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FINANCIAL ADVISORY SERVICES IN INVESTMENT BANKING

EXAM REVISION NOTES

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MODULE I

1. THE PRIVATE EQUITY AND VENTURE CAPITAL ECOSYSTEM

The Private Equity and Venture Capital Ecosystem: Private Equity (PE) refers to medium- to long-term equity capital invested directly into private, unlisted companies or through negotiated transactions in listed companies, with the objective of operational transformation, accelerated growth, and subsequent profitable exit within a 3 to 7 year horizon.

A. Typologies of Private Equity Venture Capital Funds

Growth Capital / Late-Stage PE Funds

- **Investment Stage:** Mature, established, profitable enterprises needing expansion capital to enter new geographic markets, build factories, or execute bolt-on acquisitions.
- **Risk amp; Return:** Risk amp; Return: Moderate risk with predictable cash flow generation; typical target Internal Rate of Return (IRR) of 20% to 25%.
- **Ownership:** Significant minority stakes (15% to 49%) with protective negative covenants and veto rights.

PIPE Distressed Asset Funds

- **PIPE (Private Investment in Public Equity):** Direct negotiated investment by a PE fund into a publicly listed company at a negotiated price, bypassing volatile public offerings.
- **Distressed Asset / Special Situations:** Investing in financially stressed or debt-burdened companies undergoing corporate restructuring or insolvency resolution under the Insolvency and Bankruptcy Code (IBC, 2016).

Investment Banking Services in Private Equity Advisory: Investment banks act as financial intermediaries and trusted advisors to both corporate issuers seeking capital (sell-side advisory) and private equity funds deploying capital (buy-side advisory).

- **1. Deal Origination amp; Pitching:** ; Engagement Letter, Deal Pitch Deck, Valuation Range.
- **2. Collateral Preparation:** bull; Blind Teaser: A 2-page anonymous document outlining business highlights, market size, and financial traction without revealing the client's identity.
- **3. Investor Outreach amp; Roadshows:** ; NDA Log, Data Room Access, Management Q amp;A Sessions.
- **4. Term Sheet amp; Due Diligence:** ; Signed Term Sheet, Due Diligence Audit Reports (FDD, LDD).

A. Pre-Money vs. Post-Money Valuation: In private equity and venture capital, precise differentiation between Pre-Money Valuation and Post-Money Valuation is fundamental to calculating investor equity dilution:

- **Numerical Example:** A tech startup agrees to a Pre-Money Valuation of ₹80 Crore with a Venture Capital fund.

Anatomy of the Private Equity Term Sheet: A Term Sheet is a foundational, non-binding preliminary legal document Sum of marizing the critical financial, economic, and governance terms of a proposed private equity investment.

- **1. Liquidation Preference:** Dictates the waterfall priority in distributing cash proceeds upon a liquidation event, merger, sale, or winding up.
- **2. Anti-Dilution Protection:** Protects the investor from equity value destruction if the company subsequently raises capital at a lower valuation (a "Down Round").
- **3. Tag-Along Rights (Co-Sale Rights):** ; Prevents founders from abandoning the company while leaving minority investors trapped.
- **4. Drag-Along Rights:** ; Prevents stubborn minority shareholders from blocking an attractive corporate trade sale or acquisition.

Regulatory Architecture: SEBI (AIF) Regulations, 2012: In India, domestic venture capital and private equity investment funds are regulated under the SEBI (Alternative Investment Funds) Regulations, 2012.

- **Category I AIF:** Funds that invest in startups, early-stage ventures, social enterprises, SMEs, and infrastructure that the Government views as having positive economic spillovers.
- **Category II AIF:** Funds that do not fall under Category I or III and do not undertake leverage other than to meet day-to-day operational requirements.
- **Category III AIF:** Funds that employ complex trading strategies, invest in listed or unlisted derivatives, and engage in leverage.

Strategic Exit Routes for Private Equity Investors: Private equity funds are finite-life closed-end partnerships (typically 7 to 10 years). The realization of returns depends entirely on the execution of a successful exit:

Strategic Trade Sale (M A Exit)

- **Mechanism:** Selling 100% of the company (or the PE stake) to a strategic corporate acquirer operating in the same industry.
- **Synergy Premium:** Strategic buyers often pay a significant control premium due to expected operational synergies.

