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**School of Business**  
**Bachelor of Business Administration**  
**Semester End Examination - May 2024**

**Duration : 180 Minutes**  
**Max Marks : 100**

**Sem VI - D1UE603T - Investment Banking**

General Instructions

*Answer to the specific question asked*

*Draw neat, labelled diagrams wherever necessary*

*Approved data hand books are allowed subject to verification by the Invigilator*

- 1) How do companies utilize private placement as a strategic tool for raising capital and expanding their business operations? Provide specific examples to illustrate its application in real-world scenarios. K3 (6)
  
- 2) ABC Pharmaceuticals, a leading player in the pharmaceutical industry, announces a share buyback initiative as part of its strategic financial management plan. The company aims to optimize its capital structure and enhance shareholder value through this program. ABC Pharmaceuticals has been consistently generating strong cash flows from its operations due to the success of its innovative drug portfolio. Despite its robust financial performance, the company's stock price has been undervalued compared to its peers in the industry. Management believes that executing a share buyback will signal confidence in the company's future prospects and improve shareholder returns. The board of directors has authorized a buyback program worth \$200 million, representing approximately 10% of the company's total outstanding shares. ABC Pharmaceuticals plans to execute the buyback over the next 18 months, utilizing a combination of open market purchases and tender offers.  
Questions:  
Elaborate the primary motivations behind ABC Corporation's decision to initiate a share buyback program? Discuss the potential implications of the share buyback on ABC Corporation's shareholders, both existing and prospective, in terms of capital gains, dividend policy, and voting rights. K3 (9)
  
- 3) List out the factors that investment banks assess while analysing the financial implications of a merger. K4 (4)

- 4) Lucid Motors, a leading manufacturer of electric vehicles (EVs), is seeking to enter a new market segment for electric trucks. Recognizing the complexities and challenges of this venture, Lucid Motors decides to explore a joint venture (JV) partnership with Fisker, a well-established logistics company with extensive distribution networks. K4 (8)

Lucid Motors brings expertise in EV technology, manufacturing capabilities, and brand recognition to the table, while Fisker offers a deep understanding of the commercial trucking industry, existing customer relationships, and logistical infrastructure.

After extensive negotiations, Lucid Motors and Fisker agree to form a 50-50 joint venture, named ElectraTruck Solutions (ETS), aimed at designing, manufacturing, and distributing electric trucks tailored to the needs of logistics and transportation companies.

Q1: What strategic considerations influenced the decision of Lucid Motors and Fisker to form a joint venture rather than pursuing independent ventures in the electric trucking industry?

- 5) Pfizer, a leading player in the pharmaceutical industry, is considering strategic options to expand its market presence and enhance its competitive advantage. Pfizer is exploring the possibility of demerging its research and development (R&D) division into a separate entity. Analyse the potential advantages and disadvantages of this demerger from both strategic and financial perspectives. Consider the impact on shareholder value, resource allocation, and innovation capabilities. What factors should Company Pfizer consider when determining the optimal structure and governance framework for the demerged entity? K4 (8)

6) Read the case and answer the following :

K5 (10)

Tesla Inc., a leading electric vehicle manufacturer, is planning to raise capital to fund its ambitious expansion projects and technology investments. The company is considering issuing bonds to raise funds from the debt capital markets. Tesla's decision to issue bonds comes at a time when it is experiencing rapid growth and facing significant capital requirements to support its strategic initiatives.

Tesla engages with investment banks and financial advisors to explore its options for issuing bonds and evaluates the potential benefits and risks associated with this financing strategy. The advisors analyze Tesla's financial position, growth prospects, and market conditions to determine the optimal structure and terms for the bond issuance.

Questions:

Q1: What are the primary reasons behind Tesla's decision to issue bonds, and how does this financing option align with the company's strategic objectives and capital needs?

Q2: How does Tesla's credit rating and financial performance impact the pricing and demand for its bonds in the debt capital markets, and what factors should the company consider when determining the size and maturity of the bond issuance?

7) Company X is a conglomerate operating in multiple sectors such as retail, technology, and healthcare. Over the years, it has expanded its operations and acquired several companies to diversify its business portfolio. However, the management realizes that the conglomerate structure is becoming increasingly complex and difficult to manage efficiently. To unlock shareholder value and focus on core competencies, Company X decides to undergo a demerger. In the demerger process, Company X identifies its different business segments:

1. Retail Division: This division includes the chain of supermarkets and department stores owned by Company X.
2. Technology Division: This division focuses on software development and IT solutions for businesses.
3. Healthcare Division: This division operates hospitals and healthcare facilities.

After careful evaluation, Company X decides to separate its Retail Division from the rest of its operations through a demerger. The demerger involves creating a new entity, Company Y, to house the Retail Division assets and operations.

As part of the demerger process:

- Company X transfers the assets, liabilities, and personnel related to the Retail Division to Company Y.
- Shareholders of Company X receive shares in Company Y proportional to their holdings in Company X.
- Company Y becomes an independent entity, with its own management team and board of directors, focused solely on retail operations.

