

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA - SEMESTER-IV • EXAMINATION – SUMMER 2013

Subject Code: 2840601

Date: 25-05-2013

Subject Name: Investment Banking

Time: 14:30pm – 17:30pm

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) Differentiate between investment banks and merchant banks. Explain the functions of investment banks in brief. **07**
- (b) What is credit rating? What functions does it provide? Why do companies go for rating their securities? **07**

- Q.2** (a) An analyst intends to value InfoTech Ltd. an IT company in terms of the future cash generating capacity. He has projected the following after-tax cash flows: **07**

Year	1	2	3	4	5
Cashflows (Rs.Million)	176	48	64	86	117

It is further decided that beyond 5th year, cash flows will perpetuate at a constant growth rate of 7% per annum, mainly on account of inflation. The perpetual cash flows are estimated to be Rs. 1026 million at the end of the 5th year.

- (i) What is the value of the company in terms of expected future cash flows? You may assume a cost of capital of 20% for your calculation.
- (ii) The company has outstanding debt of Rs.362 million and cash/bank balance of Rs. 271 million. Calculate shareholder value, if the number of outstanding shares is 15.15 million.
- [Given, PVIF at 20% for Year 1 to 5: 0.833, 0.694, 0.579, 0.482, 0.402]
- (b) Discuss the role of investment banks in connection with mergers and acquisitions. **07**

OR

- (b) Write an explanatory note on term loans as a source of raising capital **07**
- Q.3** (a) ABC Limited floated a bond of the face value of Rs 1,000 on which the interest was payable semi-annually at 16% p.a. the yield prevailing in the market then. The bond has 6 years remaining when the principal amount shall be redeemed. If the current interest rate is 12% what price the bond would sell in the market? **07**
- What happens if the market interest rates suddenly change to a)14% and b) 10%

- (b) Explain relative valuation and the main models used therein. **07**

OR

- Q.3** (a) What are the different types of raising capital through the private placement route? What should be the considerations for an issuer to decide on the appropriate route? **07**
- (b) How does book building differ from fixed price method? How is the issue price determined under the book building method? **07**

- Q.4** (a) What are the main features of debt instrument? What are the distinguishing features of convertible debentures and zero interest debentures? **07**
- (b) What is venture capital? Explain its features. **07**
- OR**
- Q.4** (a) Explain hive off and divestiture in detail. **07**
- Q.4** (b) Describe regulatory aspects of investment banking in India. **07**
- Q.5** (a) Explain different types of underwriting risks and their mitigation mechanisms. **07**
- (b) What are the regulations for appointment of issue managers in public offers? **07**
- OR**
- Q.5** (a) What are the methods of making a buy back and a de-listing offer? **07**
- (b) Write an explanatory note on BIFR. **07**
