XLRI JAMSHEDPUR – PGP BM I
End-term Examination, Time: 90 Minutes, Total Marks: 40

NAME: ______________________________ ROLL # _____

INSTRUCTIONS

This is a closed book examination. You are not allowed to borrow books, calculators, etc. Answer all questions. Please read all footnotes (some of them might contain crucial information). Marks in brackets at the end of each section indicate the marks assigned for each question in that section. In case of multiple-choice questions, you are required to mark (tick) the appropriate choice in the question paper attached and also work the calculation out *or* write the explanation) in the space provided. Answers without workings/calculations/explanations will not be evaluated.

Anyone who resorts to unfair practices, as judged by the examiner, the minimum penalty will be zero in this segment of evaluation, while the maximum penalty could be expulsion from the institute. There will be no further warnings.

SECTION I

The following data has been taken from Business Standard Newspaper dated February 7, 2012 for Aditya Birla Novo India Limited.

Instrument No.	**1**	**2**
INSTRUMENT	**CALL OPTION**	**PUT OPTION**
Expiry Date	28-02-2012	28-02-2012
Strike Price	1100	1100
Premium Open/High/Low (Rs.)	14/32/13	31/31/11
Traded Qty.	65200	15200
No. of Contracts	326	76
Notional Value (Rs. Lakhs)	730.36	170.01
Open Interest	91000	14200

Based on the above data answer the following questions:

[Each correct answer: + 1 mark, each wrong answer: – 1 mark]

1. A long position in (1) and a short position in (2) is a straddle – Yes/No

2. The trading data in the above option suggests that the market closed below its open price (i.e., market fell or crashed) on the above-suggested date – Yes/No

3. Given (a) Aditya Novo on 28-02-2012 closes at 1200; and (b) Rana invested a total of Rs. 100 in either of above two instruments on the above date. Rana as a option buyer could make a maximum profit of Rs. 609 – Yes/No

4. Given (a) Aditya Novo on 28-02-2012 closes at 1200; (b) You invested in a straddle combining the above two instruments (with each of one quantity only). Your minimum profit would be Rs. 37 – Yes/No

5. If the Aditya Novo on that day traded between 1070 and 1110. A protected call in the above two instruments would cost a maximum of Rs. 1142 – Yes/No

6. Without going into detailed calculations and using only the premium open/high/low data one can say that the average premium of call option was more than put option on 7th Feb. 2012 (in the above case) – Yes/No

7. After a takeover episode, Barath ends up owning all the equity shares of Balrampur Chini Mills Ltd. Listening to this, Sumit says that *"I will view this as Barath owning a call option on the assets of Balrampur Chini Mills with an exercise price equal to the redemption value of its long-term liabilities."* Do you agree with Sumit's statement – Yes/No

8. Rashtriya Ispat Nigam Limited (RINL) is a public sector undertaking manufacturing steel. Suppose, a new issue of RINL bonds is guaranteed by the Government of India, a major share of benefits would accrue to the existing stock holders (i.e., Government of India) and a minor share of benefits accrues to the existing bond holders – Yes/No.

SECTION II

Read the complete case and then answer the questions given below.

==

Media report

Telco revises terms of proposed rights issue

Economic Times - Aug 14, 2001

Mumbai: TATA Engineering & Locomotive Company, at a meeting of its committee of directors on Monday, approved the change in the terms of the simultaneous and unlinked issue of fully convertible debentures with detachable warrants and non-convertible debentures with detachable warrants on a rights basis.

This has been done in the ratio of one FCD for every 4 shares held and one NCD for every 10 shares held of the company, according to a company release.

The company will raise approximately up to Rs 978.65 crore from the proposed rights issue, depending upon the extent of exercise of warrants by the investors. The proposed issue, subject to the necessary regulatory approvals, is slated to open around September-end, 2001.

The proceeds of the rights issue will be used for essential capital expenditure and new product development programmes and repayment/pre-payment of expensive borrowings of the company. The infusion of long-term funds, by way of this rights issue, will also improve cash flows and the debt-equity ratio.

The FCDs will have a face value of Rs 65 and be compulsorily converted into 1 ordinary share of Rs 10 each on March 31, 2002, at a premium of Rs 55 per share.