Q1: Evaluate the strategic rationale behind Company X's decision to demerge its Retail Division. How does this decision align with the company's long-term objectives? (5 Marks)

Q2: Compare and contrast the advantages and disadvantages of maintaining a conglomerate structure versus undergoing a demerger for Company X. (5 Marks)

8) ABC Corp, a leading technology company, is planning to issue \$500 million in bonds to fund its expansion into new markets. As an underwriter, you've been tasked with leading the underwriting process. ABC Corp has a strong track record of innovation and profitability, but the technology sector is known for its rapid changes and potential market disruptions. The company seeks to raise capital through a bond offering to support its ambitious growth plans while minimizing risk and maximizing returns for both the company and investors. The issue size of \$500 million represents a significant capital infusion for ABC Corp. The company aims to use the proceeds to invest in research and development, expand its product line, and strengthen its market presence globally.

As the underwriter, your role is to assess the market conditions, analyze ABC Corp's financial health, and determine the optimal terms for the bond offering. This includes setting the coupon rate, maturity date, and underwriting fee.

The underwriter fee, typically a percentage of the total offering amount, is negotiated between ABC Corp and the underwriting syndicate. It compensates the underwriter for assuming the risk of purchasing the bonds from ABC Corp and reselling them to investors at a profit.

In addition to the underwriting fee, other factors such as market demand, interest rate environment, and investor sentiment will influence the pricing and terms of the bond offering.

Q1: What factors would you consider when determining the optimal size of the offering for ABC Corp? (5 Marks)

Q2: Given the volatility in the technology industry, how would you assess the market risk associated with underwriting ABC Corp shares? (5 Marks)

Q3: ABC Corp is a relatively new player in the market. How would you evaluate its growth prospects and market positioning to determine the pricing of the shares? (5 Marks)

- 9) Analyse recent IPO of a Muthoot Microfin company on the basis of below mentioned data:

K6 (12)

IPO Date	December 18, 2023 to December 20, 2023
Listing Date	December 26, 2023
Face Value	₹10 per share
Price Band	₹277 to ₹291 per share
Lot Size	51 Shares
Total Issue Size	32,989,690 shares (aggregating up to ₹960.00 Cr)
Fresh Issue	26,116,838 shares (aggregating up to ₹760.00 Cr)
Offer for Sale	6,872,852 shares of ₹10 (aggregating up to ₹200.00 Cr)
<b>Employee Discount</b>	Rs 14 per share
Issue Type	Book Built Issue IPO
Listing At	BSE, NSE
Share holding pre issue	116,837,249
Share holding post issue	142,954,087

## Muthoot Microfin IPO Subscription Status

<u>Category</u>	<u>Subscription (times)</u>
QIB	18.35
NII	13.87
bNII (bids above ₹10L)	12.96
sNII (bids below ₹10L)	15.69
Retail	8.00
Total	12.30

Explain and justify the relevance of each particular mentioned in table and Investigate the role of investment banks in the listing procedure, regulatory compliance, and overall success of the IPO. Discuss the challenges faced and how investment banks addressed them.

10) HDFC and HDFC Bank have officially completed their merger, marking a significant milestone in the Indian banking sector. The deal, announced in April 2022 and valued at approximately Rs 3.2 lakh crore, has been in the works for over a year and has now concluded, with the merger set to take effect from July 1, 2023. This merger creates a banking behemoth with a combined market capitalization of around Rs 14.7 lakh crore, making HDFC Bank the fourth-largest bank in the world by market capitalization.

The merger is expected to unlock significant synergies and growth opportunities for the combined entity. With HDFC Bank's strong presence in the banking sector and HDFC Ltd's expertise in housing finance, the merged entity aims to enhance its offerings and expand its reach in the Indian financial market. Additionally, the merger will enable HDFC Bank to consolidate its position as a leading player in the housing loan segment and provide greater access to low-cost funds for infrastructure financing.

However, the merger also presents several challenges, including regulatory compliance, integration of operations, and maintaining financial stability. The merged entity will need to navigate through various regulatory requirements, including maintaining statutory liquidity ratios and meeting priority sector lending targets. Moreover, ensuring a seamless integration of HDFC Ltd's mortgage lending business with HDFC Bank's operations will be crucial for the success of the merger.

Questions:

Q1: What strategic rationale drove HDFC and HDFC Bank to pursue the merger, and what potential synergies do they aim to achieve through this consolidation?

Q2: Analyze the impact of the merger on the Indian banking sector and the competitive landscape. How does the creation of a banking behemoth affect market dynamics and customer offerings?

Q3: Discuss the regulatory hurdles and compliance requirements that HDFC Bank needs to address post-merger. How can the merged entity ensure regulatory compliance while maintaining financial stability and operational efficiency?

Assess the long-term growth prospects and challenges facing the merged entity. What strategies should HDFC Bank adopt to capitalize on the synergies generated by the merger and sustain its competitive advantage in the Indian financial market?