Secondary Sale (Sponsor-to-Sponsor)

- **Mechanism:** , an early VC selling to KKR, Blackstone, or Carlyle).
- **High Velocity:** Fast transaction execution without public market disclosure or corporate integration friction.

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MODULE II

1. CONCEPT, LEGAL FRAMEWORK & SCOPE OF PRIVATE PLACEMENTS

Concept, Legal Framework Scope of Private Placements: A Private Placement is an issuance of securities by a corporate enterprise directly to a select group of identified investors, rather than through a public offering via a prospectus.

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A. Statutory Framework under Section 42 of the Companies Act, 2013: Under Section 42 of the Companies Act, 2013 read with Rule 14 of the Companies (Prospectus and Allotment of Securities) Rules, 2014, any corporate offer of securities not being a public offer is governed by strict statutory mandates:

- **1. Identified Persons Ceiling:** An offer can be made only to a select group of identified persons whose names are recorded by the company prior to the invitation.
- **2. Private Placement Offer Letter:** ; A private placement cannot be transferred or renounced by the recipient in favour of any other person.
- **3. Shareholder Approval:** ; For non-convertible debentures (NCDs), a single board resolution plus an annual umbrella special resolution is sufficient.
- **4. Mode of Payment amp; Escrow Banking:** All subscription monies must be paid strictly by cheque, demand draft, or electronic banking channel (NEFT/RTGS) from the subscriber's own bank account.

Typologies of Private Placements in Investment Banking

- **Preferential Allotment:** ; Consolidating promoter stake, infusing strategic equity, or executing PIPEs.
- **Qualified Institutional Placement (QIP):** ; Accelerated equity mobilization by listed companies without retail marketing.
- **Institutional Private Placement (IPP):** ; Fast-track dilution by promoters to achieve 25% Minimum Public Shareholding (MPS).
- **Privately Placed Debt (NCDs):** ; Corporate debt financing, refinancing, working capital funding.

PSU Institutional Bonds

- **Public Sector Undertaking (PSU) Bonds:** Bonds issued by sovereign-backed entities (PFC, REC, NHAI, IRFC).
- **Institutional Financial Bonds:** Tier-II and Additional Tier-1 (AT-1) capital bonds issued by commercial banks to meet Basel III capital adequacy ratios.

Corporate Municipal Bonds

- **Corporate Bonds:** Non-Convertible Debentures (NCDs) issued by private corporate conglomerates (Tata, Reliance, Aditya Birla) to institutional investors.
- **Municipal Bonds:** , Ahmedabad, Pune, Lucknow) to finance urban civic infrastructure projects (water supply, smart city transit).

B. The Electronic Bidding Platform (EBP) on Stock Exchanges: To ensure price transparency and eradicate opaque bilateral debt deals, SEBI made it mandatory for listed corporate debt issuances with an issue size of ₹50 Crore or more (including green shoe option) to be executed exclusively through the Electronic Bidding Platform (EBP) hosted on BSE (BSE BOND) or NSE (NSE EBP).

- Issuers upload the term sheet on the EBP portal; institutional bidders place electronic yield/price bids in a transparent auction session.
- Allotment is conducted on a uniform yield or multiple yield basis, dramatically enhancing primary debt market integrity.

Private Investment in Public Equity (PIPE): A PIPE transaction involves the private placement of newly issued equity shares or convertible securities (such as warrants or CCPS) by a publicly listed company directly to an institutional investment fund or private equity investor, typically executed as a Preferential Allotment.

- **For the Listed Company (Issuer):** bull; Rapid Capital Inflow: Mobilizes massive growth capital without the 6-to-9 month delays of an FPO or Rights Issue.
- **For the PE Investor (Subscriber):** bull; Negotiated Valuation: Secures a substantial equity block at a negotiated entry price reflecting statutory volume-weighted average pricing.

Qualified Institutional Placements (QIP): A Qualified Institutional Placement (QIP) is an expedited capital raising mechanism introduced by SEBI under Chapter VI of SEBI ICDR Regulations to allow listed Indian companies to raise equity or convertible securities directly from Qualified Institutional Buyers (QIBs) without accessing overseas ADR/GDR markets.

