Seat No.: _____ Enrolment No._____

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**

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