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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)****End-Term Examination, Term - VI (April, 2023)**  |
|  **Time Duration: 2 Hours Total Marks: 40** |

***General Instructions*:**

1. *This is a pen-and-paper exam. 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 needs 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 following case on IPO subscription and underwriting obligation. Solve the case using numerical calculation. There is no word limit applicable to answer this question. **(12 Marks)** Vincent Enterprises Ltd made an IPO through the 100% book-building route. The lead BRLM of the issue was Rubicon Capital Markets Ltd, a leading investment bank. The co-lead BRLM was Ace Capital Ltd. The issue also consisted of four other syndicate members: A Securities, B Securities, C Securities, and D Securities. The issue was to raise a total amount of ₹ 2 billion in a price band of ₹ 200-220 per share. The issue was underwritten as follows –

 Percentage of issue underwritten

Rubicon Capital Markets Ltd 25%

Ace Capital Ltd 10%

A Securities 20%

B Securities 15%

C Securities 10%

D Securities 20%

All the underwriters being eligible QIBs also put in their own subscriptions in the QIB component of the issue as follows –

 No. of Shares applied for

Rubicon Capital Markets Ltd 12500 shares at ₹ 220

Ace Capital Ltd 2500 shares at ₹ 200

A Securities 5000 shares at ₹ 215

B Securities 10000 shares at ₹ 212

C Securities 15000 shares at ₹ 216

D Securities 20000 shares at ₹ 220

The issue received a mixed response from the market. While the QIB portion was subscribed 1.70 times, the HNI portion was subscribed by 0.40 times. The retail portion was a disaster receiving a subscription of only 0.20 times. There were zero direct applications in all categories. Therefore, the cut-off price was fixed at ₹ 200 per share. Since it was a full book-building process, the QIBs were offered 50% of the issue, the HNI category was offered 15%, and retail investors were offered 35%. There is no other information available on procurement by each underwriter.

Based on the above information, answer the following questions:

1. Was this IPO a valid issue? Explain briefly. **(2 Marks)**
2. Is this a case of refund or devolvement for each underwriter? **(3 Marks)**
3. Break down the total number of shares, the subscription amount, and the refund/ devolvement amount as the case may be, for each of the underwriters respectively

 **(7 Mark)**

**Q2.** Alpha Ltd wants to boost its EPS quickly and has been advised by its consultants "Value Creators”, to adopt the inorganic route for this purpose. The company, on the advice of its consultants, is planning for acquiring Beta Ltd. The acquisition of Beta Ltd is likely to create a synergy of 10% post-acquisition. Alpha Ltd wants to peg its EPS at a level of ₹ 8 post-merger.

Following are the EPS, Market value, and number of shares for Alpha Ltd and Beta Ltd:

 **(10 Marks)**

|  |  |  |
| --- | --- | --- |
|  | **Alpha Ltd.** | **Beta Ltd.** |
| **EPS (₹)** | 5 | 5 |
| **Market Value per share ( ₹)** | 60 | 50 |
| **Number of shares** | 12,00,000 | 10,00,000 |

1. Deduce the exchange ratio that will result in the EPS ₹ 8 post-acquisition. **(7 Marks)**
2. Categorize the three types of mergers by taking the example of the nature of industries of Alpha Ltd. and Beta Ltd. **(3 Marks)**

Q3. Read the extract from a newspaper article published in 2021. Answer the questions at the end of the article briefly: **(10 Marks)**

*Notwithstanding the record fundraising via IPOs, one out of every three stock debutants on Dalal Street is ending calendar 2021 below its issue price as sentiments have soured in the secondary market towards the end of the year. While 14 out of 63 stock debutants delivered investors multi-bagger returns of up to 300 percent, 21 others eroded their wealth up to 52 percent.*

*They included Suryoday Small Finance Bank which sank 52 percent over its issue price of ₹305 and stocks such as Car Trade Tech and Windlass Biotech, which are 50 percent and 43 percent lower, respectively, from their issue prices. Paytm parent One97 Communications also featured on the list, as it traded at a discount of 37 percent to its issue price of ₹ 2,150. The stock had tanked nearly 27 percent at its listing, wiping over ₹ 35,000 crores of investor wealth. It is yet to recover. Among the top five losers, three were loss-making entities.*

*Investment bankers need to play a very mature role in this environment: the guardianship of market fidelity rests on their shoulders. While they have a duty to get the maximum value for the companies they list, they equally have to ensure that that value is viable and stable.*

Source: <https://economictimes.indiatimes.com/markets/ipos/fpos/ipo-review-2021-1-in-every-3-stock-debutants-trades-below-issue-price/articleshow/88561639.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst>

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 the poor performance of the IPOs. How do you fix these problems?

 **(Marks 5+5 =10)**

**Q4)** Answer the following numerical questions: **(8 Marks)**

1. A startup company wants to raise ₹ 35 MN from the first round of VC financing. The startup does not want to dilute more than a 30% stake in favor of a VC. The existing capital of the company is ₹100 MN with a face value of ₹10 per share. Infer the offer price to be offered to the VC to attain a 30% stake in the company. **(3 Marks)**

1. The following financial statistics are available in respect of a listed company:

|  |  |
| --- | --- |
| Particulars | value |
| Price- Earnings (P/E) ratio | 8 times |
| Number of equity shares | 4 lakhs |
| Earnings available to equity shareholders | ₹40 lakhs |
| EPS | 10 |
| Market price per share | 80 |

The company is currently considering whether it should use ₹ 20 lakhs of its earnings to pay cash dividends or to repurchase at ₹ 85 per share. Assuming no change in the current P/E ratio, point out the market price after the share repurchase. **(5 Marks)**

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