The FCD will carry an interest of 7 per cent on the face value. Every five FCDs will have one detachable and tradeable equity warrant which can be exercised and converted into one ordinary share of Rs 10 each at a price of Rs 120 after 18 months from the date of allotment till September 30, 2004.

The NCDs will have a face value of Rs 100 and carry an interest of 11 per cent per annum payable annually. The NCD will be redeemed in three instalments of Rs 30, Rs 35 and Rs 35 each at the end of the 4th, 5th and 6th year, respectively, from the date of allotment and would also have a put and call option at the end of 24 months from the date of allotment.

Every two NCDs will have one detachable and tradeable equity warrant which can be exercised and converted into one ordinary share of Rs 10 each at a price of Rs 120 after 18 months from the date of allotment till September 30, 2004.

The date of allotment would be November 1, 2001.

Capital Market report on

Telco rights issue instruments

Business Standard - Feb 7, 2002

Name (Previous close), Traded quotes[1] (Traded volume, value (Rs. '000), trades)
Telco shares (124.25) 125.80, 136.70H, 121.70, 135.10 (3997T, 529167, 16624)
Telco 7%-fcd-65 (118.20) 120, 133, 117.80, 129.90 (183T, 23056, 361)
Telco-Deb (119.25) 118.50, 132, 129.10, 132 (39720, 5030, 237)
Telco-Deb (35) 34, 41, 30.25, 39.35 (5944, 229, 100)
Warrants-2004 (35.20) 37.90, 41.40, 36.10, 40.15 (58292, 2307, 118)

It is also known that before rights issue Vishal held 100 common equity shares of Telco and was eligible for all the benefits vide its rights issue announcement as stated above.

=======================================

Based on the above data and case facts answer the following questions:

[Each correct answer: + 1 mark, each wrong answer: -1 mark]

9. If Vishal takes up all the opportunities of increasing his Telco equity shares that he is eligible for. Vishal will end up with 35 more shares of Telco – Yes/No

10. The total amount Vishal would need to set aside to invest would be equal to (without considering time value of money) Rs. 3825.00 – Yes/No

[1] Open, High, Low, Close

11. The trading data of Telco 7% fcd's and Telco equity shares suggests an average price difference of Rs. 3.80 – Yes/No

12. Why does a price difference exist between Telco shares and Telco-7%-FCDs in the above trading data (or even previous days closing prices)? Answer in the space provided below

13. The column in above table indicating the following details *'Telco-Deb (35) 34, 41, 30.25, 39.35 (5944, 229, 100)'* probably gives the trade prices of which security? Answer in the space provided below

14. If Vasudha were to strike a deal for Telco NCD's at its closing prices. The YTM would be less than 5% - Yes/No

15. Buying Telco NCD's on 7th Feb would have also given me an option to invest in Telco shares at a latter date – Yes/No

16. All buyers of Telco warrants at the above prices on 7th Feb are assuming that Telco share prices will be more than Rs. 174.45 on May 1, 2003 – Yes/No

17. Given Tata groups' high standing among investors, the public announcement by Telco of its rights issue on August 14, 2001 should have decreased its share price – Agree/Disagree? Why? Answer in the space provided below

SECTION III

Read and then answer the questions only in the space provided below them.

18.

(a) Rao believes in cutting the weight around and keeping good health of one and all. So, as soon as Rao joins Vinyl Chemicals Ltd (VCL) he proposes a Voluntary Retirement Scheme (VRS) for the firm to increase its shareholder value by increasing its profitability. Based on a report from Rao, VCL is considering a VRS for all employees above the age of 55 years (around 100). The scheme is expected to cost Rs. 10 crores (in the present year). The cost will be amortized on a straight-line basis over a period of 5 years (starting from next year). The move is expected to benefit the company to the extent of Rs. 3 crores every year for the next 5 years only. Assume a tax rate of 30%. The required rate of return (or cut-off-rate) is 13%. What would be the NPV of the proposed VRS package be? So the proposal should be accepted/rejected?

[3 marks]

(b) MernoMate, a manufacturer of phone answering machines, is analyzing the credit terms of three of its suppliers, shown below. Its cost of borrowing from its bank is 14%.

Supplier	Credit Terms
1	1/10 net 45
2	2/15 net 30
3	2/10 net 35

From which, if any, of the suppliers should the cash discount be taken, and why?

