

# Question Bank - Problems and Cases with Brief Solutions

## PROBLEMS AND CASES WITH BRIEF SOLUTIONS

### 1. Case on Financing Plan

Evergreen Ltd., is an unlisted public company incorporated in India. It has an on-going business in the area of electronic component manufacture. Its customers are manufacturers of consumer electronics such as televisions, home theatres, audio equipment and the like. In order to augment its operations to meet the growing demand of the market, Evergreen is planning an expansion project to increase its manufacturing capacity. The project is estimated to cost ₹1 billion. The financing plan should be such that it does not increase the debt-equity ratio to more than 1.2:1 since the management is of the view the company being an intermediate manufacturer, its financial leverage should not be very high.

After consultation with investment bankers, the options available to the company to raise finance have been frozen as follows: (a) Rights Issue to the existing private shareholders at ₹20 per share. This alternative cannot raise more than ₹50 million. (b) Initial Public Offer at a price not exceeding ₹50 per share. (c) Rights-cum-public issue on the above lines. (d) Debt financing from bank.

Further details of the company's existing financials are furnished below –

Liabilities	Amount (₹ Million)	Assets	Amount (₹ Million)
Share Capital Equity Shares of ₹10 each	100	Net Fixed Assets	1650
<b>Reserves and Surplus</b>		Investments	5
Share Premium	0		
General Reserve	700		
P&L Account	500		
Long-Term Borrowings	1000	Current Assets	1340
Current Liabilities	700	Miscellaneous Expenditure	5
<b>Total</b>	<b>3000</b>	<b>Total</b>	<b>3000</b>

Work out the optimum financing plan for the expansion project that meets the specified objectives.

### Author's View

The structure that would more or less preserve the existing debt-equity ratio thereby increasing the financial leverage of the company only marginally but at the same time, provide the necessary size for an IPO is furnished below.

Financing Plan	Amount (₹ Million)
Rights Issue of 2,500,000 shares of ₹10 each at an issue price of ₹20 per share	50
Initial Public Offer of 9,000,000 shares of ₹10 each at an issue price of ₹50 per share	450
Additional Long Term Borrowings	500
<b>Total</b>	<b>1,000</b>

## 2. Problem on Financial Instrument Structuring

Ozone Ltd., wishes to come up with a unique debt instrument for issue on private placement basis to certain QIB investors. The features of the instrument are as follows:

- ❑ The face value of the instrument would be ₹1000/-.
- ❑ There would be three parts to the instrument – Part X, Part Y and Part Z.
- ❑ Part X with a face value of ₹300 would have a coupon rate of 7% which shall be paid half-yearly and shall have a life of six years. The principal shall be repaid in equal instalments at the end of year 4, year 5 and year 6.
- ❑ Part Y with a face value of ₹300 shall be issued at an issue price of ₹250 and shall have a life of three years. It shall be repaid in equal instalments at the end of year 1, year 2 and year 3.
- ❑ Part Z with a face value of ₹400 shall be repaid at the end of year 7, year 8, year 9 and year 10 in equal instalments of ₹225 each.
  - (a) Assuming all the three parts to be detachable, find the respective YTM of each part. If an investor holds all the three parts until redemption, find out the YTM of the whole instrument.
  - (b) Based on respective yield analysis, provide your views on the positive and negative aspects of the structuring of the instrument.

**Suggested Brief Solution for (a).**

	Part X	Part Y	Part Z	Combined
Half-Yearly YTM	4.07%	4.74%	4.92%	4.69%
Annualised YTM	8.3%	9.7%	10.08%	9.61%

## 3. Problem on Debt Convertible Instrument

Argon Ltd., proposes to come out with a public offer of 1,000,000 fully convertible debentures with certain unique features. The company presently has a share capital of 1,000,000 shares of ₹10 each and a PAT of ₹2,000,000. The details of the proposed debenture are as follows:

- ❑ The debenture shall have three distinct parts – Part A, Part B and Part C.
- ❑ Part A is convertible into one share at the end of 10 months at the option of the investor.

- ❑ Part B is convertible into two shares at the option of the investor at the end of 12 months. It also carries a detachable equity warrant. If the investor converts Part B as proposed, the equity warrant becomes active and entitles the investor to seek an additional share of the company in the 15<sup>th</sup> month.
- ❑ Part C is convertible into one share at the end of the 18<sup>th</sup> month at the option of the investor. However, Part C becomes convertible into two shares if the investor has exercised conversion option under Part A as well. Similarly, it becomes convertible into two shares if the investor has exercised conversion option under Part B as well. On the same lines it becomes convertible into three shares if the investor has exercised conversion option under both Parts A and B.

The company wishes to know the fully diluted EPS in the following scenarios:

- ❑ All investors opt for conversion of Part A alone.
- ❑ All investors opt for conversion of Part B alone.
- ❑ All investors opt for conversion of Part C alone.
- ❑ All investors opt for conversion of Part A and Part B.
- ❑ All investors opt for conversion of Part A and Part C.
- ❑ All investors opt for conversion of Part B and Part C.
- ❑ All investors opt for conversion of all parts.
- ❑ All investors do not opt for conversion of any part.

#### Suggested Brief Solution

Option	Fully diluted EPS (₹)
ABC	0.25
A	1.00
B	0.50
C	1.00
AB	0.40
AC	0.50
BC	0.33
None	2.00

#### 4. Case on Asset Management with Offshore Investors

Tomahawk Fund Management Pvt Ltd., is the Indian arm of Black Hole Capital, a large buyout fund based in Singapore. The buyout fund looks to acquire listed and unlisted Indian companies by buying a minimum of 51% in each company. In order to advise them on the investment strategy and regulatory mechanisms in India, the company has retained the services of Games Capel Ltd., an investment bank in India specialising in advising foreign investors.

As part of Games Capel, list out broadly and briefly, the investment routes available for Black Holes in India either directly or using Tomahawk as an investment vehicle and restrictions if any, on such investments. Your recommendations shall be based on the related regulatory provisions with specific reference to the proposed asset management model, the AIF Regulations of SEBI and foreign investment policy of India.

### Solution

Since case requires a descriptive answer, no solution is being suggested.

## 5. Case on IPO Strategy

From the following table, evolve a strategic financial plan for a company that is presently unlisted. The strategy could either include an IPO or otherwise. Discuss with reasons.

<b>Present Shareholding Pattern</b>	The company is presently closely held among the promoters, promoter group and their business associates.
<b>Fund Requirement</b>	There is a requirement of substantial funds to implement capital investment plans in future on an on-going basis.
<b>Growth Strategy</b>	The company is in a growth spiral and industry prospects are very good. However, the company has to grow fast.
<b>Future Profitability</b>	The company expects to generate good profitability on its present and future investments. Profits margins are expected to grow in future.
<b>Present Gearing</b>	The company has substantial long-term borrowings since the business is capital intensive.
<b>Industry Scenario</b>	The industry is in a consolidation phase and smaller companies need to ramp up quickly either to be positioned appropriately or be acquired by the bigger players.
<b>Promoters' Support</b>	Promoters have invested heavily into the company thus far and further support in the future to this extent is not likely.
<b>Strategic Interest</b>	The company would be of interest to strategic investors who would like to consolidate their presence in the industry.
<b>Banking Relationships</b>	The company enjoys excellent banking relationships.

### Solution

Since this is an argumentative case, no solution is being suggested. It is intended that the readers should debate alternative strategies based on their understanding of the subject and its application in the given case.

## 6. Problem on Rights Issue vs. FPO

Healthy Living Ltd., furnishes the following details with regard to its present financial position and performance:

- ❑ Share Capital – 2,000,000 equity shares of ₹10 each fully paid

- ❑ Preference Capital – 100,000 12% preference shares of ₹100 each fully paid.
- ❑ Accumulated Reserves – General Reserve – ₹14,526,867 Capital Reserve – ₹5,864,329 Profit and Loss Account (excluding current year's profits) ₹8,624,372
- ❑ Deferred Tax Assets – ₹287,339
- ❑ Profit after tax – ₹16,785,992
- ❑ Proposed Equity Dividend – 10%

The company proposes to come out with a rights issue of 500,000 equity shares at an issue price of ₹26 per share. Alternatively, the company proposes to come out with a FPO of 1,000,000 equity shares at an issue price of ₹45 per share.

Compute the EPS and Book Value of share under either of the above scenarios immediately on completion of the respective issue.

#### Suggested Brief Solution

Per Share	EPS ₹	BV ₹
Pre-Issue	7.79	31.16
After Rights	6.23	30.13
After FPO	5.20	35.77

#### 7. Problem on Issue Structure

Fantastic Ltd., an existing profit-making unlisted company, proposes to come out with a book-built IPO of equity shares as per the following proposed plan:

- ❑ Total size of the issue – 10,000,000 shares
- ❑ Promoters' quota – 500,000 shares
- ❑ Reservations to be made to Permanent Employees/Shareholders of group companies as may be permissible under SEBI ICDR Regulations.
- ❑ Pre-issue capital of the company comprises of 1,000,000 shares.

Work out a permissible issue structure.

#### Suggested Brief Solution

Issue Structure (No. of Shares)	100% Book-built issue
Offer through the prospectus	10,000,000
NPO	7,950,000

#### 8. Problem on Green Shoe Option

Blue Shoe Company Ltd., made a public issue of 2,000,000 equity shares of ₹10 each at a premium of ₹80 per share. The issue contained a green shoe option to the extent permissible and as per the guidelines, the company appointed Shoemaker Capital Ltd., as the stabilising agent. Shoemaker opened a separate demat account called 'Special Account for the GSO shares of Blue Shoe Co.' and a separate bank account called 'Special Account for the GSO proceeds of Blue Shoe Co.'. During the stabilisation period, the following transactions took place:

1. Shoemaker purchased shares from the market as follows:

Day from commencement of trading	No. of Shares	Average Market Price ₹
1	5,844	89
2	3,756	87
6	8,690	84
9	2,287	82
11	10,643	81
14	20,848	80
16	19,888	80
21	22,762	80
24	11,446	82
27	4,860	85
28	245	86
29	7,336	85
30	4,587	86

Determine the following:

- ☐ The extent of green shoe allotment to be done by the company.
- ☐ The funds left in the GSO account after the stabilisation period is completed.
- ☐ The amount of allotment money on the green shoe allotment.
- ☐ Show the entries in the GSO shares account and the GSO proceeds account.

#### Suggested Brief Solution

- (a) The extent of green shoe allotment to be done by the company is 176,808 shares.
- (b) The fund left in the GSO account after the stabilization period is completed is ₹990,191.
- (c) The amount of allotment money on the green shoe allotment is ₹15,912,720.

### 9. Cases on Eligibility to go Public

Determine the eligibility of the following companies to come out with a Public Issue:

- XYZ Ltd., is an existing profit-making dividend paying unlisted company for the past five years. The company's present net worth is ₹32 crore. Its average PAT in the past five years was ₹16.5 crore. The company is proposing to come out with a premium public issue aggregating to ₹250 crore.
- XYZ Ltd., is an existing profit-making dividend paying listed company for the past five years. The company's present net worth is ₹32 crore. Its average PAT in the past five years was ₹16.5 crore. The company is proposing to come out with a premium public issue aggregating to ₹250 crore.
- XYZ Ltd., is an existing profit-making company for the past five years. Its asset base has been around ₹50 crore during this period. The company's profits and net worth

have been growing during this period and are at ₹17 crore and ₹40 crore, respectively. The company is proposing to come out with a premium IPO aggregating to ₹200 crore by issue of fully convertible debentures. The conversion price of the FCDs will be determined closer to the date of conversion.

