

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA – SEMESTER 04 – EXAMINATION – SUMMER 2017

Subject Code: 2840601

Date: 08/06/2017

Subject Name: Investment Banking (IB)

Time: 10:30 AM – 1:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

Q.1. (a) Multiple Choice Questions (1x6 = 6 Marks)

1. The following activity does not constitute investment banking:
 - a. Preparation of a project report for fund raising for an infrastructure project
 - b. Advising on a proposed joint venture
 - c. Advising the government on economic policy issues
 - d. Proprietary trading in derivatives and cash markets
2. NAV of a company is _____
 - a. Asset values as reduced by liabilities
 - b. Assets valued at the correct price as reduced by the negotiated values of liabilities
 - c. Book value of assets as reduced by book value of liabilities
 - d. Book value of assets as reduced by book value of outside liabilities.
3. In the book-built issue with a price band, the retail investors can bid at _____
 - a. The floor price
 - b. The cap price
 - c. The cut-off price
 - d. Any price within the price band
4. In the Green Shoe Option, the SA receives shares from _____
 - a. The Promoters
 - b. The Company
 - c. The Investors
 - d. The existing shareholders
5. In a private placement the due diligence is performed on behalf of _____
 - a. The auditor
 - b. The investor
 - c. QIB's
 - d. The underwriter
6. A company decides to give up a sea-face guest house valued at \$ 2 million to the bank for the settlement of a loan which was overdue. This amounts to _____

- a. Spin-off
- b. Hive-off
- c. Asset sale
- d. Demerger

Q. 1. (b). Define the Following. (1x4 = 4 Marks).

- 1. What is Fixed Price Offer?
- 2. Define PIPE.
- 3. Define Spin-off.
- 4. What is ADR & GDR?

Q. 1. (c). Give brief idea about the Participants of Primary Market?

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Q. 2. (a). Distinguish between Merchant banking & investment banking. Explain the function of investment banking.

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(b). Explain the evaluation of Investment Banking in India.

07

OR

(b). ABC Ltd. paid a dividend of Rs. 4 per share at the end of the year. It is expected to grow by 8% each year for next 4 years. The market price of the share is expected to be Rs. 60 at the end of 4 years. Assuming 12% required rate of return of investors, at what price should the shares of ABC Ltd. sell?

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Q. 3. (a). What is Venture Capital? What are the factors considered by Venture capital firms before they finance a venture?

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(b). Describe regulatory aspects of investment banking in India.

07

OR

Q.3.(a).What is credit rating? What functions does it provide? Why do companies go for rating their securities?

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(b).The market price of a Rs. 1000 par value bond carrying a coupon rate of 14% and maturing after 5 years is Rs. 1050. What is YTM on this bond? (Do not use approximate method).

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Q.4.(a). How does book building differ from fixed price method? How is the issue price determined under the book building method?

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(b). RIL makes an issue of 10000 shares of Rs. 10 each at par aggregating to Rs. 100000. The issue has been underwritten fully by two underwriters A and B to the extent of Rs. 50000 each. The issue has been closed and the following is the information available on the subscriptions:

Particulars	Amount
Valid Subscriptions received	76500
Received through underwriter A	27500
Received through underwriter B	34800
Direct subscriptions received	14200

Examine the underwriter's development.

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OR

Q.4.(a). Write an explanatory note on BIFR.

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(b). What do you understand by Corporate Debt Restructuring (CDR)? Explain the process and importance of CDR for companies in Distress.

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Q. 5. The following particulars are available in respect of Anand Ltd.:

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- i. Capital employed, Rs. 500 million.
- ii. Operating profits after tax, for last three years are: Rs. 80 million, Rs. 100 million, Rs. 90 million; current year operating profit after tax in Rs. 105 million.
- iii. Risk less rate of return is 10 %.
- iv. Risk premium relevant to the business of corporate firm is 5 %.

You are required to compute the value of goodwill, based on the present value of super profit method. Super profits are to be computed on the basis of the average profits of 4 years. It is expected that the firm is likely to earn super profits for next 5 years only.

OR

Q.5. Suppose you are the Investment banker for the company and company has asked you to do the valuation of its business for the data provided by the financial manager. The company has total capital of Rs. 1000 Lakhs (provided equally by 10% debt and 5 lakh equity share of Rs. 100 each), its cost of equity is 14 % and it is subject to corporate tax rate of 40 %. The projected FCFF to all investors of the firm for 5 years are given in the table below:

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Year	FCFF (Rs. In Lakhs)
1	300
2	200
3	500
4	150
5	600

Compute:

- (i) Valuation of firm and
- (ii) Valuation from the perspective of equity holders.

Assume 10 % debt is repayable at the 5th year end, and interest is paid at each year end.