[2 marks]

SECTION IV

[Each Correct answer + 1.5 marks; Wrong answer – 1.5 marks]

19. Refer to the news item below:

Bonus shares a likely trend soon - P Vaidyanathan Iyer in New Delhi - Business Standard, March 04, 2002

The finance ministry's decision to tax individuals earning dividend income from mutual funds is likely to set a trend among asset-management companies (AMCs) to issue bonus shares instead of paying dividends. This allows the individuals to defer their tax liability and pay a lower tax based on their holding period.

According to the Finance Bill, 2002, income from units of Unit Trust of India and other mutual funds will now be taxable. It has, however, inserted a new section, 115BBB, which taxes the income from open-ended equity funds arising on or before March 31, 2003, at a concessional rate of 10 per cent. The first AMC planning to kick off such a bonus plan is J M Morgan Stanley. "Several other mutual funds will plan similar schemes now," said Dhirendra Kumar, chief executive of Value Research, a Delhi-based mutual fund tracking company.

The bonus plan will work thus: an individual subscribes to units of a plan that has a portfolio much like any growth or dividend plan. Depending on the accumulated capital gains, the fund will declare bonuses from time to time. These can be allotted in a separate folio, as J M Morgan Stanley's Bonus Plan envisages.

The bonus plan will be such that, as and when required, investors can redeem just the principal units and leave the bonus for a year. This will help them benefit from the long-term capital-gains tax of 10 per cent instead of the marginal rate. Since it is only the principal which is redeemed, the investor will not have to pay any tax on it.

For instance, an individual invests Rs 10,000 on 1,000 units of a face-value Rs 10 each. After five months his capital appreciates to Rs 11,000. The fund, instead of paying a 10-per cent dividend (Rs 1,000 in this case), allots bonus units in the 1:10 ratio. The individual now has 1,100 units. He can, if he chooses, redeem the principal of Rs 10,000 by selling 1,000 units. For this, he does not have to pay tax.

After a year of holding on to the balance (bonus) units, he can redeem these as well by paying only a long-term capital-gains tax of 10 per cent. Normally, under a dividend plan, he would have to pay dividend tax plus surcharge as soon as he received it or a short-term capital-gains tax of 30 per cent if he had invested in a growth plan and sold it entirely within a year.

In paragraph 5 starting **'For instance, an individual …' -** what will be the net asset value (NAV) of each unit after the bonus issue?

(a) Rs. 10.00

(b) Rs. 10.10

(c) Rs. 10.005

(d) None of the above

20. Refer to the various **news items related to RIL, RPL merger below:**

1:11 swap ratio for RIL, RPL merger - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

The boards of Reliance Industries (RIL) and Reliance Petroleum (RPL) today unanimously approved the merger of RPL with RIL, with the swap ratio set at 1RIL share for every 11 RPL share. The merger will take retrospective effect from April 1, 2001 and will lead to a 32 per cent increase in RIL's equity, from Rs 1,053 crore to Rs 1,396 crore.

RPL's assets have been valued at Rs 21,000 crore, in the "purchase method" of valuation, which will be funded out of the creation of equity with a current market value of Rs 11,000 crore. "This represents a straight benefit of Rs 10,000 crore to the shareholders of RIL," RIL managing director Anil Ambani said.

Under the proposed terms of the merger, RIL's direct 28 per cent holding in RPL's equity will be cancelled, and the promoters' direct holding in RIL will reduce from 44 per cent to 34 per cent.

Speaking at a media presentation in Mumbai this afternoon, Anil Ambani said the merger created India's only world scale, fully integrated energy company with operations ranging from oil and gas exploration, production, refining and marketing, petrochemicals, power and textiles. It would also have the world's highest number of shareholders at 35 lakh, with a floating stock of 54 per cent, he added.

Ambani envisioned RIL as developing largely into an energy company, with integrated manufacturing facilities. According to the gameplan, the Reliance group will straddle the services sector with Reliance Infocom which is setting up a broadband backbone in the country and Reliance Telecommunications, the group telecom company "which services one-third of the country's geographical area and one-third its population." Reliance Capital, the investment company, forms the other pillar of its services thrust. RIL has a 45 per cent stake in Reliance Infocom and 26 per cent in Reliance Telecom.