4. XYZ Ltd., is an existing company for the past five years. The company made profits in years 1, 3 and 5 and losses in years 2 and 4. The company's present net worth is ₹1,200 crore. The company is proposing to come out with a premium IPO aggregating to ₹7,500 crore.
5. Examine if XYZ Ltd., is eligible to go for an IPO under the following situations and under what stipulations.
  - (a) The company is into manufacturing business and has a net worth of ₹440 crore out of which ₹300 crore relates to investments in group companies.
  - (b) XYZ is a NBFC with a net worth of ₹550 crore but has substantial lending to its group companies to the extent of ₹200 crore.
  - (c) XYZ Ltd., has a total investment plan of ₹1,000 crore. Out of this amount, firm arrangements have been made through debt finance and promoters' contribution to the extent of ₹400 crore. The company proposes to make an IPO of ₹600 crore to finance the balance expenditure.
  - (d) XYZ Ltd., proposes to make an IPO with an OFS component. The equity shares pertaining to the OFS have been held by another business associate for a period of 9 months before the IPO date.
  - (e) XYZ Ltd., proposes to make an IPO with an OFS component. The equity shares pertaining to the OFS have been held by another business associate for a period of 9 months before the IPO date. The OFS shares have arisen out of FCDs that were issued by the company to the business associate with a holding period of 18 months prior to their conversion into equity.

### Suggested Solution

1. The company satisfies the primary eligibility conditions stipulated under the SEBI ICDR Regulations for making an IPO. It can make either a book built or a fixed price offer.
2. The company is eligible to come out with an FPO as there is no information that it has changed its name in the past 12 months and that less than 50% of its total revenue for the preceding financial year is not obtained under the new name.
3. The company can make a premium IPO of FCDs since it satisfies the primary eligibility conditions without stipulating the conversion price at the time of issue. However, the company will be required to provide exit option to investors who do not exercise the conversion option when the price is decided. Exit consideration shall not be less than the face value of the FCDs.
4. The company has made profits in three out of the five preceding financial years. The average annual pre-tax profit of those three years has to be a minimum of ₹15 crore. In such a case it may come out with the IPO either through a fixed price or a book-built offer. Otherwise, the IPO has to be only through book-building with a minimum of 75% of the NPO allocated to QIBs under the alternative eligibility condition.



5. The following would be the applicable eligibility conditions and stipulations for the IPO of XYZ Ltd.
- The company does not satisfy the primary eligibility condition that not more than 50% of its net worth shall be represented in monetary assets. Therefore, it has to go public under the alternative eligibility condition.
  - Since the company is a NBFC, lending to group companies is in the ordinary course of business. So if it satisfies all the primary conditions, it can make either a fixed price or a book built offer as per its choice. Otherwise, it has to go public only under the alternative eligibility condition.
  - The company has not made firm arrangements to the extent of at least 75% of its investment plan (excluding the IPO). Therefore, it is ineligible to go public as it does not satisfy the necessary conditions.
  - Since the OFS shares have not been held for a period of at least one year prior to the IPO, they cannot be part of the proposed OFS.
  - Since the cumulative holding period of the shares including the tenure of the FCDs is more than 12 months prior to the IPO, these shares are eligible to constitute the OFS component of the proposed IPO.

### 10. Problem on Issue Pricing

Everest Horizon Ltd., is a profit-making and dividend paying company. In order to finance its future projects, the company proposes to raise equity finance through an IPO. From the following details and requirements, recommend the floor price for a 100% book built offer.

- ☐ The ruling industry P/E multiple is 32 but the peer multiple is 35.
- ☐ The company wishes to be listed at least 30% premium to offer price at the relevant P/E multiple as mentioned above.
- ☐ The company proposes a bonus issue just before the IPO that would increase the equity base by 20% and exhaust all reserves.
- ☐ The company currently has an equity base of 2,000,000 shares of ₹10 each. The company posted a RONW of 42% for the preceding year.
- ☐ The company does not wish to have an Offer Price – Book Value ratio of more than 8 to the floor price.
- ☐ The company wishes to have a price band in the IPO.

### Suggested Brief Solution

The floor price that meets the above requirements is ₹80 per share and the price band is ₹80–96 per share.

### 11. Problem on Issue Pricing

From the following data, compute the floor price and cap for the IPO of Green Life Home Products Ltd.



Pre-Issue Capital	750,000 shares
Earnings to Equity	₹9,675,000
Offer Price/EPS Required	25
Pre-Issue RONW	18%
Offer Price/BV	7

The floor price should be higher of the Offer Price/EPS or the Offer Price/BV

### Suggested Brief Solution

The required offer price per share is ₹501.67 and the cap is ₹602.

## 12. Problem on Capital Structuring for IPO

Grasshopper Technologies Ltd., is an unlisted profit-making company engaged in the business of engineering and technical manufacture and services that is eligible for a 100% book-built offer. From the particulars mentioned below, recommend a suitable capital structure with regard to the proposed IPO.

### □ Pre-IPO Capital Structure –

Date	Allottee	No. of Shares	Nature of allotment
03/01/16	Promoters	500,000	Subscription at par
07/07/16	Promoters	600,000	Subscription at par
30/06/18	Promoters	1,100,000	Rights issue at 1:1 at par
25/08/18	Promoters	200,000	Subscription at premium of ₹5
30/03/19	VC1	600,000	Subscription at premium of ₹15
30/09/20	Promoters	400,000	Bonus Issue at 1:6
	VC1	100,000	Bonus Issue at 1:6
31/10/20	VC2	100,000	Subscription at premium of ₹20
31/10/20	Promoters	400,000	Subscription at premium of ₹20
31/01/21	Promoters	200,000	Subscription at premium of ₹20
31/01/21	VC2	600,000	Subscription at premium of ₹20
31/01/21	HNIIs	200,000	Subscription at premium of ₹20
31/03/21	Total	5,000,000	

- Issue requirements are as follows:
- Promoters wish to subscribe to 1,000,000 shares in the issue.
  - VC1 wishes to make an offer for sale of its entire shareholding in the issue.
  - VC2 and HNIIs wish to remain as shareholders after the issue.
  - The issue is made with reference to April 2021.
- The recommended capital structure should comply with the above requirements as much as possible and be compliant with the provisions of the ICDR Regulations.

### Suggested Brief Solution

Post-Issue Capital Structure		
	Shares	%
Promoters	4,400,000	61.11
VC1	100,000	1.39
VC2	700,000	9.72
HNIs	200,000	2.78
Public	1,800,000	25.00
<b>Total</b>	<b>7,200,000</b>	<b>100.00</b>

### 13. Problem on Issue Structure

From the following details pertaining to the proposed public issue of Arising Technologies Ltd., a telecom software company, prepare a suitable issue structure that would meet regulatory requirements.

- ❑ The pre-issue capital consists of 1,000,000 shares are all held by the promoters.
- ❑ The total size of the issue would be 2,000,000 shares.
- ❑ Promoters seek to bring in a subscription of 200,000 shares in the issue.
- ❑ The employees of the company are to be provided shares in the IPO as permissible under the regulations.
- ❑ The shareholders of group companies are to be provided shares in the IPO as permissible under the regulations.
- ❑ The issue is proposed under the 100% book- built route and the company is eligible for the same.

### Suggested Solution

Issue Structure with Permissible Reservations	No. of shares
Pre-issue capital of the company	1,000,000
<b>Total Issue</b>	<b>2,000,000</b>
Post-issue capital	3,000,000
Promoters contribution in the issue	200,000
Offered to the Public in terms of the Prospectus	1,800,000
<b>Permissible Reservations</b>	
Permanent Employees (restricted to 5% of the post-issue capital as per ICDR Regulations)	150,000
Shareholders of listed group companies (restricted to 10% of the Issue as per ICDR Regulations)	200,000
<b>Net Public Offer</b>	<b>1,450,000</b>

#### 14. Case on Issue Structure

King Kong Godzilla Ltd., is an Indian company engaged in the manufacture of high-precision defence equipment including submarine and missile components for the defence requirements of various countries. The JV company is owned 51% by King Kong Technologies Ltd., a Hong Kong based listed company and 49% by Balwant Godzilla Ltd., an Indian unlisted company. The JV was floated only for the development of technologies for the defence sector business. The FDI is as per the current stipulations of the Government of India.

The company's fund structure is as follows:

Particulars	₹ crore
Share Capital	85
Equity shares of ₹10 each	
Reserves and Surplus	
Share Premium	152
General Reserve	23
Debenture Redemption Reserve	33
Revaluation Reserve	25
Capital Reserve (on merger of a group company)	52
P&L Account (Current Year)	64
Deferred Tax Liabilities	14
Long Term Debentures	104
Current Liabilities	36
<b>Total</b>	<b>588</b>

- The company proposes to go for an IPO by offering 25% stake to the public as per SCRA Rules.
- The offer price is proposed to be finalised at an Offer-P/E of 22 or an Offer-BV of 3.5 whichever is higher.

You are required to compute the IPO issue structure table showing the issue price, number of shares on offer, permissible categories of reservation and NPO as per SEBI regulations.

#### Suggested Solution on Issue Structure

Issue Structure with Permissible Reservations	No. of shares
Total Issue Size	28,333,333
Offered to the Public in terms of the Prospectus	28,333,333
Permissible Reservations	
Permanent Employees (5% of post-issue capital)	5,666,667
Shareholders of unlisted Group Companies (10% of issue size)	2,833,333
<b>Net Public Offer</b>	<b>18,418,333</b>
<b>Proposed Offer Price ₹ per share</b>	<b>166</b>

### 15. Case on Issue Structure

Azerbaijan Auto India Ltd., is a wholly owned subsidiary of its parent company in Azerbaijan and is a leading brand in automotive glass used in windshields and window glasses. It proposes to make an IPO which will consist of 25% dilution including a 15% OFS component of its parent company. The following further information is provided to you:

Pre-Issue Capital	7,557,050 shares
Held by Promoter Group	5,882,550 shares
Held by P/E investors	1,527,500 shares
ESOP Pool	147,000 shares
Funds are proposed to be raised at a Floor Price of ₹850 per share	
According to the shareholders' agreement, the OFS component of 15% is to be structured as follows:	
Parent Company to offer ----	5%
PE Investors to offer ----	10%.

Considering the Floor Price to be the Cut-off Price, answer the following questions:

- Arrive at the Issue Structure Table as per the specified requirements above.
- Arrive at the Post-Issue Capital Structure Table as per the specified requirements above.
- Show the break-up of the Issue Proceeds between the Sellers and the Issuer Company.

#### Suggested Brief Solution on Issue Structure

Issue Structure	No. of shares
Total Issue Size	2,099,180
Promoters Quota	419,836
Offer for Sale by PE investors (Secondary Issue)	839,672
Primary Issue	839,672
<b>Net Public Offer</b>	<b>1,679,344</b>

### 16. Problem on Financial Ratios

From the following details, work out all the ratios required to be disclosed as the basis of the offer price in an offer document. The proposed issue is for 3,000,000 shares of ₹10 each at a premium of ₹110 per share.

