K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

PGDM (F) / PGDM (FS) – 2017 – 19 BATCH

IV TRIM – END TERM EXAM

INVESTMENT BANKING

Total marks: 50 *Time Limit: 3 hours* *Date : 21st Sept, 2018*

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 sellside M&A investment banker. However, he is unsure of the process followed during a sellside M&A process.
Please help him, by stating in chronological order, the various steps in the execution phase of the investment banking lifecycle of a sellside M&A transaction. (5 *marks*)

B. Company ABC is a leading manufacturer of consumer products and 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 consumer products similar to ABC's and sold to the same customer profile
   b) XYZ, a company engaged in the airlines business

   Compare both acquisitions based on:

   - **Type of M&A**
   - **Potential benefits to ABC including synergies** (5 *marks*)

C. Gautam is the promoter of listed company MNO, which would like to do a QIP to raise money from the market. Gautam also has the option of raising money from a Private Equity investor through a PIPE transaction.
Please help Gautam by comparing both modes of fund raise based on their pros

and cons. (5 *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. (6 *marks*)

E. Lokesh owns a company DEF which manufactures heavy goods. He grew the business for the last 20 years and has now reached the maximum revenue he can extract from the business. Also, while he has achieved a stable EBITDA, there is still scope for further EBITDA improvement. Lokesh is now reaching his retirement and his children are not interested in running the business - so Lokesh would like to sell his business and retire. Certain types of Private Equity funds have approached Lokesh for buying his company. The financials of the company are as follows:

- Revenue: INR 500 Cr
- Cost of Goods: INR 300 Cr
- Employee cost: INR 50 Cr
- SG&A costs: INR 25 Cr
- Depreciation: INR 25 Cr
- Interest cost: INR 10 Cr

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

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

a) **What type of Private Equity funds would have approached Lokesh?** (*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 we can use for valuing the company?** (3 marks)

F. Private Equity investor Sam puts USD 50 Million of growth capital into a company, with USD 10 Million of EBIT at a pre-money EV/EBIT valuation of 20x. He intends to exit in 5 years when the EBIT is projected to increase to USD 50 Million. Howver, after 5 years, the company has acheived only USD 25 Mn of EBIT. Assume: (I) exit and entry multiples to be same (ii) No debt at entry and exit.

At exit, please calculate the IRR and MoM (Multiple of Money) (*5 marks*)
If Sam had a minimum IRR requirement of 25%, has he hit the target? If not, why?

(2 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 P/E of 50x. Please calculate the following:

a) Equity value of company B using the valuation given above (1 mark)

b) Please fill the last column in the following table: (12 *marks*)

Note: Assume that company has enough cash for acquisition in the all cash scenarios. Assume that interest income on this cash would have been 5% post tax basis, if not used for the acquisition.

Note: Show complete calculations!!

	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%	