K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

PGDM (F) / PGDM (FS) – IV 2016 – 18

INVESTMENT BANKING

Total marks: 50 *Time Limit: 3 hours* *Date : 15/09/2017*

Instructions:

- Please don't look left or right while writing your answers - you are sitting for an exam, not crossing a road
- Write brief, to-the-point answers
  Hint: Longer answers don't translate into higher marks
- Show calculation steps for all problems and relevant calculation-based questions to show that its indeed you who arrived at the answer and not the person sitting next to you *Hint: No marks will be given without detailed calculations*
- Giving relevant examples in theory questions will fetch brownie points
- All the best!!!

A. Kunal is an aspiring buyside M&A investment banker. However, he is unsure of the process followed during a buyside M&A.

   Please help him, by stating in chronological order, the various steps in the investment banking lifecycle of a buyside M&A transaction. (*3 marks*)

B. Shweta owns Company ABC, a leading manufacturer of consumer products is currently facing a slowdown in both revenue and EBITDA. To restart growth, the company decides to acquire two companies:
   a) PQR, a manufacturer of raw materials used in ABC's products
   b) XYZ, another manufacturer of consumer products similar to ABC

   Compare both acquisitions based on:

   - **Type of M&A**
   - **Potential benefits to ABC including synergies** (*4 marks*)

C. Gautam is the promoter of company MNO, which would like to do an IPO to raise money from the market. Gautam also has the option of raising money from a Private Equity investor.

   Please help Gautam by comparing both modes of fund raise based on their pros and cons. (*4 marks*)

D. Bhawana owns a private company which is into the manufacturing of pharma products. She wants to do an IPO to raise some money for new products. The following are facts about the company:

- Company is known only in the western part of India
- Accounting policies are not strictly adhered to while making financials
- Company doesn't have a proper governance structure
- The management is not sure if they want to do an IPO

Please elaborate if the company should do an IPO at this stage. If not, then what steps should the company take to do an IPO in the future. (*4 marks*)

E. Lokesh owns a company DEF which is into the manufacturing of car accessories. However, he has been running the business for almost 10 years and now is no longer interested in continuing it. DEF has a stable EBITDA margin, however the margins can be improved with a better operational efficiency. Certain types of Private Equity funds have approached Lokesh looking to provide him with an exit. The financials of the company are as follows:

- Revenue: INR 100 Cr
- Cost of Goods: INR 60 Cr
- Employee cost: INR 5 Cr
- SG&A costs: INR 15 Cr
- Depreciation: INR 2 Cr
- Interest cost: INR 1 Cr

The comparable peers trade at an EV/ EBITDA of 10x.

Please answer the following questions based on the information provided above:

a) **Please explain what type of Private Equity funds will be interested in this transaction** (*3 marks*)
b) **What is the premoney valuation and post money valuation** (*3 marks*)
c) **What kind of valuation are we using here? What are the other types of valuation techniques that Lokesh or the private equity investor can use for valuing the company?** (*2 marks*)

F. Private Equity investor Sam puts USD 20 Million into a company, with USD 5 Million of PAT at a pre-money P/E valuation of 20x. He intends to exit in 5 years when the PAT will have increased to USD 20 Million. The exit will be at the same multiple as at entry.

At exit, please calculate the IRR and MoM (Multiple of Money) (*5 marks*)

G. Company A decides to acquire Company B, with both companies in the same line of business. The details of both companies are as follows:

(All figures in INR Cr)	Company A	Company B

Revenue	10,000	2,000
EBITDA	3,000	800
PAT	500	50
Market Cap	20,000	Not listed
No of shares in the company	2,000	1,000
Debt	200	100
Cash	50	100

Company A decides to value the company at an EV/EBITDA of 10x. Please calculate

a) Equity value of company B using the valuation given above (*2 marks*)

b) Please fill the last column in the following table: (*8 marks*)
Note: Assume no interest cost or loss of interest income in using cash for acquisition

	Mode of acquisition	Share premium paid to B over and above its equity value	Synergy = % increase in combined PAT of both businesses post acquisition	% accretion/ dilution
Scenario 1	All stock	0%	0%	
Scenario 2	All stock	10%	10%	
Scenario 3	All cash	0%	0%	
Scenario 4	All cash	10%	10%	

H. Please write brief notes on any 4 of the following modes of fund raise: (*12 marks*)

a) Growth capital private equity
b) Distressed fund raise
c) IPO
d) Rights Issue
e) QIP
f) Mezzanine fund raise