Particulars	Year <sub>3</sub>	Year <sub>2</sub>	Year <sub>1</sub>
Profit after tax	28,745,670	19,345,870	17,254,000
Dividends (incl tax)	25%	25%	30%
Share Capital in ₹ (shares of ₹10 each)	70,000,000	60,000,000	50,000,000
Industry P/E	26	22	20

(Continued)

Particulars	Year <sub>3</sub>	Year <sub>2</sub>	Year <sub>1</sub>
General Reserve	5,000,000	5,000,000	5,000,000
Securities Premium Account	2,500,000	1,400,000	500,000
Capital Redemption Reserve	2,500,000	2,500,000	2,500,000
Profit and Loss Account	28,045,540	16,799,870	12,454,000
Revaluation Reserve	2,000,000	2,000,000	2,000,000

### Suggested Solution

- Adjusted EPS (for past three years)
  - Year<sub>1</sub> ₹4.11
  - Year<sub>2</sub> ₹3.22
  - Year<sub>3</sub> ₹3.45
  - Weighted Average ₹3.63
- P/E Ratio in relation to Issue Price
  - Based on Year<sub>3</sub> EPS 29.22
  - Industry P/E
    - Highest 26.0
    - Lowest 20.0
    - Average 23.0
- Return on net worth
  - Year<sub>1</sub> 24.49%
  - Year<sub>2</sub> 22.57%
  - Year<sub>3</sub> 26.61%
  - Weighted Average 24.73%
- Net Asset Value (NAV)
  - As at end of Year<sub>3</sub> ₹15.44
  - After Issue ₹46.80
  - Issue Price ₹120.00

### 17. Problem on Cut-off Price

From the following details in relation to a 100% book-built IPO, work out the *least* and the *maximum* possible cut-off price for a 100% book built offer. The floor price of the offer was set at ₹150 per share. There was no price band. The size of the issue was 10,000,000 shares.

Bid Price (₹ per share)	No. of Shares
250	200,047
225	934,878
220	4,876,992
215	6,324,475

(Continued)

Bid Price (₹ per share)	No. of Shares
210	363,000
200	8,876,903
190	2,286,400
180	1,285,632
175	8,456,689
160	380,426
150	251,573

### Suggested Brief Solution

The least possible cut-off price is the floor price of ₹150. The maximum cut-off price is ₹215.

### 18. Problem on Issue Allocation

Fair Deal Supermart Ltd., is a retailing company with a chain of stores. It wishes to come out with an IPO of ₹150 crore comprising of shares of ₹10/- each. The company was set up six years ago at an initial investment of ₹1 crore subscribed entirely by the promoters at par. In the past two years, the company has grown tremendously making huge profits. The net worth of the company presently stands at ₹38 crore. Buoyed by its success, it is planning a major IPO that will take it to the next level of business. The management has heard from the market that it is an ideal time to go public and that their company can command a substantial premium. After talking to their merchant bankers, the company proposes to make an issue at an offer price of ₹200 per share either through the fixed price route or the book-built route.

Based on the above information, work out the issue allocation structure for the company's proposed IPO.

### Suggested Brief Solution

Since the company wishes to make a fixed price or a book-built issue, it has to comply with all the primary eligibility conditions.

Issue Allocation	Book Built	Fixed Price
Total issue size (No. of shares)	7,500,000	7,500,000
Promoters	700,000	700,000
NPO	6,800,000	6,800,000
Allocation to QIBs (50%)	3,400,000	0
Allocation to HNIs (15%)	1,020,000	(50%) 3,400,000
Allocation to Retail Public (35%)	2,380,000	(50%) 3,400,000

### 19. Comprehensive Case on Public Issue Structure

Given below are the particulars of Shadow Infosystems, an unlisted cutting edge technology company with a path breaking product portfolio. It plans to go for an IPO to raise capital

for its business plan and hires Dark Pool Capital, a global investment bank with a merchant banking licence in India. You are the Vice-President at Dark Pool Capital India in charge of the assignment.

- The Pre- issue capital was subscribed to in the following chronological order:

Particulars	
At formation of company through the MOA by the Promoter Group (No. of shares)	10,000
On 02-02-2015 (New allotment) at par to Promoter Group (No. of shares)	100,000
On 03-03-2016 (New allotment) at par to Promoter Group (No. of shares)	50,000
On 30-03-2016 (New allotment) at ₹20 per share to Nautica Ventures (VC)	For a total consideration of ₹2,000,000
On 04-04-2017 there was a Rights Issue at 1:1 for ₹20 per share.	
On 05-05-2018 (Preferential Allotment) at ₹25 per share to Promoter Group	For a total consideration of ₹1,000,000
On 25-05-2018 New Allotment to Nautica Ventures at ₹50 per share	For a lump sum valuation of ₹7,500,000
On 06-06-2019 (For transfer of technology to company) at ₹30 per share to Promoter Group	For a total consideration of ₹5,000,000
On 27-07-2020 New Allotment to Kenneth Ambrose Partners (VC) at ₹125 per share	For a total consideration of ₹1,000,000
On 30-09-2020 there was a Bonus Issue in the ratio of 1:4 (one for every four held)	

- The issue is to be made as per the following objectives of the client:
  - ☐ The promoter group does not wish to participate in the IPO.
  - ☐ The company proposes to raise as much maximum capital as close as possible to an amount of ₹500,000,000.
  - ☐ The floor price of the issue would be ₹500 per share.
  - ☐ Nautica Ventures wishes to exit to the extent of 50% of its holding pre-issue.
  - ☐ Kenneth Ambrose Partners wishes to exit completely.
  - ☐ The company wishes to make the issue in the 100% book-building route.

You are required to provide the following with respect to the issue with reference to the Floor Price:

- The capital structure table showing the pre-issue and post-issue capital structure.
- The issue structure table showing the issue allocation.
- The complete details of promoters' contribution requirements for the IPO.
- The complete details of lock-in requirements as applicable to this IPO.

Your answer should be in conformity with the regulations. Reference Date for the solution – April 2021.



**Suggested Brief Solution<sup>1</sup>**

Total Pre-issue Shares	1,012,500
Post-issue Shares (Maximum)	2,012,500
Maximum New Issue Size possible	237,500
Offer for Sale by Nautica Ventures	137,500
Offer for Sale by Kenneth Ambrose Partners	50,000
Total IPO	425,000

**20. Comprehensive Case on Public Issue Structure**

Golden Harbour Films Ltd., (GHFL) is in the entertainment industry producing telefilms, feature films, post-production facilities and marketing and distribution of films. The main promoter, Mr. Raymond Crow is a very successful producer having made several blockbuster movies in the past such as 'Enter the Canyon' and 'For Your Ice Only'. With a view to expand their business to other segments and broad base their infrastructural facilities, GHFL plans to come out with a public issue as an IPO to finance the expansion plan. Mr. Crow is of the view that his company could command a significant premium in the market because of its track record and therefore wants a 100% book-built offer. You are the Vice President (Merchant Banking) of Brash Lee Managers Ltd., who has been appointed as Merchant Bankers to the proposed Issue. The following particulars have been given to you in this regard:

- The company has been making profits in the last five years continuously in the past three years and net worth of more than ₹100 lakh during that time.
- The present shareholding pattern of GHFL is as follows:
  - Mr. Crow and Associates – 78%
  - Mr. Jackie Fan – 16%
  - Mr. Random Lee – 6%
  - The total share capital is ₹100 lakh divided into shares of ₹10 each.
- The proposed issue is for a size of ₹1000 lakh at the minimum and ₹3000 lakh at the maximum. Mr. Crow has adequate plans to justify the expenditure for an issue size between the above limits.
- The company had the following financials at the end of the previous financial year (2021):
  - Sales from production and distribution – ₹1200 lakh
  - Income from distribution services – ₹700 lakh
  - Income from post production services – ₹2000 lakh

<sup>1</sup> This solution requires familiarity with additional provisions of the SEBI ICDR Regulations 2018 regarding promoters' contribution, lock-in requirements and rules regarding offer for sale by VCs that may not have been detailed in the book as the objective is to provide more focus on conceptual understanding. However, this case is intended for those readers who may want to delve a little more into regulation based issue structuring. For better understanding of these provisions, such readers may refer to the SEBI ICDR Regulations 2018 as may be applicable from time to time.

- (d) Gross profits before Depreciation and Financial Charges – ₹1638 lakh
  - (e) Interest and Financial Charges - ₹540 lakh
  - (f) Depreciation – ₹320 lakh
  - (g) Tax provision – ₹233 lakh
  - (h) Net Fixed assets at the beginning of the previous year – ₹2342 lakh
  - (i) Stock of films under development – ₹365 lakh
  - (j) Distribution receivables pending realization – ₹500 lakh
  - (k) Cash and Bank Balances – ₹220 lakh
  - (l) Post Production equipment purchases during the year – ₹269 lakh
  - (m) Advances given for films to be produced to artists – ₹219 lakh
  - (n) Payments pending to producers – ₹285 lakh
  - (o) Stock of films pending production – ₹200 lakh
  - (p) Unpaid Stock of films and equipment – ₹245 lakh
  - (q) Long Term Loans – ₹1200 lakh
  - (r) General reserve – ₹345 lakh
  - (s) Accumulated P&L Account – ₹842 lakh
5. Mr. Crow wants minimum dilution of his stake in the company post IPO. To this end, he has arrived at an arrangement with other two partners to buy off their stake at a pre-determined price based on the book value of the share as at the end of the previous financial year. The agreed price is at a premium of 10% over the book value of the share. Mr. Crow wants to complete this transaction before going for the IPO.
  6. You are required to compute the following with respect to the issue:
    - (a) The valuation of share for the acquisition to be made by Mr. Crow of the shares held by the other two partners.
    - (b) The Floor Price of share for the proposed IPO based on the **lower of** twice the Book Value or 12 times the Current EPS as at the end of the previous financial year as per the above data.
    - (c) The standard financial ratios to be furnished as per SEBI requirements and the calculations thereof.
  7. Provide the Issue Structure Table incorporating the following:
    - (a) The Issue size and number of shares on offer.
    - (b) 10% reserved for the employees of GHFL.
    - (c) Mr. Crow wants to bring in an additional 5% in the Issue at the proposed offer price.
    - (d) The balance will be offered to the public.

### Suggested Brief Solution

The valuation of share for the acquisition to be made by Mr. Crow of the shares held by the other two partners is ₹201.50.

The Floor Price of share for the proposed IPO based on the **lower of** twice the Book Value or 12 times the Current EPS as at the end of the previous financial year as per the above data is ₹366 per share.

### Financial Ratios

- ❑ EPS = ₹54.50
- ❑ RONW = 29.74%
- ❑ NAV per share pre-issue = ₹183.20
- ❑ NAV per share post-issue = ₹265.50

**Brief Issue Structure Table**

Share Capital	Nominal Value (₹)	Aggregate value (₹)
Present Issue		
819,000 shares of ₹10 each	8,190,000	299,754,000
Out of the Present Issue		
5% amounting to 40,950 shares at a premium of ₹356 are reserved for firm allotment to the promoter Mr. Raymond Crow and his associates	409,500	14,987,700
Now Offered to the Public in Terms of This Prospectus		
778,050 shares of ₹10 each at a premium of ₹356 per share	7,780,500	284,766,300

### 21. Comprehensive Case on Public Issue Structure

Green Way Foods India Ltd., is a fast growing FMCG company that has taken on the likes of HUL, GSK, Nestle and other MNCs for gaining market shares in several product categories. Considering the huge growth capital requirements, investment bankers have suggested that the company should consider tapping the capital market. The company has been PE funded in the past by two leading international investors – Softbank Advisors and Wild Buffalo Investors who are currently holding 18% together in the company.

Considering the company's capex and working capital requirements as well as the need to provide exit to the PE investors, investment bankers have structured an IPO that has two parts – (1) NCD with a 10-year life and a coupon of 9.25% payable annually and (2) Equity Shares through OFS and Primary components. It is also proposed to provide an employee quota of 150,000 shares as permitted in the IPO regulations. Consider the further data provided to you below and the minimum dilution requirements for an IPO.

Pre-Issue Paid Up Capital (equity shares of ₹10 each)	7,500,000 shares
NCD Issue Component (each NCD of ₹100 Face Value to be redeemed at par)	₹525,000,000
Floor Price proposed for the Equity component as per the comfort of underwriters is ₹550 per share.	

