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PGDM / PGDM (IB) Batch 2013-15
Financial Products / Services & Financial Markets
Course Code: (DM 311 / IB 308)
Trimester –III, End –Term Examination: April, 2014

Time allowed: 2.5 hours

Maximum Marks: 50

Instruction: Students are required to write Roll No. on every page of question paper. Writing anything except the Roll No will be treated as **Unfair Means**. In case of rough work please use answer sheet.

Section A :

15 marks

Attempt any 3 questions. Each question carries 5 marks. Word limit: around 150

1. Describe the impact of each of the following macroeconomic changes individually on capital market, money market, corporate borrowings and savings instruments:
 - i. 50 basis points increase in Repo rate
 - ii. 2% cut in CRR
 - iii. 5% decrease in excise duty on cars and two wheelers (2+2+1)

2. What is the main test for awarding high or low credit rating to a security issue? Name four (4) business factors and four (4) financial factors considered by the rating agency to determine rating profile of a security issue. (1+2+2)

3. How tax treatment of hire purchase is different from that in lease transaction for the lessee and lessor separately.

4. Explain the following terms in not more than 30 words each.
 - a. Reverse Repo
 - b. Call money market
 - c. Commercial Paper (CP)
 - d. Non Convertible Debenture (NCD)
 - e. Zero coupon bond(1 x5)

5. (a) Explain why IPO market is also dull when stock market is not doing well.
(b) Define NBFC. Differentiate the role of NBFCs from that of Banks? (2.5+2.5)

Section B:

20 marks

Attempt any 2 questions. Each question carries 10 marks. Word limit: around 500 for each full question with all parts

6. (a) Describe briefly the valuation techniques Venture Capitalists adopt while deciding to financially assist the businesses.

(b) Briefly describe a mechanism that helps the companies unable to service their debts due to reasons beyond their control, to come out of this situation, giving the

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eligibility criteria for the company to benefit and some important processes of this mechanism.

(5+5)

7. a. Briefly explain the following giving one Indian or international real example (name) of companies involved in each of the following in recent past:

Merger, Absorption, Consolidation, Amalgamation. Acquisition

- b. Elaborate major difference between Bill Discounting, Factoring and Forfeiting .
(5 + 5)

8. Multiple Products Ltd. has an investment plan amounting to Rs 200 lakh. The depreciation may be treated on straight line basis. The net salvage value after five years (useful life) is assumed to be nil. The marginal cost of capital and marginal cost of debt are 16 % and 20% respectively and it is in 30% tax bracket.

It is examining financing alternative for its capital expenditure. Following proposals from Top Finance Ltd TFL are under active consideration:

HP proposal : Down payment 20%, flat rate of interest is 16% and the repayment in 36 advance EMLs. The charge for credit may be allocated based on straight line method or SOYD method or IRR method.

Leasing proposal: Rental @ Rs. 28 ptpm in advance for primary period of 5 years.

Which alternative should MPL opt for and why? Justify with your detailed workings.

Section C :

15 marks

9) Compulsory case (carries 15 marks) Word limit : around 750

Just Dial IPO 2013- A Case Study

Company profile

Just Dial started local search services in India in 1996; the brand became popular some years later as a telephonic search service available across most metro cities. Its revenues mainly come from paid listing services essentially for small and medium enterprises across its platforms, voice and Internet.

At present, the company has at least 7,000 employees. In FY12 around 254 million searches of the database were conducted and so far around 23 million reviews and ratings have been published on the website. According to numbers published in Crisil's one-time assessment done for IPO grading, the number of searches has increased three times since 2009. The management indicated that future growth will come from expanding coverage beyond the 11 cities that they cover at present and also from enhancing the offering they have. Enhancements are supported by in-house research and development in technology. The management also believes that they will be able to increase the ratio of paid advertisers; at present only 2% of the listings are paid. At the same time, around 70% of the business comes from repeat listings.