A. Key Regulatory Requirements for a QIP

- **Eligible Issuer:** ; Ensures established market trading history and fair price discovery.
- **Mutual Fund Allocation:** ; Protects domestic retail capital pools invested through mutual funds.
- **Single Allottee Ceiling:** ; Prevents single-investor concentration and backdoor takeover attempts.
- **Minimum Number of Allottees:** bull; For issue size ≤ ₹250 Crore: Minimum 2 allottees.

B. Regulatory Pricing Formula for QIPs (SEBI ICDR Regulation 176): QIP Floor Price: The issue price in a QIP shall NOT be less than the average of the weekly high and low of the closing prices of the equity shares of the same class quoted on the stock exchange during the two weeks preceding the Relevant Date.

- **Relevant Date in QIP:** The date of the meeting in which the board of directors (or its authorized committee) decides to open the QIP issue.

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Executive Synthesis, Governance Policy, and Continuing Professional Mastery: To conclude, mastery of the concepts examined throughout this module empowers students and commerce executives to evaluate complex fiscal data with precision, independence, and analytical clarity.

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MODULE III

1. STRATEGIC RATIONALE FOR CORPORATE RE-ORGANISATIONS

Strategic Rationale for Corporate Re-Organisations: Corporate Re-organisation (or Corporate Restructuring) is the strategic reconfiguration of a company's business model, asset portfolio, operational structure, or capital structure to enhance operational efficiency, unlock shareholder value, eliminate conglomerate discounts, or resolve financial distress.

A. Strategic Drivers of Corporate Restructuring

Capital Allocation Operational Efficiency

- **Eliminating Cross-Subsidization:** In complex conglomerates, cash generated by profitable divisions is often squandered to prop up loss-making units.
- **Management Alignment:** Enables division-specific management incentives and Employee Stock Option Plans (ESOPs) tied directly to the unit's stock performance.

Risk Ring-Fencing Subsidiarisation

- **Liability Isolation:** , deep-sea oil exploration or new tech R amp;D) are insulated into distinct legal corporate shells.
- **Specialized Strategic Co-Investors:** Facilitates onboarding private equity or foreign joint venture partners into a specific subsidiary without diluting parent company equity.

Demergers and Business Hive-Offs: A Demerger is a statutory corporate restructuring process whereby an existing company (the Demerged Company) transfers one or more of its business undertakings to another company (the Resulting Company), with the resulting company issuing shares directly to the shareholders of the demerged company.

B. Slump Sale under Section 2(42C) and Section 50B: When an enterprise desires to sell a business undertaking for immediate cash consideration (rather than issuing shares via a demerger), it executes a Slump Sale.

- **Definition (Section 2(42C)):** A slump sale is the transfer of one or more undertakings as a result of the sale for a lump Sum of consideration without values being assigned to individual assets and liabilities in such sales.
- **Taxation under Section 50B:** Any profits or gains arising from a slump sale are chargeable to income tax as Capital Gains.
- **more than 36 months:** If the undertaking was owned and held by the company for , the capital gain is treated as Long-Term Capital Gain (LTCG); otherwise, Short-Term Capital Gain.
- **Cost of Acquisition (Section 50B(2)):** The cost of acquisition is statutorily defined as the "Net Worth" of the undertaking (Aggregate Book Value of assets minus liabilities).
- Written Down Value (WDV) of depreciable plant amp; machinery u/s 43(6): ₹15 Crore.

C. Comparative Evaluation: Demerger vs. Slump Sale vs. Itemized Asset Sale

- **Consideration Type:** ; Cash (assigned individually to each asset).
- **Direct Tax Impact:** ; Taxable asset-by-asset (STCG, balancing charge u/s 41(2), or LTCG).
- **Valuation of Assets:** ; Values assigned to each specific asset individually.
- **Judicial Approval:** ; Asset Purchase Agreement (APA); standard conveyance deed.

A. De-Subsidiarisation through Spin-Off: A Spin-Off is the corporate separation of a business unit or subsidiary by creating an independent, separate company and distributing 100% of the new company's shares pro-rata to existing shareholders of the parent corporation.

