VPM's DR VN BRIMS, Thane Programme: MMS (2020-22) Fourth Semester Examination May 2022			
Course Name	**Venture Capital and Private Equity**	**Course Code**	
Roll No.		**Marks**	60
Total No. of Questions	**35**	**Duration**	3 Hours
Total No. of printed pages	**5**	**Date**	18.05.2022

Course Outcome Statements:

CO1: RECALL the basic terminologies related to Private Equity and Venture capital.

CO2: UNDERSTAND concepts, frameworks, and term sheets used in Private Equity and Venture capital.

CO3: MAKE USE OF financial statements, discounted cash flows, term sheets for deal valuation and deal terms

CO4: EXAMINE business ideas, concepts, term sheets, and investment due diligence for managerial decision-making.

CO5: COMPARE private equity and venture capital in India with other emerging markets for funding opportunities.

CO6: DEVELOP innovative exit strategies for a better return on investments for PE and VC.

Instructions: -

Section I

Q1 (All Questions are Compulsory) From Q2 To Q5 Attempt Any three questions

Section II

All 30 Multiple Choice Questions are compulsory

SECTION I

Q. No.		Questions			
Q1		**Case/Case-let Study (500-800 words)**	**Marks**	**BL**	**CO**
		Cumberland and Entertainment (C): Excess Cash Tom decided to proceed with the offer from Canadian Capital Partners. Once the investment was made, Cumberland, with the approval of its investors, used C$11 million to pay off debt Next, management and investors started to look into the acquisitions that would enable the company to grow and be a consolidator in its industry. By the time the summer of 2002 came along, the company had looked seriously into 8 acquisitions. In the end, however, none of them went through. Management, investors and board members all agreed that the companies which were targeted - primarily competitors and distributors were not suitable either because they were not for sale, were asking for more than they were worth, or were dying away anyway. As Tom stated: When we were looking at the potential acquisitions, we included Canadian Capital in the meetings. We did this so they could see first-hand when it made sense not to do some acquisitions. I also thought their help in analysing the potential acquisitions would be valuable. In the end, there was always a good rationale for why each of the potential acquisitions couldn't work... And there was just no sense in doing an acquisition if it was going to make the company worse off			

		At the same time, however, the company managed to grow organically. In 1999, for instance, Cumberland extended its product range with the launch of Musical Masters, a line of original recordings which was to feature some of the world's greatest artists. This line had higher variable costs because of steeper licensing fees, but reduced the uncertainty and cost of recording. Later, in 2002, the company also launched a line of recordings in the white label for a well-known children's brand. And the company continued to penetrate new customer accounts Hence, by the summer of 2002, although the company hadn't reached forecast sales of C$113 million and EBITDA of C$32 million, Cumberland was virtually debt-free, and had reached sales of C$42 million, EBITDA of C$6,4 million, and boasted about C$10 million in cash in the bank. What to Do with All that Cash? Since the cash in the company was not being used to finance acquisitions and was not all needed to finance organic growth, shareholders began to examine ways of dealing with this excess cash. Partners at Canadian Capital Partners wondered what would be the best thing to do with the cash. Should they keep it in the Company? Should they propose a recapitalization and distribute the cash as dividends? Cumberland management also wondered: What would be best for them, personally?			
	a.	Calculate EBITDA- Sales ratio of Cumberland and comment on the same	**2**	**Level 3**	**CO3**
	b.	Evaluate the decision of management for not going for an acquisition	**5**	**Level 4**	**CO4**
	c.	Do a comparative analysis of cash in hand v/s cash distributed. (What to do with that cash?)	**2**	**Level 5**	**CO5**
Attempt any THREE questions out of four questions below:					
Q2	**a.**	How will you evaluate a business based on financial analysis?	**3**	**Level 4**	**CO4**
	b.	Compare growth drivers of private equity in other countries with India.	**4**	**Level 5**	**CO5**
Q3	**a.**	Frame 5 clauses in a term sheet as a start-up company to be proposed to a private equity firm.	**3**	**Level 4**	**CO4**
	b.	Examine the 2%-20% principle in the case of general partners. Is it a fair deal?	**4**	**Level 5**	**CO5**
Q4	**a.**	Evaluate the process of due diligence of the target company in venture capital and private equity context?	**3**	**Level 4**	**CO4**
	b.	Prepare a checklist from a private equity perspective before funding a company.	**4**	**Level 5**	**CO5**
Q5	**a.**	Which is better private equity or self-funded business? Examine the pros and cons from an entrepreneur's perspective	**3**	**Level 4**	**CO4**
	b.	Design 5 innovative exit strategies for a private equity firm for a better return on investment	**4**	**Level 6**	**CO5**