Business Overview

They provide users of their "Just Dial" search service with information and user reviews from their database of local businesses, products and services across India. Their search service is available to users through multiple platforms: Internet, mobile Internet, telephone (voice) and text (SMS). In fiscal 2012, they addressed over 254.3 million search requests across their platforms. As of December 31, 2012, they were conducting approximately 195,100 campaigns for their paid advertisers. As one of the first companies to offer local search services in India, they believe that we have a first mover advantage among consumers seeking information on local businesses. The Company aims to provide fast, free, reliable and comprehensive information to its users, which they believe will create a network effect to attract more search queries.

As adapted from a report by McKinsey & Company, India's middle class, generally comprising people with annual income range of ` 200,000 to ` 1,000,000, is expected to grow by over 10 times to approximately 583 million people by 2025. According to TRAI, the number of mobile subscribers in India is expected to exceed 1,000 million by 2014. According to Internet World Stats, as of June 30, 2012, Internet penetration was at 11.4% in India, compared to over 78.1% in the United States. There were approximately 137 million Internet users in India, making it the third largest population of Internet users after China and the United States. With the growth projected for India's middle class and for Internet and mobile usage in India, they believe their potential user base remains largely untapped and offers significant potential for growth. They also believe that search service is particularly relevant to SMEs, which they believe, currently, do not have many other cost effective options to access and advertise to such a large number of potential consumers. Listing on their search service provides businesses with exposure to users at a time when the users are making a purchase decision.

Profit/Revenue :

According to CRISIL research report, Just Dial has maintained an astounding 39% Compounded Annual Growth Rate (CAGR) over the last four years. This led CRISIL to issue a gradation of 5/5 for Just Dial's IPO launched this year. Starting off with Rs. 50,000 investment in 1997, Just Dial's revenue grew from Revenues grew from Rs 85 lakh in March 1997 to Rs 200 crore in March 2011. For the nine months of FY13, Just Dial recorded revenues of Rs 271.6 crore and net profits of Rs 47 crore. Although the revenue figures might indicate otherwise, no more than 2% of Just Dials 9.1 Million listings are paid for. According to CRISIL research, the business plan for Just Dial is stable and reliable as it is a negative working capital and a debt-free business model. Also, being the first mover in the niche and by having superiority in technology, databases and having a business model that is hard to replicate exactly, Just Dial is likely to remain the market leader in local search for quite some time to come.

Competition :

Getit – Started in 1986 with PE investors in Helion and ASTRO group .

Sulekha -has around 2 mn listings but again it is not focused enough to beat Just Dial .

Asklaila.com - is a serious competitor focused only on local search run by ex Microsoft guys.

Askme.com/mumbai- It launched in Mumbai for voice service only, not a serious competitor.

indiamart.com -a specific B2B online only and is a strong competitor to Just Dial in terms of internet searches but not at all in Voice based searches or non B2B searches.

Just Dial had rank of 39 and average time spent on website at 7 min which easily beat all the other competitors mentioned above. Except Indiamart all competitors are having consistent losses.

Issue Detail:

- »» **Issue Open:** May 20, 2013 - May 22, 2013 »» **Issue Type:** 100% Book Built Issue IPO
- »» **Issue Size:** 17,497,458 Equity Shares of Rs. 10 : Rs. 919.14 Crore
- »» **Issue Price:** Rs. 470 - Rs. 543 Per Equity Share »» **Market Lot:** 25 Shares
- »» **Minimum Order Quantity:** 25 Shares »» **Listing At:** BSE, NSE, MCX-SX
- Public Issue:** 17,497,458 Equity Shares **QIB Portion:** 75% i.e. 13,123,095 Equity Shares
- NIIL Portion:** 15% i.e. 2,624,618 Equity Shares **Retail Portion:** 10% i.e. 1,749,745 Equity Shares

The IPO is an offer for sale by the selling shareholders that include its existing venture capital investors: SAIF Partners, Tiger Global, Sequoia Capital and SAP Ventures who will be selling a part of their stake. The promoter of Justdial, V.S.S. Mani, and chief operating officer V. Krishnan will also offload a part of their shareholding. Thus, the proceeds from the offer will go to the selling share holders and not to the company.