"With this, the group becomes fully diversified, both in terms of products and the portfolio. RIL will contribute almost 3 per cent to India's GDP," Ambani said.

Explaining the rationale for the merger, Ambani said there were significant benefits of scale, of complete integration, cost efficiencies and productivity gains, and optimisation of fiscal incentives. The merger also addressed any transfer pricing issues that might arise, he added.

The new-look RIL will have sales in excess of Rs 58,000 crore. It will be the only Indian private sector company in the Fortune 500 list and will be amongst the top 225 global companies in terms of net profits, among the top 300 companies in terms of net worth, among the top 425 companies in terms of assets and among the top 500 companies in terms of sales.

Ambani said that the merger accounting was based on the "purchase method" and the exchange ratio was arrived at based on a joint valuation report by Pricewaterhouse- Coopers and SB Billimoria & Co, (member of Deloitte Touche Tohmatsu International).

JM Morgan Stanley acted as financial advisor to the transaction. Amarchand & Mangaldas, Suresh A Shroff & Co were the legal advisors and Arcun Gandhi of NM Raiji & Co, Bansi Mehta of Bansi Mehta & Co and NV Iyer of CC Chokshi & Co acted as the tax advisors.

Ambani told presspersons here today that RIL would continue to have the same board of directors.

Reliance plans global acquisitions - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

Reliance Industries, with international rankings in all its major lines of business, is nursing global ambitions of inorganic growth. Announcing the merger of Reliance Petroleum into Reliance Industries, Anil D Ambani, managing director of Reliance Industries, said: "We have the financial ability, structure and strength to buy international assets." However, he hastened to add that the group had not identified any target company.

"There are significant opportunities in India itself with the government planning to divest in Hindustan Petroleum and Bharat Petroleum, as well as other companies as and when they are on the divestment list," Ambani said.

He, however, added that Reliance was interested in getting into exploration companies producing crude. "This is our target area as the crude requirement for our refinery is to the tune of 600,000 barrels a day," he said.

The group is now expected to be driven by three businesses -- the new, fully-integrated energy major Reliance Industries, financial company Reliance Capital and two telecommunication service companies, Reliance Telecom and Reliance Infocom.

"The group has a mix of 50 per cent activities related to the service sector and the remaining to manufacturing. While the service sector is a strong GDP multiplier, the manufacturing sector has a unique product-and-portfolio mix related to energy. Our chemicals business is a super-cash cow even if textile sales form less than 1 per cent of our sales," said Ambani.

Considering the current product and portfolio mix, the merged Reliance Industries will be dominated by oil and gas exploration, production, refining and marketing activities.

Post-merger, RIL will be energy player in the offing - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

After the merger of Reliance Petroleum (RPL) with Reliance Industries (RIL), RIL will be predominately an energy company, RIL managing director Anil Ambani said Sunday.

Refining and marketing (the core businesses of Reliance Petroleum) will form 58 per cent of RIL’s business in the future, while RIL’s core business of petrochemicals forms only 40 per cent.

RIL’s share in the revenue from exploration and production at Panna-Mukta-Tapti oil fields will constitute 1 per cent, while 1 per cent will come from other businesses.

“Textiles business constitutes less than 1 per cent,” he said.

The merger will create India’s largest private sector company in terms of sales at Rs 58,000 crore ($11.8 billion).

It will have an operating profit of Rs 9,000 crore and a cash profit of Rs 6,800 crore. Its net profit of Rs 4,000 crore (40.8 billion(will represent nearly 30 per cent of the total profits of all private sector companies in India,” Anil Ambani said in his presentation.

Reliance Industries will have exports of Rs 10,800 crore ($2.2 billion), making it the country’s largest exporter.

Its contribution to the exchequer at Rs 10,500 crore ($2.1 billion) will represent 10 per cent of the total indirect tax revenues of the Central government, he added.

“We see Reliance Industries as an energy company,” Ambani said, adding that Reliance Industries’ assets will include 25 offshore and onshore, deep and shallow water blocks of oil and gas exploration and production (E&P) acreage, covering an area of over 175,000 sq km, which makes it India’s largest private sector E&P player.

It has a 30 per cent interest in the Panna-Mukta-Tapti oilfields and the largest grass roots refinery in the world with a capacity of 27 million tonne.

