility such as charty party contracts which are already been made for vessel employment

B. The steps involved in second hand ship acquisition are

1. Planning and ~~[illegible]~~ analysis into requirement of a vessel such as tonnage requirement market and charter rates, continued employment of vessel and availability of charter
2 A database of vessels is to be created which includes but not limited to
1 Vessel description - age and place of building
2 Technical aspects of vessel

14 2

Technical limitations:
Cargo capacity
Cargo loading discharging capability
Survey status
Previous owners
Previous cargoes carried
Location

3 Inspection and Survey
Vessels shortlisted are to be inspected and certificates surveyed either by the company staff or a nominated surveyor.

4 Post inspection proposal,
to be send to the Board of director for the Bill of Sale, Profit and loss projections and other approval.

5 MOA - Memorandum of Agreement to be signed.
Approval of the memorandum by board of directors for approval of the Bill of sale and execution of the purchase.
Notarized power of attorney for the signatory to finance / documents of the Bill of Sale.
Compliance with regulation by DG and SALC
Arrangement of finances from institution
Opening an escrow account

6 DG permission -
For valuation of the vessel by two valuers acceptable by DG.

for causing survey of the vessel
for arranging the Embassy or consular officer to give a provisional certificate of registry.

7 MMD ~~for~~ requirements

Communication of unique number of vessel.
official number
Name and call sign
Carving and marking note
performance of survey.
granting of provisional registry.

~~Sale~~ Acquisition of vessel
Putting observers onboard for familiarisation
Paying of the final payment to seller
Taking title of the vessel
Conducting survey and class certification
Collecting trading and Statutory documents.
Submitting declaration of ownership.

8 Attain the certificate of registry on submitting.
MOA
Bill of Sale
Protocol of acceptance and delivery
Commercial Invoices
Approvals as per DG
Delivery Certificate -
Copies of the old certificate of Registry and Provisional certificate of registry.