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| **C:\Users\ADMIN\Desktop\j.png** | **JAIPURIA INSTITUE OF MANAGEMENT, INDORE**  Post Graduate Diploma in Management (Batch 2023-25) |
| **Course Title: Investment Banking (Course Code: 40244)**  **Improvement Examination, Term – IV (Nov 2024)** | |
| **Time Duration: 2 Hours Total Marks: 40** | |

***General Instructions*:**

1. *This is a pen-and-paper exam.*
2. *This is a closed book exam.*
3. *Answer the questions as directed. The break-up of the marks is given wherever necessary.*
4. *Students can use any type of calculator for numerical calculations.*
5. *Answer all the questions of a ‘Question’ in one place in continuation.*
6. *Answers should be brief and to the point.*
7. *Do not write anything on the question paper except your roll number.*

Q1) In the landscape of investment banking, understanding its historical evolution and the intricate interplay of its components is crucial. Delving into the portfolio characteristics and structural dynamics of investment banking, critically examine its evolution, including both its successes and pitfalls. ***Discover*** how historical events have shaped the current landscape of investment banking and identify potential dark sides or ethical dilemmas within the industry. Utilizing case studies and real-world examples, discuss the implications of these historical perspectives on contemporary investment banking practices. Additionally, consider how regulatory frameworks have evolved and the impact they have on the industry's functioning. Finally, propose strategies to mitigate any negative aspects while maximizing the positive contributions of investment banking to the global financial system. **(8 marks)**

**Q2. Read the case and answer the questions following the case:**

GreenFuel Nutrition is a burgeoning start-up founded by two passionate entrepreneurs, Emily and Alex. Their vision is to disrupt the fitness and nutrition industry by offering plant-based protein supplements that are both sustainable and organic. As they embark on their entrepreneurial journey, Emily and Alex face the critical decision of securing financing to scale their venture. They must carefully evaluate various funding options and consider the implications of each choice on the company's growth trajectory and long-term success.

The co-founders have identified several potential investors for their seed round, each offering unique advantages and challenges. Meanwhile, they are also exploring securing venture capital funding to fuel their growth ambitions. Emily and Alex recognize the importance of understanding venture capital valuation methods to negotiate favourable terms and ensure the continued success of GreenFuel Nutrition. **(9 marks)**

1. As Emily and Alex consider various investors for their seed round, they must weigh the merits and demerits of each option. Based on the information in the case study, ***list*** two potential investors and ***examine*** the implications of raising funds from each. Consider factors such as strategic alignment, financial terms, and long-term value creation for GreenFuel Nutrition. **(4 marks)**
2. Utilizing the venture capital valuation method, analyze the scenario presented in the case study. Assume GreenFuel Nutrition raises its first equity funding round by issuing 150,000 shares to external investors before engaging with venture capitalists. If a VC expresses interest in investing and offers a share price of $12, calculate the distribution of ownership between Emily, Alex, and the VC. Furthermore, determine the pre-money and post-money valuations of GreenFuel Nutrition following the VC investment. ***Infer*** the implications of these valuations for the company's future fundraising efforts and strategic direction. **(5 Marks)**

**Q3. Read the case and answer the questions following the case: (7 Marks)**

The Board of Directors of a leading bank convened on December 27, 2023, and sanctioned the proposal for a rights issue, termed the "Rights Issue 2024." This strategic decision aimed to bolster the bank's capital base to support its growth initiatives and enhance shareholder value. The rights issue was devised in adherence to pertinent legal frameworks and regulatory guidelines, including the Companies Act, 2013, and the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018.

**Details of the Issue**

**Securities Offered:**

 Fully paid-up equity shares of the bank, denoted as "Rights Equity Shares," with a face value of Re. 1/- each.

**Rights Entitlement:**

 Existing shareholders are entitled to 1 Equity Share for every 4 Equity Shares held.

**Issue Price:**

 The issue price per share is Rs. 22/-, which includes a premium of Rs. 21/-.

**Approximate Number of Shares:**

 The rights issue encompasses approximately 52,31,85,254 shares.

**Issue Size:**

 The total value of the rights issue is Rs. 1151.01 crores.

**Issue Timeline:**

·        **Issue Opening Date:** March 6, 2024

·        **Issue Closing Date:** March 20, 2024

·        **Last Date for On-Market Renunciation:** March 14, 2024

·        **Date of Allotment:** On or about April 5, 2024

·        **Date of Credit:** On or about April 9, 2024

**Scenario:** The rights issue allows existing shareholders to subscribe to additional bank equity shares at a predetermined price. This infusion of capital will augment the bank's financial strength and fortify its capacity to seize growth prospects in the dynamic banking sector. Management is committed to executing the rights issue seamlessly, ensuring equitable shareholder participation and regulatory compliance throughout the process.

**Key Objectives:**

· Enhance the bank's capital base to support business expansion and strategic initiatives.

· Facilitate the participation of existing shareholders in the bank's growth trajectory.

· Maintain regulatory compliance and adhere to legal obligations governing equity issuance.

**Conclusion:** The Rights Issue 2024 signifies a pivotal step in the bank's sustainable growth and value-creation journey. By leveraging the support of existing shareholders and adhering to regulatory norms, the bank aims to reinforce its position as a trusted financial institution and capitalize on emerging opportunities in the banking landscape.

**Source: https://www.chittorgarh.com/**

**Questions:**

a. ***Simplify*** the rationale behind the Rights Entitlement ratio of 1 Equity Share for every 4 Equity Shares held. ***Discover*** the potential impact of this ratio on existing shareholders and the bank's capital structure. **(3 marks)**

b. ***Analyze*** the pricing strategy employed for the Rights Issue 2024, with an issue price of Rs. 22 per share, including a premium of Rs. 21 per share. Assess the factors influencing the determination of the issue price and its implications for shareholder participation and the bank's valuation. **(4 marks)**

Q4. PeCee Jonas company has decided to acquire Nick Jonas company. The following are the relevant financial data for the two companies: **(8 Marks)**

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|  | **PeCee Jonas Co.** | **Nick Jonas Co.** |
| Net sales (Rs. Lakhs) | 350.00 | 45.00 |
| PAT (Rs. Lakhs) | 28.13 | 3.75 |
| No. of shares (Lakhs) | 7.50 | 1.50 |
| EPS (Rs.) | 3.75 | 2.50 |
| DPS (Rs.) | 1.30 | 0.60 |
| Total market capitalization (Rs. Lakh) | 420.00 | 45.00 |

***Determine:***

1. Pre–merger market value per share for both companies. **(2 marks)**
2. Post-merger EPS, if Nick Jonas Co. shareholders are offered a share of (i) Rs. 30, or (ii) Rs. 56 in a share exchange for the merger **(6 marks)**

Q5. ***Compare and Contrast*** the different types of demergers commonly encountered in corporate restructurings, such as spin-offs, split-offs, and carve-outs. Evaluate the strategic motives behind each kind of demerger and assess their implications for shareholders and stakeholders. Considering the complexities involved, discuss the critical role played by investment banking firms in providing advisory services to companies undergoing demerger processes, highlighting key considerations and strategies for maximizing value creation and mitigating risks. **(8marks)**