The PE investors propose to retain 10% of their existing shares and offload the rest in the OFS. Promoters would like to retain not more than 60 lakh shares post-issue and offload the rest in the OFS

The company proposes to issue primary shares for the balance minimum dilution requirements of the IPO.

Based on the given Floor Price, provide the following:

- Total size of the IPO showing break-up of the debt, OFS and primary components separately in terms of amount and number of securities.
- The Capital Structure Table of the Company showing the pre-issue and post-issue scenarios (shares and amount in separate columns).
- The Price band of the equity component of the IPO as per SEBI Regulations.

#### Suggested Brief Solution

Total IPO size	Shares	Amount
OFS	1,365,000	750,750,000
Primary	730,000	401,500,000
NCD	5,250,000	525,000,000
		1,677,250,000
Price Band for Equity	Cap	660
	Floor	550

## 22. Comprehensive Problem on Public Issue Structure

Crypton Glass Products Ltd., is a leading brand in automotive glass used in windshields and window glasses. It proposes to make an IPO which will consist of 25% dilution including a 15% OFS component. The following further information is provided to you.

Pre-Issue Capital	7,557,050 shares
Held by Promoter Group	5,882,550 shares
Held by P/E investors	1,527,500 shares
ESOP Pool	147,000 shares
Funds are proposed to be raised at a Fixed Price of ₹850 per share	

According to the shareholders' agreement, the OFS component is to be shared between the Promoter Group (20%) and P/E investors (80%).

Answer the following questions:

- Arrive at the Issue Structure Table as per the specified requirements above.
- Arrive at the Post-Issue Capital Structure Table as per the specified requirements above.
- Come up with the alternative Issue Structure and Capital Structure if the P/E investors decide to exit the company completely.
- What is the amount of capital raised by the company under (a) and (c) above?

**Suggested Brief Solution****Issue Size and Structure under (a)**

IPO Size (₹)	1,784,303,472
OFS Component (Secondary)	1,070,582,083
New Issue Component (Primary)	713,721,389

**On a Complete Exit by PE Investors under (c)**

IPO Size (₹)	1,784,303,472
OFS Component (Secondary)	1,070,582,083
New Issue Component (Primary)	713,721,389

**23. Case on Underwriting and Devolvment**

Inspirational Enterprises Ltd., made an IPO through the 100% book-building route. The lead BRLM of the issue was Devotional Capital Markets Ltd., a leading investment bank. The co-lead BRLM was Emotional Capital Ltd. The issue also consisted of four other syndicate members, namely Conventional Securities, Inventional Securities, Dimensional Securities and Providential Securities. The issue was to raise a total amount of ₹2 billion in a price band of ₹200–220 per share. The issue was underwritten as follows:

	% of issue underwritten
Devotional Capital Markets Ltd.	25%
Emotional Capital Ltd.	10%
Conventional Securities	20%
Inventional Securities	15%
Dimensional Securities	10%
Providential Securities	20%

All the underwriters being eligible QIBs also put in their own subscriptions in the QIB component of the issue as follows:

	No. of Shares applied for
Devotional Capital Markets Ltd.	12,500 shares at ₹220
Emotional Capital Ltd.	2,500 shares at ₹200
Conventional Securities	5,000 shares at ₹215
Inventional Securities	10,000 shares at ₹212
Dimensional Securities	15,000 shares at ₹216
Providential Securities	20,000 shares at ₹220

The issue received a mixed response from the market. While the QIB portion was subscribed 1.70 times, the HNI portion was subscribed by 0.40 times. The retail portion was a

disaster receiving a subscription of only 0.20 times. There were zero direct applications in all categories. Therefore, the cut-off price was fixed at ₹200 per share.

Based on the above information, compute the total number of shares, the subscription amount and refund amount if any, for each of the underwriters respectively.

#### Suggested Brief Solution

Underwriter	Devolvement ₹
Devotional Capital Markets Ltd.	10,000,000
Emotional Capital Ltd.	4,000,000
Conventional Securities	8,000,000
Inventional Securities	6,000,000
Dimensional Securities	4,000,000
Providential Securities	8,000,000

#### 24. Due Diligence Review

Briefly furnish the check-list of information you would seek as the Lead Manager from your client for conducting Due Diligence Review for a proposed IPO as per AIBI's prescribed standards.

#### 25. Problem on GDRs

Carrot Capital Management, Singapore has invested in 1 million GDRs of Billion India Developers Ltd., a leading information technology company. The GDRs representing shares in the ratio 3:1 were bought at a price of S\$ 26.5 per GDR in 2016. The company subsequently made a rights issue of its domestic shares (excluding the GDRs) at 2:1 in early 2017. Thereafter, a sponsored issue of GDRs was made in the second half of 2017 in which Carrot invested in two more million GDRs at a price of S\$ 32.5. Subsequently Carrot applied for a FPI registration with SEBI and invested in one million shares in the Indian market at ₹1,905 per share in 2018. In 2019, the company's domestic share was trading at ₹3,905. Sensing an arbitrage opportunity, Carrot applied for the conversion of its entire GDRs into shares. Thereafter, it sold 50% of its holdings in the domestic market at ₹4,205 per share in the wake of the Covid crisis in 2020. Compute the average carrying cost of the holding with Carrot and its market value in ₹. Consider (1 S\$ = ₹55).

#### Suggested Brief Solution

Carrot's holding in shares after conversion and sale in domestic market – 1,000,000 shares at an average cost of ₹2,733 per share.

#### 26. Case on Growth Financing Through QIP and FCCBs

Silverstone Media Solutions Ltd., is a listed Indian company engaged in the business of providing high-end animation, special effects and graphic designing for the entertainment industry. It has over the years produced technical solutions for several mega blockbuster



movies such as 'Mckenna has Cold', 'Truncator' and 'Day after Yesterday'. In order to get into front-end movie production, the company decides that it has to raise significant amount of equity capital through private equity and other means. It appoints Morgan Stealthy Securities, a reputed investment bank to advise and structure the transaction.

The transaction has to be through a combination of a domestic QIP and privately placed FCCBs in the foreign capital market since the company has several business connections in the west that can be tapped for the placement. The FCCB component is envisaged at 25% of the total issue. The other details that are relevant for the transaction are provided hereunder –

#### 1. Present Capital Structure of the Company

Shareholder	% held
Promoter Group	46%
QIBs	18%
Chime Warner (strategic partner)	12%
General Public	24%

- The company was listed in 2018 at ₹110 per share through a book-built IPO with a cut-off price of ₹90 per share. Thereafter, it has performed steadily and has been quoting at an average P/E of 28 in the preceding 6 months which can be reckoned for the purpose of statutory computations. The company declared a PAT of ₹150 million on an equity base of ₹20 crore for the previous financial year.
- The fund raising required by the company is in the order of ₹100 crore through the present transaction. The company can look at a variation of around 15% to this requirement either way.
- Chime Warner wishes to increase its stake through the FCCB route by subscribing to 10% of the total issue. The earlier stake was acquired prior to the company's IPO.
- The company wants only a combined offer of a domestic QIP of pure equity with an overseas component of FCCBs. It is not in favour of FPO, Rights or a Preferential Issue. The company is of the view that the QIP route offers more flexibility to structure the convertible as compared to FPO, rights or preferential issue.

Based on the above information, as part of Morgan Stealthy you are required to provide the optimum transaction structure that would be in line with what is stated above. Needless to say your solution should also recommend the ideal pricing for the issue of both the equity and the FCCB. Your answer should be in conformity with the relevant regulations.

#### Suggested Brief Solution

QIP and FCCB pricing considered identically at ₹200 per share since both are happening simultaneously.

Total Issue size for QIP and FCCB considered at ₹100 crore with an upward variation of just over 15%. Therefore total issue size is 50 lakh shares.



### Shareholding Pattern Post QIP and FCCB

	Shares	Stake
Promoter Group	9,200,000	37%
QIBs	7,337,500	29%
Chime Warner	2,526,250	10%
General Public	4,800,000	19%
FCCB Holders	1,136,250	5%
	<b>25,000,000</b>	<b>100%</b>

### 27. Case on Financing Strategy

Systech Infosoft Ltd., is a listed company in India. It made its IPO in 2017 and has since been quite an active scrip with reasonable volume of trades. Its IPO price was ₹35 (10 + 25) and thereafter it has seen a high of ₹150 in the bull phase in 2019 and a low of ₹16 in the 2020 bear phase just after the Covid crisis. The average 26 week price is ₹40. The promoters of the company are businessmen with varied interests in trading of HDPE sacks, bulk export of hospital beds, surgical instruments and cotton. The company is professionally managed by software experts.

The issue facing the company is as follows:

- ❑ The company requires to get into value added segments which require fund infusion of about ₹250 million, out of which ₹50–60 million would go into development of a proprietary product for hospital inventory management. Due to the related background of the promoters, the company expects to sell this product to several hospitals globally. The balance fund requirement is to ramp up the office infrastructure and seed marketing expenses for the new segments.
- ❑ The promoters can muster about ₹50 million in all. Their present holding in the company is 45%. The rest is held by Mutual Funds (20%), FPIs (5%) and the general public (30%).

Looking at the present position, what financing strategy would you recommend as the company's investment banker?

#### Solution

Since this is an analytical case, no solution is being suggested. It is intended that readers should debate the case and come up with their own recommendation based on their understanding of the subject and its application in the given case.

### 28. Case on Financing Strategy

Georgio Kirmani Ltd., is a listed company in India. It made its IPO in 2017 and has since been quite an active scrip with reasonable volume of trades. Its IPO price was ₹35 (10 + 25) and thereafter it has seen a high of ₹180 in the boom period in 2019 and a low of ₹16 in the post Covid meltdown. The average 26 week price is ₹110. The promoters of the company are businessmen with varied interests in trading of HDPE sacks, bulk export of hospital beds,

surgical instruments and cotton. The company is professionally managed by a CEO reporting to the board.

The issue facing the company is as follows:

- ❑ The company requires getting into value added segments which require fund infusion of about ₹500 million, out of which ₹100 million would go into development of a proprietary product for hospital inventory management. Due to the related background of the promoters, the company expects to sell this product to several hospitals globally. The balance fund requirement is to ramp up the office infrastructure and seed marketing expenses for the new segments.
- ❑ The promoters can muster about 10% of the fund requirement in all. Their present holding in the company is 45%. The rest is held by Mutual Funds (20%), FPIs (5%) and the general public (30%).

Looking at the present position, what financing strategy would you recommend as the company's investment banker?

### **Solution**

Since this is an analytical case, no solution is being suggested. It is intended that readers should analyse the case and come up with their own recommendation based on their understanding of the subject and its application in the given case.

## **29. Case on Subsidiary Listing**

New Millennium Technologies Inc. (NMT Inc.) is based in San Jose, California engaged in providing cutting-edge solutions on real-time basis for utilities such as water supply, electricity and transportation companies. The company has its main back office operations and development centre in India in Noida and Bangalore. The Indian operations have been structured as a 100% subsidiary called New Millennium Technologies (India) Ltd., (NMT Ltd.).

Due to its high growth business model, there is a need to ramp up the Indian operations. Plans are also on the anvil to make NMTL the hub for providing similar solutions to the Indian and SAARC market. All this would require fund raising to the extent of around ₹1 billion. About ₹750 million is required for capital expenditure on infrastructure facilities and the balance for one-time technology development costs. NMT Inc. does not want to pump in any further investments into the Indian operations. It feels that NMT Ltd., could become self-sufficient in raising funds by going public in India.