SECTION II								
All Questions are compulsory								
Q. No.	**Question Statement**	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Marks**	**BL**	**CO**
MCQ 1	Private Equity is regulated by ______.	IRDA	LIC	UTI	SEBI	1	Level 1	CO1
MCQ 2	The P/E firm takes the help of _______ for valuation & legal advice	Agents	Agents	Advisors	RBI	1	Level 1	CO1
MCQ 3	The ___________ can easily lookout for a full exit from its investment in a relatively short time and for an easily demonstrated price.	Promoter	Venture capitalist	Sponsor	Director	1	Level 1	CO1
MCQ 4	A sale of a portfolio company to another private equity firm, also known as __________ in private equity.	Secondary Sale	Buyback	IPO	Mergers and Acquisitions	1	Level 1	CO1
MCQ 5	PE waterfall concept is	Capital gain Allocation between LP and GP	Losses are borne by PE	Cash distribution	Cash burn	1	Level 1	CO1
MCQ 6	Start-up falls under ______Category of AIF	I	II	III	IV	1	Level 1	CO1
MCQ 7	When investors invest in AIF PGBP is	Taxable	Not taxable	Taxable only if more than 1 crore	Taxable only if more than 5 crores	1	Level 1	CO1
MCQ 8	As per Section ------- of the Indian Income Tax Act (IT Act), a payer (including both resident and non-resident payers) at the time of making a payment to a a non-resident is obligated to deduct tax at the appropriate rate if such income (i.e., capital gains) is subject to tax in India.	195	285	382	133	1	Level 1	CO1
MCQ 9	As per Section ______of the IT Act, the tax rate on long-term capital gains on the sale of shares of a closely held company to a non-resident seller is 10% plus applicable surcharge (without indexation benefits).	112(1)(c)	112(1)(d)	112(1)(e)	112(1)(f)	1	Level 1	CO1
MCQ 10	The _____________ partner is also entitled to share in profits of	Legal	General	Limited	Dual	2	Level 2	CO2

	the private equity funds investment							
MCQ 11	PE generally disposes of the investments within the relative time frame of ________ years.	5-7 years	10-15 years	After 25 years only	Can’t say	1	Level 2	CO2
Q. No.	**Question Statement**	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Marks**	**BL**	**CO**
MCQ 12	Third -stage financing also known as _______financing.	Mezzanine	Seed	Start-up	Expansion	1	Level 2	CO2
MCQ 13	A PE fund must source & complete the successful transaction to generate ……. &… The raising of further funds.	risk & returns	profit & loss	risk & reward	profit & returns	1	Level 2	CO2
MCQ 14	Growth capital removes _____ risk.	Concept	investment	exchange	credit	1	Level 2	CO2
MCQ 15	A strong ecosystem for _____ and early-stage investments can attract more VC/PE investments in India.	Lenders	Regulators	entrepreneurship	Counter party	1	Level 2	CO2
MCQ 16	The regulatory bodies have to take measures to bring about _____ in regulations	harmonization	growth	separation	Decentralization	1	Level 2	CO2
MCQ 17	As per Section 90(2) of the IT Act, a non-resident has the option to be governed by either provision of the domestic tax law (the IT Act) or the respective DTAA, whichever is	More beneficial to the non-resident.	Less beneficial to the non-resident.	Not applicable to a non-resident.	Above one of the	1	Level 2	CO2
MCQ 18	If the PE is already an existing investor with more than ________% holding control, then transfer pricing provisions are applicable.	24%	26%	36%	22%	1	Level 2	CO2
MCQ 19	Section 115U of the Income-tax Act provides that income accruing or arising or received by a person out of the investment made in a VCC or VCF shall be taxable in the same manner as if the person had made a direct investment in the VCU.	True	Holds only under a few assumptions	False	Is false only under a few assumptions	1	Level 3	CO3
MCQ 20	Value of the investment - 4500000, Expected IRR - 45%, Expected holding period - 5, Terminal year net income 3500000, P/E comparable ratio - 12, Number of existing shares - 100000 then Future value of the investment is ?	28,843,803.28	48,843,803.28	18,843,803.28	88,843,803.28	1	Level 3	CO3
MCQ 21	Based on the above, calculate Terminal value	52,000,000.00	42,000,800.00	42,000,000.00	42,200,000.00	1	Level 3	CO3

MCQ 22	% Of shares	68.68%	78.78%	88.68%	65.68%	1	Level 3	CO3

Q. No.	**Question Statement**	**Option 1**	**Option 2**	**Option 3**	**Option 4**	**Marks**	**BL**	**CO**
MCQ 23	Number of new shares to issue	219,241.20	3291,241.20	420,241.20	580,241.20	1	Level 3	CO3
MCQ 24	Price per new share	84.90	20.53	60.23	22.53	1	Level 3	CO3
MCQ 25	Final number of shares	339,241.20	319,241.20	520,241.20	319,500.20	1	Level 3	CO3
MCQ 26	Calculate the "2-20" fee structure for general partners if 2% is the fees of assets under management for 5 years and the fund raised is $400	$45	$50	$40	$55	1	Level 3	CO3
MCQ 27	Based on the above, calculate limited partner return if fund return is $1200 and profits were $800	$1040	$1050	$1043	$1440	1	Level 3	CO3
MCQ 28	Based on the above calculate carried interest	$168	$140	$160	$163	1	Level 3	CO3
MCQ 29	Expected EBITDA at exit - 6000, Expected holding period - 3, Expected NFP at exit - 4000, Expected EBITDA multiple at exit - 4, PE Investment - 4500, Calculate Expected Enterprise Value	2200	2400	2660	2510	1	Level 3	CO3
MCQ 30	Based on the above Expected Enterprise Value	32000	28000	22000	20000	1	Level 3	CO3