Risk and valuation

The company had initially filed for an IPO as far back as August 2011; the offer did not open and the company re-filed in August last year. In 2011, Crisil granted the IPO a grade of 5, which remains the case now as well.

At the lower end of the price band, the share comes at a historical price-to-earnings multiple of 60 times its FY12 standalone earnings per share of Rs.7.78. You can argue that the profitability of the company has also grown 75% in FY13; however, in the last four years, the annual net profit growth rates have varied quite substantially. In FY11, net profit grew 156%, whereas in FY12, net profit grew

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49%. According to Rajen Shah, chief investment officer, Angel Broking Ltd, "The IPO is not interesting as valuations are very expensive. At 50 times price to earnings multiple, there are other established listed companies available. At this price the market capitalization to sales ratio is also very high, so would recommend investors to avoid."

There is no denying that the appetite for equity shares, in the primary or secondary market, is very low among domestic investors. At such a time, this IPO comes at a premium valuation. Comparisons were made with share price of Google in the US, and Info Edge in India. In both cases, the Just Dial IPO valuation appeared frightfully high.

Bankers to the issue argue that the valuations need to be seen in relation to growth. Undoubtedly, there are some aspects unique to this company. Firstly, there aren't too many shares on offer for retail investors. The company is selling around 17.5 million shares to the public; it is entirely an offer for sale from existing shareholders, promoters, venture capitalists and private equity funds that are partly exiting their holdings.

Additionally, there is a safety net built into the IPO for retail investors. It is interesting to note that the safety net seems to have motivated retail investors to oversubscribe an IPO, which is priced at 55X of estimated FY 13 earnings

In practice, 'Basis for Issue Price' clause must contain the key parameters, i.e., Earnings Per Share (EPS), Return on Net Worth (RONW) data for last three years including peer group price earning multiple and net asset value of the IPO firm as on issue date. This study is motivated to evaluate the pricing of fixed price IPOs by taking this information. Empirical studies found that IPOs are valued either directly by taking fundamental accounting information, or indirectly by comparing the IPO firm with similarly listed firm/firms from comparable industry to determine whether or not the IPO price is justified. Though "multiple approaches" is the most popular valuation methods, still analysts found referring financial information and other signaling, while considering investment in an IPO.

Just Dial IPO oversubscribed 11.63 times

The issue was subscribed 11.63 times as per data available on the NSE showed. Out of 17.5 million shares, 13.5 million shares were offered to the public and 3,936,925 shares have been subscribed to by 15 Anchor Investors including Goldman Sachs and HSBC at Rs 530 per equity share, for a total of around Rs 208.65 crore. Singapore's sovereign wealth fund Temasek and asset management major Fidelity were among the anchor investors who picked up shares at Rs 530 apiece. The company plans to list its shares on the BSE, NSE and MCX-SX.

Case Questions: (answer word limit 150-200 most pertinent words for each question)

1. Define the terms :
NII, QIB, Safety net
2. What are the current requirements for a company like Just Dial to get listed on any of the stock exchanges?
3. Describe :
 - a. 2 most important Disclosures made by the company
 - b. 2 most important Forward looking statements of the company
 - c. 2 major internal risk factors about the company
4. Many analysts have questioned the reasonableness of offer price band and considered it as very high and recommended against buying the shares at this price. But it proved to be a great success and price is still maintained high. Give your comments on the justification given by the company and its merchant bankers for the price band and you own views on the issue.
5. What are the strong factors that made the issue successful in times of weak market sentiments? What is the current scenario in IPO market in India?

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Turn Over