The investment made by NMT Inc. in NMT Ltd., is so far to the tune of ₹250 million. The top line of NMT Ltd., is around ₹1.5 billion and the profits are in the range of ₹300 million. The company has been in operation for the past four years. The first two years were loss-making but the next two years have produced profits of ₹100 million and ₹300 million, respectively.

NMT Inc. is listed on NASDAQ. It went public in 2016 at a price of US\$ 11.25 per share and thereafter touched a high of US\$ 28.00 towards middle of 2018. It had an all-time low of US\$ 6.78 during the Covid global lockdown in 2020 and generally remained below offer price for the better part of 2020. In the past four years, the trading has been of average volumes. The average 52 week price hovers around US\$ 25.00.

You are Mr. Goldman Sachs, investment banker to the group in USA and in India. What would your recommendations for the IPO strategy of NMT Ltd., be in the context of the given information?

### Solution

Since this is an analytical case, no solution is being suggested. It is intended that readers should analyse the case and come up with their own recommendation based on their understanding of the subject and its application in the given case.

### 30. Case on QIP and Preferential Allotment

The following data is available with respect to God's Own Country Travels Ltd., a company engaged in providing pilgrimage services.

Balance Sheet Data		Amount in ₹ Million
Paid Up Equity Capital (Share of ₹10 each)		750
5% Redeemable Preference Capital		250
10% Secured Non-Convertible Debenture Capital		2,000
Accumulated Profits and Revenue Reserves (brought forward)		3,000
Capital Reserve (cash)		200
Capital Reserve (Non-cash)		150
Current Liabilities (8% interest bearing)		200
P&L Data		
EBITA (for current year)		1500
Depreciation for current year		300
Applicable tax rate	30%	
Equity dividend Proposed	10%	
Other Relevant Information		
DCF Value per share based on future financial forecast (₹)	300	
Current P/E trading multiple	17	
Average 26 week multiple	19	
Average 2 week trading multiple	15	

The company proposes to go in for a convertible debt structure of ₹500 million and convertible preference structure of another ₹500 million to raise capital to the extent of ₹1 billion.

The debt structure would be a 10% non-convertible debt with equity warrant. Each warrant entitles the applicant to apply for an equity share within 3 months at a conversion price based on the SEBI formula or the DCF value whichever is greater.

The convertible preference structure would consist of 5% preference share convertible into equity after 12 months at the rate of one equity share for every preference share held at a conversion price based on the SEBI formula or the DCF value whichever is greater.

Using the above information, you are required to compute the following:

- The number of new equity shares and the expansion in the equity capital of the company post conversion of warrants and preference shares.
- The EPS and Book Value of the Company post-issue on a fully diluted basis.
- The SEBI price applicable to the conversion price in two scenarios – (a) Preferential allotment and (b) QIP.
- The debt-equity ratio of the company immediately after the issue of the convertibles.

### Suggested Brief Solution

Assumed Face Value of Preference Shares ₹10 each and convertible debentures of ₹100 each.

Total Equity Shares post issue (fully converted)	130,000,000
EPS fully diluted (₹)	6.24
Book Value fully diluted (₹)	157.78
SEBI price per share for Preferential allotment (₹)	224.53
SEBI price per share for QIP (₹)	177.26
DER pre- issue	0.50
DER post-issue	0.12

### 31. Case on Transaction Pricing

The following data is available with respect to Trombone Energy Ltd., a company engaged in the generation of power and manufacture of transmission and electrical equipment.

Balance Sheet Data	Amount in ₹ Million
Paid Up Equity Capital (Share of ₹10 each)	750
10% Redeemable Preference Capital	250
12% Secured Non-Convertible Debenture Capital	2000
Accumulated Profits and Revenue Reserves (brought forward)	3000
Capital Reserve (cash)	200
Capital Reserve (Non-cash)	150
Current Liabilities (8% interest bearing)	200
P&L Data	
EBITA (for current year)	1500
Depreciation for current year	300
Applicable tax rate	30%
Equity dividend Proposed	20%

(Continued)

**Other Relevant Information**

DCF Value per share based on future financial forecast (₹)	300
Current P/E trading multiple	17
Average 26 week multiple	19
Average 2 week trading multiple	15
IPO issue price per share (2 years ago) ₹	150
Listing Price ₹	178

Using the above information, recommend the appropriate pricing for the following transactions:

- A FPO by the company within the limits fixed by SEBI under the general eligibility criteria for a FPO.
- A Rights offer
- A QIP offer
- A GDR issue with a conversion ratio of 1:1
- A PIPE offer to a large private equity fund for a 26% stake and for the consequent Open Offer following such acquisition.

**Suggested Brief Solution**

	₹ per share
FPO	170–185
Rights	160
QIP	200
GDR	170–185
PIPE	250–260

**32. Case on Venture Capital Investing**

Fairfield Digital Systems Ltd., is a technology creation company in the space of animation, graphics and other media software. The company was set up by its dynamic founder Mr. Prabhat Chandra three years ago. In these three years the company has grown from start-up stage with an initial investment of ₹1,000,000 to its present position where the book value of its share is ₹28. All this growth has been achieved through internal generation without any further equity investment by the founder.

With a view to accelerate its growth, the company is looking out for first round financing from venture capitalists. The latest financial details of the company are presented as follows:

- The current EPS = ₹6.70
- Fund requirement at this round of financing = ₹50 million
- Mr. Chandra does not wish to dilute more than 26% of his equity in the company at this round.

Digital Capital, a VC firm has shown interest in investing in the company subject to the specified dilution requirement of Mr. Chandra. However, the VC has stipulated that the proposed offer price per share shall not exceed 5 times the post-issue book value of the share.

Based on the above information, work out the pre-money and post-money valuation along with the offer structure that meets the above requirements.

### Suggested Brief Solution

Pre-money Valuation (₹)	142,307,692
Post-money Valuation (₹)	192,307,692
Stake Offered to Digital Capital	26%
Proposed Offer Price ₹ Per Share	1,423
Amount to be raised (₹)	50,000,000
Offer Price/Post Issue Book Value (times)	3.64

### 33. Problem on Private Equity Investing

Bahubali & Kabaali Ltd., wishes to raise private equity from Rudaali Capital, a global PE investor. From the following particulars, obtain the percentage stake to be held by the investor on a post-money basis.

Amount to be invested ₹ crore	420
Present equity capital (shares of ₹ 10 each)	442500
Present Book Value per share (₹)	142
Present PAT (₹ Crore)	217
Present Depreciation cost (₹ crore)	32
Present Financial Costs (₹ crore)	46
Effective Tax rate applicable	27%
Total Debt outstanding (₹ crore)	368
EV/EBITDA multiple agreed to	12

### 34. Case on Private Equity Investing

Bygone Era Ltd., is a company engaged in history and archaeology research services that seek to provide historical evidence in various eras. Its services are used by the government, educational institutions, film makers and other researchers. The company has been funded so far by founders and VC/ PE investors. However, in 2021, Deep Finders Inc, a strategic investor, purchased the stake held by Indigo Capital for a sum of ₹150 crore. The details of investments made in the company so far are provided as follows:

The company's fund structure is as follows:

Particulars of Investment	₹ Crore	Year	Stake held
<b>Initial Financing</b>	15.00	2016	100%
Promoter Group			
<b>Series A Round</b>			
Promoter Group	20.00	2017	
Jet Capital	30.00	2017	26%
<b>Series B Round</b>			
Indigo Capital	50.00	2019	12%
<b>Series C Round</b>			
Vistara Capital	100.00	2020	20%
Deep Finders (secondary transaction with Indigo Capital)	150.00	2021	

At the end of initial financing, the company's issued capital was 100,000 equity shares of ₹10 each. Arrive at the end of each round as shown in the table above, the following parameters:

- Pre-Money Value
- Post-Money Value
- Shareholding Pattern
- No. of shares held by each shareholder

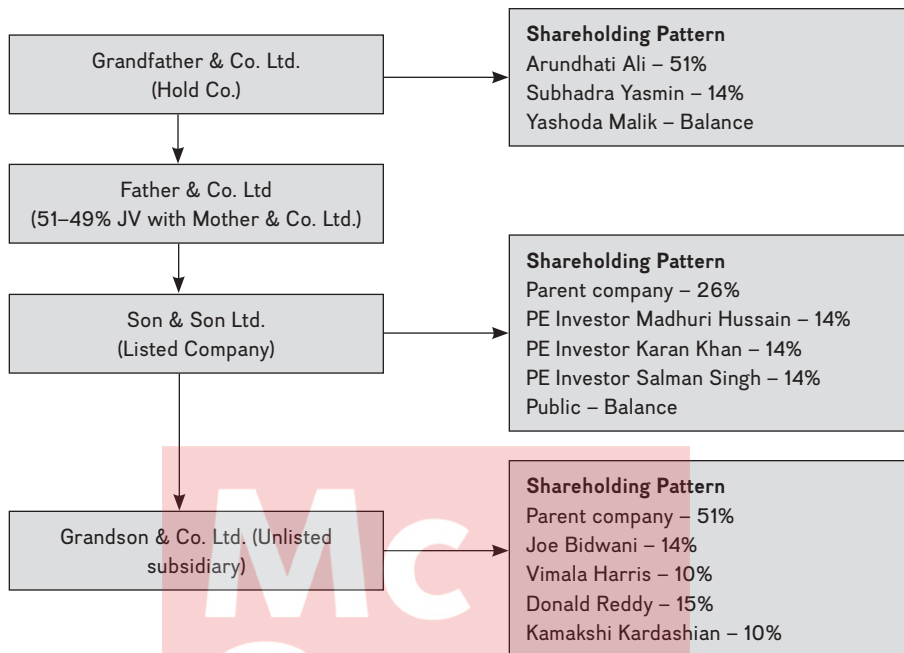
#### Suggested Brief Solution

Investing Round	Stake held	Pre-money Value (₹)	Post-Money Value (₹)
Initial Financing - Promoter	100%	0	150,000,000
<b>Series A Round –</b>		853,846,154	1,153,846,154
Promoter	74%		
Jet Capital	26%		
<b>Series B Round –</b>		3,666,666,667	4,166,666,667
Promoter	65%		
Jet Capital	23%		
Indigo Capital	12%		
<b>Series C Round –</b>			5,000,000,000
Promoter	52%		
Jet Capital	18%		
Deep Finders	10%		
Vistara Capital	20%		

### 35. Comprehensive Case on Various Types of Share Issue

From the following particulars of a conglomerate, answer the given questions from the choices provided against them.





- Father & Co. Ltd., wishes to do a 100% OFS IPO under the book building route by satisfying all the eligibility conditions with an offer size of ₹1000 crore. Identify the alternative that fulfils the requirements for post-IPO capital structure.
  - Parent company – 38%, JV Partner – 37%, Public – 25%
  - Arundhati – 38%, Subhadra – 11%, Yashoda – 26%, Public – 25%
  - Parent company – 30.6%, JV Partner – 29.4%, Arundhati – 26%, Subhadra – 2%, Yashoda – 12%
  - Parent company – 28%, JV Partner – 26%, Arundhati – 23%, Subhadra – 2%, Yashoda – 11%, Public – 10%
- Son & Son Ltd., wishes to do a FPO under the book building route by diluting its issued capital by 15% with a green shoe option. Assuming the green shoe is exercised for 10% after the market-making, identify the alternative that reflects the post-FPO capital structure.
  - Parent company – 22.1%, Madhuri – 11.9%, Karan – 11.9%, Salman – 11.9%, Public – 42.2%
  - Parent company – 21.71%, Madhuri – 11.69%, Karan – 11.69%, Salman – 11.69%, Public – 43.22%
  - Parent company – 29.9%, Madhuri – 16.1%, Karan – 16.1%, Salman – 16.1%, Public – 21.8%
  - Parent company – 30.29%, Madhuri – 16.31%, Karan – 16.31%, Salman – 16.31%, Public – 20.78%
- Grandson & Co. Ltd., wishes to raise private equity with a dilution of 22% post-money to the new investor. Before the PE transaction is done, there are outstanding equity

warrants in favour of parent company that will need to be exercised which will increase the issued capital by 10%. Identify the alternative that reflects the capital structure post completion of both the transactions.