Reliance Industries expects to get retail marketing rights for transportation fuels, which the government decided on February 27 to open up for private players.

Crisil reaffirms RIL's debt paper ratings - Banking Bureau in Mumbai - Business Standard, March 04, 2002

Credit rating agency Crisil has reaffirmed the ratings of the Reliance Industries Ltd's (RIL) various debt instruments following the company's decision to merge its group company, Reliance Petroleum Ltd (RPL), with itself.

The agency has also put the two non-convertible debenture issues of RPL on rating watch with positive implications. The 'AAA' and 'P1+' outstanding ratings assigned to RIL's non-convertible debenture (NCD) issues (totalling Rs 4,060 crore) and its Rs 1,600 crore short-term debt programme respectively have been reaffirmed by Crisil.

The 'AA+' rating assigned to RPL's NCD issues (totalling Rs 6,000 crore) have been placed on rating watch with positive implications.

"The reaffirmation of the ratings reflects the fact that following the merger, RIL's business and financial risk profile would continue to remain favourable," Crisil said in a statement.

The financial profile of RIL following the merger (based on Crisil estimates) is expected to be characterised by large networth (of around Rs 20,000 crore as at March 31, 2002), high annual cash accruals of about Rs 6000-6500 crore, and a favourable cash debt-protection ratios (net cash accruals/ total debt in excess of 25 per cent and cash debt service coverage ratio of greater than 2 times).

However, RIL's capital structure (expected total debt/ tangible networth of less than 1 time as on March 31, 2002) and interest coverage ratios (estimated profit before depreciation, interest and tax / interest and finance charges of around 4.5-5.0 times for 2001-02) would be currently moderate, although these are expected to improve to comfortable levels over the next two-three years.

The merger would result in RIL becoming India's largest private sector company having a leading and well-integrated presence extending from oil refining to downstream polymers, fibre-intermediaries and polyester segments, it said and added that in each of these activities, the company's world-scale capacities provide it with significant economies of scale and sustainable competitive advantage.

"Further, from a debt-holder's perspective, the company's large cash accruals, favourable cash debt-service coverage ratios, and high financial flexibility are significant comfort factors.

RIL's capital structure and interest coverage ratios are currently moderate. Nevertheless, these are expected to improve to comfortable levels over the next 2-3 years, even after considering its planned investments in setting up a marketing network for petroleum products and/or bidding for one of the public sector oil companies that the government plans to disinvest," Crisil said.

RIL is primarily engaged in the business of petrochemicals, oil and gas production/ exploration and textiles. RPL, currently 64 per cent owned by RIL, operates a 27 million tonne per annum oil refinery at Jamnagar. Following the merger refining would account for about 55 per cent of RIL's turnover and petrochemicals for the balance 45 per cent.

Crisil pointed out that RPL has recently been granted rights to market its petroleum products. The relatively more stable marketing margins would enable the company to partly hedge its volatile gross refining margins (GRMs).

Reliance sets up representative office in China - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

The Reliance group opened its first representative office in China last month. The company is the largest Indian private sector exporter, having exported products worth $2 billion in 2000-01.

Responding to a query, Anil D Ambani, managing director, Reliance Industries, said :"We are the largest private sector exporter with $2 billion worth of exports last year. We have a major presence in petrochemicals and China is the largest importer of these products. We have a presence in all markets and it is natural to have an office in China. We want to be near our customer."

"We do not have an immediate strategy to enter into any manufacturing business in other countries. All options, however, are open," he added.

While RIL exports to over 100 countries, Reliance Petroleum exports to 30 countries across the world.

RIL has consistently stepped up its exports, with its manufactured product exports at Rs 2, 960 crore in 2000-01. Its exports comprise polyester, polyester intermediates, polymers, chemicals and fabrics.

In 2000-01, RPL exported light distillates like LPG, naphtha and gasoline, middle distillates like diesel and aviation turbine fuel and heavy distillates, ortho and para xylenes. It achieved exports of Rs 6,410 crore during the year.

RIL declares 47.5% interim dividend - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

Reliance Industries Ltd (RIL) today declared an interim dividend of 47.5 per cent for 2001-02, raising it from 42.5 per cent last year.

