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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management (Batch 2021-23) |
| **Course Title: Investment Banking (Course Code: 40244)**  **Improvement Examination, Term - VI (May, 2023)** | |
| **Time Duration : 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *This is a pen and paper. Students can refer to physical copies of class notes, if any.*
2. *Answer the questions as directed. The break-up of the marks is given wherever necessary.*
3. *Usage of the Internet is not allowed.*
4. *MS – Excel on the institute’s desktop can be used. However, answer scripts in hard copy only need to be submitted.*
5. *Marks against each question are indicated to its right.*
6. *Answer all the questions of a ‘Question’ in one place in continuation.*
7. *Answers should be brief and to the point.*
8. *Do not write anything on the question paper except your roll number.*

**Q1 Read the case let properly and answer comprehensively in about 350-400 words the questions following the case.**

Munim Premji is the chief promoter of Weepro Technologies Ltd, a company in which there is little free float (11%) and Munim holds about 82%. The company has grown in the information technology industry over the years apart from other peripheral businesses. The company has benefited from the fact that the IT business is not capital intensive and therefore, the company never experienced the need to raise significant funds. The promoter, therefore, held the company close to himself ensuring that he would have the highest possible stake. Due to the changing fortunes in the IT industry, the company has over the past few years shown a flat growth curve. In order to bring the company back to its past glory, the professional managers in the company strongly believe that the company should embark on new business ventures involving significant capital investments.

The management has therefore retained the services of Hazard Capital, an investment bank. Your job is to prepare a confidential note to Mr. Munim Premji impressing upon him the need to grow the company by raising funds that would involve the dilution of promoter stakes.

By connecting inter-related issues on *why firms go public, potential disadvantages, IPO process, marketing the offer, the day of offering and beyond, and the importance of the green shoe option*, you have to Illustrate a preliminary case report that Munim Premji would be better off by allowing the company to grow even if that would mean lesser stake for himself.

**(Marks 8) CLO2**

**Q2)** Alpha Ltd. wants to acquire Gamma Ltd. by exchanging 0.5 of its shares for each share of Gamma Ltd. The relevant financial data are as follows:

|  |  |  |
| --- | --- | --- |
| **Particulars** | **Alpha Ltd.** | **Gamma Ltd.** |
| PAT (Rs.) | 18,00,000 | 3,60,000 |
| Equity share outstanding | 6,00,000 | 1,80,000 |
| EPS (Rs.) | 3 | 2 |
| P/E ratio (times) | 10 | 7 |
| Market Price per share (Rs.) | 30 | 14 |

Required:

1. Calculate the EPS of Alpha Ltd. after the acquisition
2. Deduce the market value of the merged firm

**(Marks 4\*2 = 8) CLO3**

**Q3)** Every year investment bankers help several companies raise capital from the markets. They help these companies in issuing securities and accessing more funds. The issue is that when these companies access the capital markets, they are often growing at a phenomenal pace. This means that these firms have many projects where they want to make investments. However, traditional sources of funding, such as promoter’s equity as well as bank loans, are unable to meet their funding needs. Hence, the firms often access the capital markets in a hurry.

It has been empirically proven that when these companies sell their securities, they often price themselves less. This means that there is significant under-pricing at play when IPOs are issued. This means that the companies issuing securities are leaving money on the table! It is amazing that such a trend is emerging despite the fact that capital markets all over the world are competitive, and hence any pricing discrepancies should immediately be corrected.

Answer the following questions briefly:

1. Relate all major players who intermediate between individual investors and entrepreneurs/ managers. Categorize the intended function and incentive of each intermediary.
2. Illustrate the role each intermediary might have played in the creation of underpricing of the IPOs. How do you fix these problems?

**(Marks 2\*4 =8) CLO1**

**Q4)** Given below are the financials of Alex Ltd. and Brinda Ltd. before the merger takes place. Brinda Ltd. is likely to amalgamate with Alex Ltd.

|  |  |  |
| --- | --- | --- |
| Particulars | Alex ltd. | Brinda Ltd. |
| Market price per share (₹) | 100 | 50 |
| Book Value per share (₹) | 45 | 24 |
| Number of Shares outstanding | 5,00,000 | 3,00,000 |
| Market value of the firm (₹) | 5,00,00,000 | 1,50,00,000 |

One share in Alex Ltd. is offered to the shareholders of Brinda Ltd. for every 2 shares held in Brinda Ltd. The merger is expected to bring gains, which have a PV of ₹125 lakhs.

Calculate the NPV of the deal for the two companies involved in the merger. **(Marks 8) CLO3**

**Q5)** Answer the following numerical questions: **(Marks 8 CLO2)**

a) The PAT expected of a company at the end of 5 years is ₹. 10 MN. The applicable P/E multiple is 15. The expected rate of return for the VC is 35%. The required capital from VC at the present round is ₹. 15 MN. Calculate the stake to be offered to a VC under the conventional method.

**(3 Marks)**

b) If a company is proposing a right issue of 1 share for every 3 existing shares at an offer price of ₹ 75 while its cum market rate is ₹100. Calculate the theoretical value of right. **(3 Marks)**

c) Calculate the number of shares that are available to the Public under GSO. **(2 Marks)**

Issue Size 100000

Shares of face value ₹10 at issued at ₹ 90

Other details about the issue are 20 % to Promoters and 80% to Public, GSO 15%.

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