- (a) Parent company – 39%, Joe – 8%, Vimala – 6%, Donald – 9%, Kamakshi – 6%, PE Investor – 32%
  - (b) Parent company – 35%, Joe – 12%, Vimala – 9%, Donald – 13%, Kamakshi – 9%, PE Investor – 22%
  - (c) Parent company – 40%, Joe – 11%, Vimala – 8%, Donald – 12%, Kamakshi – 8%, PE Investor – 22%
  - (d) Parent company – 44%, Joe – 10%, Vimala – 7%, Donald – 11%, Kamakshi – 7%, PE Investor – 22%
4. From the given alternatives, identify the alternative that reflects correctly the indirect holding of the below mentioned shareholders in Grandson & Co. Ltd., as reflected in the given diagram before any of the transactions mentioned is made.
- (a) Arundhati – 6.76%, Subhadra – 1.86%, Yashoda – 4.64%
  - (b) Arundhati – 13.26%, Subhadra – 3.64%, Yashoda – 9.1%
  - (c) Arundhati – 3.4%, Subhadra – 0.9%, Yashoda – 2.4%
  - (d) Arundhati – 51%, Subhadra – 14%, Yashoda – 35%

#### Suggested Brief Solution

1. A. Parent company – 38%, JV Partner – 37%, Public – 25%
2. B. Parent company – 21.71%, Madhuri – 11.69%, Karan – 11.69%, Salman – 11.69%, Public – 43.22%
3. D. Parent company – 44%, Joe – 10%, Vimala – 7%, Donald – 11%, Kamakshi – 7%, PE Investor – 22%
4. C. Arundhati – 3.4%, Subhadra – 0.9%, Yashoda – 2.4%

#### 36. Problem on Buyback of Shares

Khalibaba Ltd., is an artificial intelligence company. The management feels that the company has become too artificial and has lost all its intelligence. In order to contain the collapse of its stock, it has proposed a buyback to its Board of Directors. The following data is furnished to you.

Pre-Buyback Issued Capital (₹10 each)	15,000,000 shares
Earnings to Equity (Post-Tax)	₹112,125,000
Buyback Price proposed per share	₹650
Pre-Buyback Eligible Reserves (including current year retained earnings)	₹425,000,000
Proposed Quantum of Buyback	Max as allowed
Proposed Method of Buyback	Tender Offer Method
Present DER	130% (1.30:1)

From the above information, prepare a table of the buyback structure under the tender offer method showing how it complies with the regulatory requirements of a share buyback.

Assuming the buyback is successful to the maximum eligible extent, compute the RONW on Post-Issue NW required to maintain Pre-Issue EPS.

#### Suggested Brief Solution

The proposed buyback meets all the regulatory conditions laid down under law and in the SEBI Buyback Regulations. Required RONW is 26%.

### 37. Problem on Buyback of Shares

From the following data, compute the residual DER of Zinda Pharma Ltd., after its proposed buyback of shares. Decide whether the buyback meets the requirement or not.

Pre-Issue Capital	1,000,000 shares
Pre-Issue Net worth	₹225,000,000
Proposed Buyback	25%
Proposed Buyback Price per share	₹400
Present DER	0.87

#### Suggested Brief Solution

The post buyback DER works out to 2.08 which is not permissible under company law requirements. The value of proposed buyback is also in excess of allowable limits.

### 38. Case on De-Listing of Shares

From the following data, decide whether the de-listing offer of Lesterfield Ltd., can be successful or not and at what price it would be successful.

Total Issued Capital	1,250,000 shares
Controlling Shareholders	42%
Floor Price fixed for De-listing Offer	₹520 per share
Bids received at ₹540 per share	8%
Bids received at ₹560 per share	5%
Bids received at ₹590 per share	7%
Bids received at ₹600 per share	14%
Bids received at ₹650 per share	6%
Bids received at ₹700 per share	3%

#### Suggested Brief Solution

The de-listing offer is not successful as the cumulative shareholding of the controlling shareholders even at the price of ₹700 per share is 85% which falls short of the mandatory minimum.

### 39. Problem on Buyback

From the following particulars based on the latest available financials, determine the eligible quantum of buyback of shares of Reverse Engineering Ltd., a company engaged in automotive component manufacturing.

Particulars	Amt ₹
Paid-up equity capital	8,000,000
800,000 shares of ₹10 each	
Preference Capital 500,000 shares of ₹10 each.	5,000,000
<b>Reserves and Surplus</b>	
General Reserve	5,000,000
Share Premium Account	2,000,000
Capital Redemption Reserve Account	2,500,000
Profit and Loss Account (retained earnings)	1,000,000
Debenture Redemption Reserve	500,000
Long term borrowings exceeding one year (incl. debentures)	25,000,000

The company's current EPS is ₹4.50 and the market price is ₹55. The company paid a dividend of 10% on its equity for the year under consideration. It proposes to make the buyback at ₹75 per share.

Based on the current year's financials, work out the impact on the EPS, RONW and Book Value of the equity share of the company assuming that the buyback offer is successfully completed.

#### Suggested Brief Solution

No. of Shares bought back	46,933
Residual EPS ₹	4.78
Residual RONW	28.85%
Residual Book Value per Share ₹	16.57

### 40. Case on Split-up Strategy

Titanic Industries Ltd., is a diversified company with interests in dredging, operating deep sea fishing trawlers, exports of sea-food and operating trans-oceanic passenger cruise liners. The company wishes to split-up its various businesses and look for independent growth strategies or exit options as may be found feasible.

You are part of Rose Advisors, an investment bank retained by Titanic. Your mandate is to prepare a concept paper on the methods available to break-up the company, the implications of each such method and the process involved as relevant to the given case. Your paper should be based on current Indian law.

#### Brief Solution

Since the solution is a concept paper, no solution is being suggested. It is intended that readers should analyse the case and come up with their own recommendation based on their understanding of the subject and its application in the given case.

#### 41. Case on Restructuring

*Bermuda Triangle Shipping Ltd.*, (BTSL) is a company headquartered in Mauritius engaged in the business of merchant shipping using trans-ocean freight and passenger liners. It has four vessels namely, MV Armageddon, TS Titania for container freight transportation and two luxury liners called BV Cafeteria and UV Mesopotamia for passenger services. In addition, BTSL also runs an entire tourism business centre known as *Mauritania Tours and Travels* as a separate division which caters to travel and tourism services for tourists visiting Mauritius.

It also has a 100% subsidiary in India by name *Golden Quadrilateral Shipping Pvt. Ltd.*, (GQSL) which is engaged in inland water transportation services for cargo in India. GQSL owns a 100% subsidiary by name *Pentagon Services Pvt. Ltd.*, for handling clearing, freight forwarding and inland road transportation including logistic services for cargo. It owns another 100% subsidiary as well by name *Rhombus Tours and Travels Pvt. Ltd.*, for conducted tours, travel agency, car rentals and other tourism related services for tourists and passengers.

With a view to aligning the business verticals more appropriately, BTSL has initiated a process of restructuring the group operations. The task is to achieve a vertical split between cargo and passenger related businesses such that all cargo oriented businesses in Mauritius and India are held together and on similar lines, all passenger related businesses are consolidated.

In order to achieve the above objective, BTSL has mandated *Circular Advisers*, a boutique i-bank specialising in restructuring mandates. As part of Circular Advisers, advise on the strategy for the group restructuring so as to achieve the stated objective by examining various split up and consolidation options that are available. Your strategy should optimise tax efficiencies and reduce execution complexities.

##### Brief Solution

Since the solution is to prepare a strategy outline, no solution is being suggested. It is intended that readers should analyse the case and come up with their own recommendation based on their understanding of the subject and its application in the given case.

#### 42. Case on Demerger

Andaman & Nicobar Ltd., has two divisions – Andaman division is into tourism-related business with its own passenger vessels, transport vehicles and other infrastructure. Nicobar division is into hospitality sector operating several hotel and resort properties. With a view to have better focus and growth, the company proposes to demerge the Nicobar division into a separate company. After consultations with investment bankers, it was proposed that a demerger would be the ideal transaction. However, there is also a proposal from another hospitality group to buy a 50% stake in Nicobar at a premium of 200% to its book value. Based on the company's combined balance sheet furnished below, you are required to arrive at the separate balance sheets of the demerged and the resultant companies and to compute the purchase consideration receivable from the buyer for the 50% stake in Nicobar.

Amount in ₹ crore

Liabilities	Andaman	Nicobar	Total	Assets	Andaman	Nicobar	Total
Share Capital Equity shares of ₹ 10 each			120	Net Fixed Assets	382	1146	1,528
<b>Reserves and Surplus</b>				Intangible Assets			44
Share Premium			752				
General Reserve			122				
P&L Account			117				
Long Term Borrowings	168	670	838	Current Assets	120	317	437
Current Liabilities	88	204	292	Deferred Revenue Expenditure			232
<b>Total</b>			<b>2,241</b>	<b>Total</b>			<b>2,241</b>

**Brief Solution**

Nicobar would have a demerger reserve of ₹533 crore and a book net worth of ₹633 crore. The acquisition price to be paid by the proposed acquirer works out to about ₹950 crore.

**43. Case on De-subsidiarisation**

Fission Impossible Inc (FI Inc) is a cutting edge technology company located in Maryland, USA which specializes in medical research concerning human genome science. It has a 100% subsidiary in India for data analysis and clinical studies by name Fission Impossible II India Pvt. Ltd., (FI II). The Indian subsidiary was set up in 2008 and has been capitalised entirely by the parent thus far. The paid up capital of FI II is ₹150,000,000 consisting of 15,000,000 shares of ₹10 each. FI II bills the parent for its services and all its additional funding requirements are met through loans from the parent.

In early 2020, the US FDA directed FI Inc to initiate a process of de-linking itself from its subsidiary to address certain conflict of interest and ethical issues in the research and commercialisation process. As per the requirements, FI Inc has to reduce its stake in FI II to 15% and take back all of its loan funding by the end of 2013. Pursuant to it, FI Inc has initiated a process to carve out its stake in FI II. It has also decided to take back all the loans funded to the subsidiary and outstanding as of date amounting to \$ 25,000,000. This is proposed to be done through an IPO initially and thereafter go for either a PIPE or a QIP as may be found appropriate. They have retained the services of Lethal Solutions, a global full service i-bank. The scheme of de-subsidiarisation and separation of the two companies prepared by the i-banker for the approval of the respective Boards of FI Inc and FI II, outlines the following roadmap:

- ❑ FI II will go for a book built IPO in February 2021 with a 35% carve out from the parent through an offer for sale of 25% and a 10% new issue. The pricing range proposed for this purpose is about ₹250 per share translating into an offer price multiple of 24 based on 2020 earnings.
- ❑ The funds raised by FI II will be used towards reducing the debt of the parent.
- ❑ After six months from listing, the company proposes to make a PIPE placement/QIP at the statutory price applicable to such placement. Keeping in view the current market trends, it is expected that the company will quote at a P/E of 30 in the first six months. The PIPE/QIP should be made to the extent necessary to repay the balance debt of the parent company subsisting in the books of the subsidiary post-IPO.
- ❑ At the end of three months from the QIP, the parent company will sell off a major portion of its balance stake held in the subsidiary through a negotiated sale to an Indian strategic partner so that its stake in the subsidiary comes down to around 15%. The proceeds thereof will be repatriated by the parent so as to place the subsidiary at arm's length distance from itself in compliance with US FDA requirements.

