

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA – SEMESTER -III-EXAMINATION – WINTER-2023**

**Subject Code:2539321****Date: 11/12/2023****Subject Name: Investment Banking****Time:10:30 AM TO 1:30 PM****Total Marks: 70****Instructions:**

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

- Q.1** Briefly explain the following terms - **14**
- (a) National Stock Exchange
  - (b) Investment Banking
  - (c) Price-Earnings Ratio
  - (d) Market Capitalization
  - (e) Foreign Exchange Market
  - (f) Demat Account
  - (g) Large-Cap Stocks
- Q.2 (a)** Examine the core business portfolio of leading investment banks. How do they engage in core investment banking activities, such as mergers and acquisitions (M&A), capital raising, and advisory services? **07**
- Q.2 (b)** Synthesize the concept of underwriting in the capital market context. Construct an overview of its key components such as sub-underwriting, underwriting commission, and underwriting agreement. **07**
- OR**
- Q.2 (b)** Analyze the roles of capital market intermediaries and service providers, including issue managers, brokers, depositories, Credit Rating Agencies and portfolio managers. How do these entities collectively contribute to the operational efficiency of the capital market? **07**
- Q.3 (a)** Trace the evolution of investment banking in India, highlighting the key phases of growth, diversification, and consolidation. What factors contributed to the development of the investment banking sector in the country? **07**
- Q.3 (b)** If a publicly-traded company has a beta of 1.7 and the riskless rate for one-year Treasury bills is 4.5% and the expected return for the market is 12.5%. What is the company's capitalization rate? **07**

**OR**

- Q.3 (a)** Identify some of the major investment banks operating in India. What distinguishes these banks in terms of their market presence, areas of expertise, and strategic initiatives? **07**
- Q.3 (b)** Company XYZ reported a net income of \$500,000 for the fiscal year. The company has 100,000 outstanding common shares. Out of the net income, the company declared a total dividend of \$100,000. Calculate both Earnings Per Share (EPS) and Dividends Per Share (DPS) for Company XYZ. **07**
- Q.4 (a)** Evaluate the significance of mergers and acquisitions (M&A) in the investment banking industry. How do investment banks contribute to the success of M&A transactions, and what factors influence their involvement in such deals? **07**
- Q.4 (b)** Analyze the critical factors that companies need to consider during the pre-issue process of an IPO. How do these factors impact the overall success of the IPO, and what are the potential challenges that companies may face? **07**

**OR**

- Q.4 (a)** The financial manager of ABC Ltd expects that its earnings before interest and taxes (EBIT) in the current year would amount to Rs 30,000. The firm has 6% bonds aggregating Rs 60,000, while there are no preference shares. The firm can be assumed to be in the 30% tax bracket. The number of outstanding ordinary shares is 1,500. What would be the earnings per share (EPS)? **07**
- Q.4 (b)** Describe the essential elements of the Capital Asset Pricing Model (CAPM) and its application in calculating the cost of equity. Include an illustrative example in your explanation. **07**

**Q.5 Case Study: Paytm's Journey to IPO and Downfall**

Paytm is a leading digital payments and financial services company in India. In November 2021, the company went public with its Initial Public Offering (IPO), aiming to raise approximately \$2.2 billion. However, within just a few days of its IPO, the company's stock price plummeted, resulting in significant losses for investors.

**Paytm's Journey to IPO**

Paytm was founded in 2010 as a digital payment platform, offering users a quick and easy way to make payments online. Over the years, the company expanded its offerings to include digital banking, wealth management, and insurance services. By 2020, Paytm had over 333 million users and processed over 1.4 billion transactions every month.

In November 2021, Paytm went public with its IPO, which was highly anticipated by investors and analysts alike. The company aimed to raise approximately \$2.2 billion, with a valuation of around \$22 billion. The IPO was oversubscribed by more than 10 times, indicating strong investor interest.

**Paytm's Downfall**

However, within just a few days of its IPO, Paytm's stock price plummeted, resulting in significant losses for investors. The company's stock price dropped from its IPO price of INR 2,150 to INR 1,385, a decline of over 35%.

One of the primary reasons for the drop in Paytm's stock price was concerns over the company's profitability. Paytm has been investing heavily in its expansion into new markets, including financial services and e-commerce, resulting in significant losses. In its IPO prospectus, the company reported a loss of INR 1,701 crore in the fiscal year 2021, and a loss of INR 1,535 crore in the first half of the fiscal year 2022.

Another reason for the drop in Paytm's stock price was regulatory issues. Paytm has faced regulatory scrutiny in the past, including a brief ban on its services by the Reserve Bank of India (RBI) in 2018. The company has also faced scrutiny from the Competition Commission of India (CCI) over its dominance in the digital payments market.

Finally, the drop in Paytm's stock price was also attributed to the overall market sentiment towards tech stocks. In recent months, there has been a significant sell-off in tech stocks globally, driven by concerns over rising inflation, tightening monetary policy, and the spread of the Covid-19 virus.

Paytm's downfall offers several key learnings for the investment banking industry like importance of thorough due diligence before investing in a company and carefully assessing the company's financial performance to determine the appropriate IPO price. Investment bankers should also focus on diversifying their portfolios and not rely heavily on a single company or sector. Additionally, investment bankers should also pay close attention to market trends and adjust their portfolios accordingly to mitigate risks and maximize returns.

**Q.5 (a)** How did Paytm's rapid expansion into new markets contribute to concerns about its profitability and subsequent stock price decline? **07**

**Q.5 (b)** What role did regulatory issues play in Paytm's downfall, and how can investment bankers anticipate and manage such risks in the future? **07**

**OR**

**Q.5 (a)** In what ways did the broader market sentiment towards tech stocks impact Paytm's stock price, and how can investment strategies be adapted to navigate such trends? **07**

**Q.5 (b)** Reflecting on the importance of due diligence, what specific factors should investment bankers thoroughly examine when evaluating a company's suitability for an IPO? **07**

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