- **Zero Cash Transaction:** Existing shareholders pay no cash; they simply receive new shares in the spun-off company in proportion to their parent holdings.
- **Dual Public Listings:** , Demerger and spin-off of Jio Financial Services from Reliance Industries Ltd.

C. Split-Off vs. Spin-Off

Spin-Off (Dividend-Like Distribution)

- Shares of the new entity are distributed to all parent shareholders pro-rata.
- Shareholders do NOT give up or surrender any of their parent company shares.

Statutory Procedure under Sections 230–232 of the Companies Act, 2013: In India, a formal demerger or merger requires a court-sanctioned Scheme of Arrangement supervised by the National Company Law Tribunal (NCLT):

- **Pre-1991 Era (License Raj):** Severely restricted by the Monopolies and Restrictive Trade Practices (MRTP) Act and high wealth taxes; restructuring was minimal and hostile takeovers nearly impossible.
- **Post-1991 to 2015 (Liberalization amp; Outbound Waves):** Post-1991 to 2015 (Liberalization amp; Outbound Waves): Indian conglomerates capitalized on opening markets and cheap global debt to execute massive outbound international acquisitions (Tata Steel acquiring Corus, Tata Motors acquiring Jaguar Land Rover, Hindalco acquiring Novelis).
- **Modern Era (2016 ndash;Present):** Modern Era (2016 ndash;Present): Dominated by mega-mergers, sector consolidation, and inbound PE/tech acquisitions: Telecom Consolidation: Vodafone India merging with Idea Cellular.
- **Inbound Global Mega-Deals:** Walmart acquiring 77% of Flipkart for 16 Billion; ArcelorMittal acquiring Essar Steel under IBC.
- **Financial Super-Mergers:** HDFC Ltd.

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MODULE IV

1. STRATEGIC RATIONALE & DEAL DRIVERS FOR MERGERS AND ACQUISITIONS

Strategic Rationale Deal Drivers for Mergers and Acquisitions: Mergers and Acquisitions (M amp;A) constitute the most transformative transactions in corporate finance. A Merger is the legal combination of two or more commercial enterprises into a single corporate entity, whereas an Acquisition (or Takeover) involves one company (the acquirer) purchasing a controlling equity interest or the operating assets of another company (the target).

Horizontal Vertical Mergers

- **Horizontal Merger:** , Vodafone India merging with Idea Cellular).
- **Vertical Merger:** , steel maker buying iron ore mine).

A. Fast-Track Mergers under Section 233: Section 233 introduces an expedited administrative merger mechanism that completely bypasses the NCLT judicial process for select categories:

- **Small Companies:** Mergers between two or more (paid-up capital ≤ ₹4 Crore, turnover ≤ ₹40 Crore); OR
- **Holding Company and its Wholly-Owned Subsidiary (WOS):** A merger between a .
- **Regional Director (Central Government):** The scheme requires approval of 90% of shareholders and 9/10th in value of creditors, and is sanctioned directly by the without approaching the NCLT!

The SEBI (SAST) Takeover Code, 2011: Takeovers and Substantial Acquisitions: Takeovers and substantial acquisitions of shares in publicly listed companies in India are governed by the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 (The Takeover Code).

- **75%:** Statutory Ceiling: Post-acquisition shareholding cannot exceed (Minimum Public Shareholding of 25% under SCRR).
- **1. Initial Threshold Trigger(Regulation 3(1)):** ; Mandatory obligation to make a Public Announcement of an Open Offer to acquire at least 26% additional voting capital from public shareholders!
- **2. Creeping Acquisition Limit(Regulation 3(2)):** 0% in a single financial year, it instantly triggers a Mandatory 26% Open Offer!
- **3. Control Trigger(Regulation 4):** ; Instantly triggers a Mandatory 26% Open Offer!

Leveraged Buy-Outs (LBO): A Leveraged Buy-Out (LBO) is an acquisition of a target company where the purchase price is financed predominantly using a significant amount of borrowed debt capital, with the target company's assets and future cash flows serving as collateral for the debt.

Mezzanine / Subordinated Debt (20%–30%)

- **Source:** Mezzanine credit funds, high-yield bonds.
- **Terms:** Higher coupon rate; subordinated to senior debt; often includes equity warrants.
- **Repayment:** Bullet repayment at maturity (7 to 10 years).

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