You are Bell Gibson, the lead transaction expert, New York practice at Lethal Solutions. Prepare the strategy paper as per the above outline to be presented to the boards of the two companies, disclosing at each stage the transforming capital structure of FI II, funds to be raised/proceeds realized from sale of shares and the computations of how the separation is to be achieved. Needless to say, your solution should examine the applicability of the extant SEBI Guidelines to the above transaction and the implications thereof so as to be compliant with Indian law.

All transactions are to be completed in FY 2021. The company's accounting year ends in December. FY 2020 earnings can be referenced for all computations. Assume exchange rate at \$ = ₹75 for all computations.

### Suggested Brief Solution

#### *Post Public Offer shareholding in FI II*

FII Inc. (65%)

Public (35%)

#### *Post PIPE Structure*

FII Inc. (52%)

Public (28%)

PIPE shareholders (19%)

#### *Post Negotiated Sale*

FI I Inc. (14%)

Public (28%)\*

PIPE shareholders (19%)

Strategic acquirer (38%)\*

\* The Takeover Code is triggered by the negotiated purchase due to which a 26% mandatory offer is required. Post offer, the acquirer will have 64% and will be re-designated as the promoter. Therefore, the rest of the non-promoter shareholding will suffice the minimum public shareholding norm to keep the company listed.



#### 44. Case on Restructuring and Fund Raising

Die Hard Ltd., (DHL) is a company engaged in cutting edge technology relating to stem cell research in India. Sixth Sense Ltd., (SSL) is also an Indian company engaged in the emerging sphere of nanotechnology and has come out with a new technology platform code named as *What Lies Beneath*. Both the companies are presently unlisted. In order to commercialise its technology, SSL's Chief Executive, Mr. Hari Puttar has been on the lookout for a strategic investor. On the other hand, DHL's Chief Executive Mr. Hare Rama has been on the lookout for a company with specialised technology platform for complementing its research. Hari and Hare have been in talks and have agreed in-principle to a transaction leading to the unification of their operations under the name OSO Technologies Ltd., (OTL).

In order to achieve the above objective, both the CEOs have requisitioned the services of Singh & King, a leading investment bank. S&K has been advised to keep the following transaction objectives in mind before suggesting the deal structure:

- ❑ SSL has to raise funds to the tune of at least ₹1 billion (₹100 crore) before the formation of OTL so as to have enough cash for its technology operations.
- ❑ There has to be a gap of 12 months between the fund raising by SSL and the formation of OTL so as to allow SSL to show results on the proposed investment.
- ❑ The formation of OTL has to be cash neutral for DHL.
- ❑ OTL will be taken public after its formation in such a way that the investment made in SSL has to be recovered from the public issue.

Based on the above objectives, S&K have suggested the following deal structure, which was approved both by Hari and Hare:

- ❑ At the first stage, there would be a preferential allotment by SSL to DHL to raise the least amount required by SSL.
- ❑ Thereafter, there would be a spin-off of the shareholding held by DHL in SSL.
- ❑ After 12 months, SSL would be merged with DHL under the pooling method. The merged entity will be renamed OTL.
- ❑ Upon its formation, OTL will come out with an IPO which would include an offer for sale by the shareholders of the erstwhile DHL of the relevant part of their total shareholding (pertaining to the investment in SSL) so as to encash the earlier investment made by DHL in SSL.

You are Hari Bhajan Singh, President – Transaction Advisory at S&K. You have been furnished the following details to work out the deal structure as approved by your client. You are required to formulate the following:

- ❑ The Deal Structure Table with step-by-step details including the post-IPO capital structure of OTL with all the necessary computations.
- ❑ Provide the Issue Structure Table for the IPO of OTL that would conform to the relevant statutory guidelines.
- ❑ The type of offer that you would recommend for OTL and reasons therefore.

1. **Capital Structure of SSL**

The present capital structure of SSL is a total issued capital of 10,000,000 shares of ₹10 each held by Promoters (60%), Obak Barama Capital, a US based VC (22%) and Kaif Sareena Ventures, an Indian VC (18%).

2. **Capital Structure of DHL**

The present capital structure of DHL is a total issued capital of 50,000,000 shares of ₹10 each held by Promoters (72%) and Farah Stalin, a strategic investor (28%).

3. **Valuation of SSL**

The valuation agreed to for the preferential allotment to DHL in SSL is ₹80 per share.

4. **Valuation of SSL and DHL**

The share swap ratio for the merger of SSL with DHL was agreed at 1:5.

5. **IPO Pricing**

The proposed pricing for the IPO of OTL has been estimated at not less than ₹325 per share.

**Suggested Brief Solution**

**Post-Spin-off shareholding of SSL**

Promoters of SSL	6,000,000
Obak Barama	2,200,000
Kaif Sareena Ventures	1,800,000
Promoters of DHL	9,000,000
Farah Stalin	3,500,000
	<hr/> 22,500,000

**Post-merger shareholding of DHL (OTL)**

Promoters of SSL	1,200,000
Obak Barama	440,000
Kaif Sareena Ventures	360,000
Promoters of DHL	37,800,000
Farah Stalin	14,700,000
	<hr/> 54,500,000

**Post-IPO shareholding of OTL**

Promoters of SSL	1,200,000
Obak Barama	440,000
Kaif Sareena Ventures	360,000
Promoters of DHL	35,584,615
Farah Stalin	13,838,462
Public	16,694,423
	<hr/> 68,117,500

#### 45. Comprehensive Case on Corporate Restructuring

East India Manufacturers Ltd., (EIML), is a diversified company with four manufacturing divisions. These are the irrigation and farm equipment division (farm division), diesel pump sets division (pump sets division), tractor manufacturing division (tractor division) and automotive components division (component division). The company has a long history of existence and grew over the decades from just a component manufacturer to a multi-dimensional manufacturer catering to all requirements in agricultural mechanisation.

The company is presently at the cross-roads. Having grown just depending on market opportunity over the years, the management finds that there is a need to have an eye on the future and go in for a comprehensive restructuring due to the following reasons:

- ❑ All the divisions of the company are not performing identically because of which the overall corporate financial performance is below the desired levels. The farm division and component division have been growing and performing well in the past six years with average growth rates of 12%–15% per year. This is because, in the farm sector there has been a push by the government for mechanization and banks have been aggressive in coming forward to finance farm equipment purchases by farmers. There is a need to expand this division in the near future.
- ❑ In the component division, the company has found new customers with the automobile industry booming and several product launches in the recent past. A long-term contract with one leading auto manufacturer for the supply of cylinder blocks and cylinder heads established the company firmly in the OEM business. It is exploring other such contracts, some of which are close to finalisation.
- ❑ The tractors division has remained more or less flat over the years with declining margins in the past few years. Though the volumes have remained steady, with the introduction of new manufacturers and improved models, the competition has become intense. The company finds that it will not be able to sustain this business profitably unless it looks for new technologies, restructure operations and modernize the existing assembly lines. The induction of a strategic partner at this stage looks imperative. The company has been negotiating with Koyoka Corporation, a Japanese tractor company for a JV tie-up and the talks have been fruitful. However, valuation of this division has become a vexed issue. Though the divisional financial statements and future financial model are available, both the managements have not been able to attain common ground on the valuation approach.
- ❑ The pumpset division has been the most worrisome area for the company with mounting losses year on year. The technology has become out-dated and customer complaints on the sub-standard performance of the pumpsets have been increasing. The company does not have an effective after-sales service network which is adding to its problems. The company also does not have any product launches on the anvil while competitors have brought in latest generation electric pumpsets. The management is of the view that this business is not a core business and that the company should get rid of it without further delay to cut losses.

- ❑ The company is listed and the core promoters hold about 38% equity. The rest is distributed among QIB investors (27%) and the public (35%). The market price has been showing a declining trend due to serious concern about the company's loss-making pump set division and the under-performing tractors division. The weak sentiment in the market in the past six months has not helped matters either. The company's share price performance is furnished below.

Period		High	Low
Month 6 (latest)			
	Week 4	87	77
	Week 3	89	78
	Week 2	92	80
	Week 1	95	82
Month 5			
	Week 4	97	86
	Week 3	97	89
	Week 2	98	90
	Week 1	100	92
Month 4			
	Week 4	103	96
	Week 3	109	101
	Week 2	107	98
	Week 1	113	102
Month 3			
	Week 4	109	106
	Week 3	115	110
	Week 2	119	107
	Week 1	118	112
Month 2			
	Week 4	126	119
	Week 3	140	131
	Week 2	139	126
	Week 1	133	130
Month 1			
	Week 4	148	147
	Week 3	152	145
	Week 2	155	148
	Week 1	156	147

- ❑ On the financing front, the company requires to infuse capital to finance its requirements in the farm division and component division. The company has raised significant debt in the past few years to fund its component division's long-term contract. The present debt-equity ratio is high at 1.70:1. For meeting the additional financing requirements of the farm and component divisions at this stage, the company requires to infuse equity financing to the extent of around ₹100 crore. QIB investors are interested to look at a QIP especially since the company is attractively priced at the moment. The core promoters do not propose to bring in any further equity due to financial constraints. However, they are not sure of the pricing strategy to be adopted for the QIP.

The company has called on you as the investment banker advising the company for a comprehensive restructuring and financing strategy plan. Discuss the plan in three distinct components as follows:

- The financing plan through a QIP placement with a detailed pricing strategy and justification thereof.
- The alternative choices available for conversion of the tractors division into a JV with Koyoka Corporation, Japan. The valuation approach that would be appropriate for the said conversion should form part of the strategy plan.
- The methods available for disposal of the loss-making pump set division and the implications thereof on the company.

Your recommendations should take into account the regulatory provisions as may be applicable and address related issues and efficiencies as well.

### **Solution**

Since this is an analytical case, no solution is being suggested. It is intended that readers should debate the given alternatives and come up with their own recommendations based on their understanding of the subject and its application in the given case.

## **46. Case on Strategic Acquisition**

Galat Modi Ltd., is a leading manufacturer of cricket bats and other sports equipment in India and is a supplier for the prestigious ITL T-2 tournament in India. Badmashi Company, is a Japanese sports equipment manufacturer and a leading supplier to the Common Stealth Games. With a view to sharing common wealth, Galat Modi plans to offer a strategic stake of 26% to Badmashi.

Badmashi Company proposes to acquire the stake from the promoters of Galat Modi. However, they are told that this could trigger the Takeover Code since Galat Modi is listed. Therefore, the promoters of Galat Modi suggest that Badmashi Company should go in for a preferential allotment. However, Badmashi is not agreeable to pay the same price since the shares would be subject to a lock-in. Galat Modi now proposes to go for a rights issue with renunciation by the promoters in favour of Badmashi. However, they are not able to resolve the issue of shares to non-promoters and the overall pricing policy.

Since the deal has entered a dead lock, the services of Mr. Kaju Rao, a M&A banker with Satyam Bailout Capital, a leading investment bank. As Kaju, recommend a transaction structure justifying the interests of both parties and the company.

### Brief Solution

Since this is an analytical case, no solution is being suggested. It is intended that readers should debate the given alternatives and come up with their own recommendations based on their understanding of the subject and its application in the given case.

### 47. Case on Divestiture

Avaricious Capital Ltd., (ACL) is a global buyout fund. Malicious Business Partners (MBP) is a specialist corporate acquisition company. Delicious Hospitalities Ltd., (DPL) is a long-standing, listed and profit-making hospitality services company. The promoters of DPL hold about 63% of the company. The rest is held by the public.

DPL receives an offer from ACL to buy out the entire promoters' stake and make a de-listing offer to the public to acquire the balance and de-list the company. At the same time MBP makes an offer to buy 51% of the promoters' stake and make an open offer under the Takeover Code. MBP also wants to take the company private at a later date through a de-listing offer to be made jointly by MBP and the existing promoters in such a way that eventually they hold the company mutually in the ratio of 76:24, respectively.

The promoters of DPL are now confused about the implications of these two offers. They have therefore retained Ferocious Securities Ltd., an aggressive investment banker. You are Confucius, the chief strategist at the investment bank. Making suitable assumptions with regard to pricing etc. make a comparative analysis of the implications of the two offers from the following three separate perspectives:

- (a) The promoters of DPL
- (b) The company
- (c) The public shareholders of DPL

### Brief Solution

Since this is an analytical case, no solution is being suggested. It is intended that readers should debate the given alternatives and come up with their own recommendations based on their understanding of the subject and its application in the given case.

### 48. Comprehensive Case on Private Equity, IPO, Acquisition, Buyback and De-listing

Unlucky Ali is the MD and CEO of beetle.com, a web-based portal company that specialises in online services and related businesses. The company was incorporated in October 2016 and raised its first round of financing in February 2017 through a Venture Capital firm called Charishma Capital for an amount of ₹15 crore by diluting 30% of the promoter holdings. Subsequently, a second round financing was done in October 2017 by Charishma and another VC by name Carona Capital to the extent of ₹40 crore for a 40% stake in the company. The company subsequently went public in August 2018 for an issue of ₹45 crore offering 30% to the public.

The financing details and shareholding pattern from the setting up of the company till the conclusion of the IPO are as follows:



Financing	Shareholding Pattern
<b>Seed Stage</b> Entirely subscribed by Unlucky Ali ₹10 shares at par amounting to ₹5 crore	Unlucky Ali 100%
<b>First Round</b> Charishma Capital finances ₹15 crore ₹10 shares at premium	Unlucky Ali 70% Charisma Capital 30%
<b>Second Round</b> Charisma Capital finances ₹10 crore Carona Capital finances ₹30 crore ₹10 shares at premium	Unlucky Ali 60% Charisma Capital and Carona Capital together hold 40%
<b>IPO stage</b> ₹45 crore raised through the public with a 30% dilution ₹10 shares at premium.	Unlucky Ali, Charisma Capital and Carona Capital together hold 70% Public holds 30%

The company has not had a good performance record since its inception. The online services did not take off in a big way and the company's product offerings on the portal have been taking time to catch up with the potential customers. The company's revenue projections from products, services, endorsements and advertisements did not materialize to a significant extent and therefore, the company closed its first three financial years ending March 2009, 2018 and 2019 making losses. When the company went for its IPO in 2018, it had to go through the book building route as it did not have a profit track record and minimum net worth. In May 2020, the market price of the company's share is quoting below par.

In October 2020, a strategic investor by name A.R. Suleiman approached Unlucky Ali and expressed his interest in the company. Unlucky Ali held a series of discussions and understood that the entry of Suleiman can turn the company around. Subsequently, the modalities for the acquisition were discussed and it was proposed that Suleiman would buy out the entire stake held by Charisma Capital giving them a 20% premium over their cost of acquisition.

Since the company was making losses, Charisma Capital was glad to make an exit at a premium of 20%. Coming to know of this development, Carona Capital also expressed the desire to exit the company. It was therefore decided that after Suleiman's acquisition was completed, immediately the company would announce a buyback of shares to the extent of those held by Carona Capital and the public. As a result, the company would get de-listed and be held mutually between Unlucky Ali and A.R. Suleiman.

To put the whole plan into action, Unlucky Ali summoned the services of Mr. Shankar Hariharan, the CEO of Colonial Advisors Ltd., a reputed investment bank. In order to advise Ali, Shankar has deputed you to do the following:

1. Prepare the Capital structure statement of the company from the seed financing stage till the IPO stage showing at the end of each stage of financing –
  - (a) the cumulative paid up capital in ₹ Lakh
  - (b) the cumulative number of shares issued of ₹10 each



- (c) the cumulative share premium collected by the company  
 (d) shareholding pattern showing individual % of shares held by each investor in the company
- Calculate the total % stake to be acquired by A.R. Suleiman from Charisma Capital and the consideration to be paid for it in ₹ Lakh based on the agreed formula.
  - To examine whether A.R. Suleiman's acquisition would trigger off the Takeover Code and in which case, consider the open offer before the company makes the proposed buy back.
  - To examine whether the buyback proposal is feasible and if so, the total % of capital that can be bought back by the company in its proposed buy back. If the buyback is not found feasible, to suggest alternative means necessary to achieve the stated objectives.
  - The final shareholding pattern between Unlucky Ali and A.R. Suleiman after all the proposed transactions are completed.
  - The proposed transaction date with reference to the above plan is January 2021.

### Suggested Brief Solution

#### Shareholding Pattern at the time of IPO

Unlucky Ali	42%
Charisma Capital	20.50%
Carona Capital	7.50%
Public	30%

A.R. Suleiman acquires 20.50% of Charisma Capital's stake for ₹ 30 crore

The routes available for the completion of the balance acquisition by A.R. Suleiman are not being discussed herein since that would defeat the purpose. Readers may explore them on their own.

#### Shareholding pattern after the process is eventually completed

Unlucky Ali	42%
A.R. Suleiman	58%

### 49. Comprehensive Case on Acquisition

Planet Hotels and Resorts Ltd., (PHRL), is a well-established hotel and luxury resorts chain enjoying an excellent brand reputation in the five-star and luxury hotel category. Over the years, the company set up seven leisure resorts under the resorts division to cater to the needs of the luxury tourism segment and has met with considerable success. The company has a share capital of 200,000,000 shares of ₹10 each and is held 46% by the existing promoters, 28% by QIBs and the rest by the general public.

While the top management is driving the luxury hotels and resorts businesses adequately to capitalize on the existing economic boom, it is also seriously eyeing the budget hotel category so as to become a full-service hotel company and broad base its business model.

The management also believes that the budget category business is a volume play and more stable in the long term. Since the company is performing strongly at present, the management is of the view that the time is opportune for it to diversify into the related segment while growing the existing strongholds. Moreover, the company even has a strong cash position to look at a suitable acquisition without setting up the budget hotel business on its own.

With the above background, the company started looking out for opportunities that may be available to enter the budget hotel segment through the inorganic route. The management identified a company called Fringe Hotels Ltd., (FHL), a listed company in the budget hotel category with a repertoire of ten well-performing hotel properties in prime cities. After a preliminary due diligence, PHRL concluded that FHL would be a good strategic fit in all respects. FHL, which has an issued and paid-up capital of 50,000,000 shares of ₹10 each, is controlled 38% by the promoters, 32% by QIBs and 30% by the general public. The share price of FHL is currently ruling high at ₹187 due to the generally strong sentiment in the market and more so in the case of the hotel industry.

The management of PHRL has identified the following alternatives for the acquisition of FHL keeping in mind that the cost of the acquisition would be quite high at this point of time –

- ❑ Acquire 25% from the secondary market and make an open offer for 26% of FHL under the Takeover Code. Assuming the plan goes through successfully, this would give PHRL a 51% stake in FHL. The existing promoters would continue to hold 24% and the public would hold the balance of 25%. PHRL also believes that subsequent to the open offer, it can adopt the creeping acquisition route to buy a further stake either from the market or from the existing promoters to the extent permissible under law, thereby consolidating its position as the single largest shareholder in the company.

The management feels that as far as the process till the open offer is concerned, it is reasonable to expect that the overall cost of the acquisition would be at a price that would be 30% more than the current market price of ₹187 per share of FHL because of the price reaction that would happen after the secondary market purchases are begun and the subsequent public announcement is made.

- ❑ The second available route is to negotiate with the existing management of FHL for a strategic stake of 24% through the preferential allotment route. Based on market enquiries made by PHRL, they have come to understand that FHL is looking to raise equity capital and would not be averse to a strategic investment by a stronger hotel chain. The management of PHRL believes that they can as a part of the investment, seek a board seat on FHL and affirmative rights in key decisions. This way, the disadvantage of having a minority stake can be addressed for the present. Gradually, PHRL can consolidate using the creeping acquisition route or the substantial acquisition route as the case may be. Under this alternative, PHRL believes that the cost of the acquisition would not be more than 10% of the current market price of FHL.
- ❑ The third route is to negotiate with the promoters of FHL for a friendly takeover. PHRL believes that though FHL is doing well, the promoters may eventually sell out if the right price is offered considering the wave of consolidation in the industry. PHRL believes that a deal could be struck for the promoters to sell-off 28% of their stake and

retain a minority stake of 10%. This way they would also benefit as investors in FHL in future. PHRL will also buy another 6% immediately from the secondary market. Since this would trigger the Takeover Code, assuming the open offer goes through, PHRL will end up with a dominant stake of 60% in FHL.

Under this route, the management of PHRL believes that they will have to pay control premium to the promoters of FHL which they estimate would take the acquisition price per share upto 50% more than the current market price.

- ❑ The fourth option for PHRL is to explore the possibility of a merger of FHL with itself. The management of PHRL feels this can be put through with the existing promoters of FHL and other shareholders by convincing them that vertical growth could become tougher for stand-alone budget hotel companies without linkages to other segments of the industry. The benefits of being strategic shareholders in the consolidated company could also be a better position in the future for the promoters of FHL. As far as the shareholders of PHRL and the market are concerned, they are also expected to take the merger positively and approve the same resulting in a higher market valuation for PHRL. Based on initial homework, the swap ratio could be 1:2.5 (one share of PHRL for every 2.5 shares held in FHL).

You are the investment banker engaged by PHRL to advise them on the preferred strategy among the alternatives provided above. You are required to deliberate on each of the above strategies and come up with your recommendations. The strategic interests of PHRL and the cost efficiency of the transaction should form an integral part of your analysis.

### Solution

Since this is an argumentative case, no solution is being suggested. It is intended that readers should debate the given alternatives and come up with their own recommendations based on their understanding of the subject and its application in the given case.

## 50. Case on Acquisition Defence Strategy

Skyfell Technologies Ltd., is into the business of building design solutions for bridges, flyovers and airports. The company was started by the design engineering team of Daniel Frog and Sean Mockery. The company clocked revenues of ₹126 million for FY 2020 and is on the road to reaching 150 million in FY 2021. It registered an EPS of ₹4.20 for FY 2020 on an issued capital of 12.6 million shares. The company was ill-advised by investment bank Worthless Capital which got the company listed in 2019 when the markets were depressed. The company is suffering from a bloated equity base and depressed valuation even after the markets have corrected. Its current shareholding pattern is as follows:

- ❑ Promoters and PAC – 22%
- ❑ FIIs – 14%
- ❑ DIIs – 21%
- ❑ Distributed public shareholding – 43%

The promoters are worried that due to their low holding, the company is an attractive target for a hostile bid by rivals who may be larger with better financial resourcefulness. The promoters and PAC have no further finances to protect their position. Therefore, they have now approached Ruthless Advisors, a specialist M&A advisory firm for help.

Outline the defence approach to be taken in the given circumstances as may be possible under Indian law and regulation with suitable justification and workings. Make assumptions as may be found necessary.

**Solution**

Since this is a discussion case, no solution is being suggested. It is intended that readers should debate the given situation and come up with their own recommendations based on their understanding of the subject and its application in the given case.



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