The dividend will result in an outgo of Rs 551 crore, Reliance Industries said in a press release.

Also, group company Reliance Petroleum (RPL) declared a 5 per cent interim dividend for the year, resulting in an outgo of Rs 287 crore.

Last year, too, Reliance Petroleum had paid out a dividend of 5 per cent. "The dividend cheques will be received by the investors before March 31, 2002, which is about three months ahead of our normal schedule for mailing out dividend cheques," Reliance Industries managing director Anil Ambani said.

With this, the Reliance group has joined the bandwagon of companies rushing to declare a dividend ahead of the March 31 deadline.

From April 1 onwards, dividend will be taxed in the hands of the investors, according to provisions in the latest Union Budget.

Reaching out the dividend cheques ahead of the March 31 deadline will save the investors the burden of tax.

RIL-RPL merger: Tax gains clinched issue - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

Sales tax benefits, transfer pricing issues, a 7-year tax holiday and more has played an important role in RIL deciding to merge Reliance Petroleum with itself.

Though RIL's managing director Anil D Ambani refused to quantify gains from the sales tax benefit (which would accrue since RIL acquires a bulk of its raw material requirement from RPL and has to pay sales tax on it), he only said "this varies depending on the price and the goods."

"The merger also sets to rest all transfer pricing issues," Ambani said, referring to the pricing of raw material that RIL acquires from RPL. But Ambani hinted at substantial gains from a 7-year tax holiday which is currently available to RPL, and would accrue to RIL even after the merger.

But Ambani made a specific case of savings in interest costs if the triple-A rated RIL decides to refinance loans taken by the double A-plus Reliance Petroleum. "RPL has a debt of Rs 7,000-8,000 crore," Ambani said, adding that "if you look at the differential between rates on AAA and AA+ paper, we are looking at savings of 50-100 basis points."

Ambani said the merged entity could refinance Rs 6,000-7,000 crore of existing loans, through fresh loans at a lower rate. RPL has two debt instruments of non convertible debentures - Rs 1,000 crore and Rs 5,000 crore.

Considering the proposed merger, Crisil has reaffirmed AAA and P1+ credit ratings for RIL and has placed RPL's existing AA+ credit rating on rating watch, with positive implications. The proposed merger will result in accretion of over Rs 1,300 crore to RIL's profit and acquisition of facilities valued over Rs 21,000 crore.

Moreover, the merged RIL now has 12 per cent equity available for a strategic sale to investors/financial investors or to place it in the international market through ADR/GDR.

BASED ON THE ABOVE DISCUSSION TICK ALL THE BELOW CHOICES THAT YOU AGREE TO (i.e., THERE ARE MULTIPLE CORRECT ANSWERS). LEAVE ALL THE ONES THAT YOU DISAGREE TO.

Remember each correct tick earns you +1 marks and each wrong tick would earn you –1 marks. Use your own judgment to decide on the answers (i.e., some views and interviews and discussions might be biased). While tick marking – please provide your explanation in the space aside/below.

a. The merger will bring in sales enchancement

b. The merger will bring in large scale operating economies

c. The merger will bring in large scale synergies

d. The merger will have large scale economies of scope

e. The merger is a classic case of horizontal integration

f. The merger will bring in improved management to the new firm

g. The merger will bring in large benefits of information effect

h. Hubris hypothesis is the reason behind the merger

i. Wealth transfers is the main reason behind the merger

j. The merger will in all probability reduce the overall cost of capital of RIL

k. Tax benefits are one of the reason behind the merger

l. The merger will have leverage gains

m. Managements personal agenda is one of the reason behind the merger

n. It will give rise to a firm with increased financial clout

o. With this, the Reliance-Ambani group becomes fully diversified, both in terms of products and the portfolio.

p. If Girish buys the 12.2% stake that is going to be sold in the post-merger equity of the company. Girish will be known as a strategic investor

q. If Indian Oil Corp (IOC) buys 15.01% stake from the market in the post-merger equity of the company. IOC will surely be known as a strategic partner

r. Pricewaterhouse Coopers and S. B. Billimoria & Co are involved in the merger to protect minority investor's interests.

21. **In a divestment exercise by Government of India, Zuari Industries acquired Paradeep Phosphates.** Zuari Industries is a Birla-owned profitable company with interests in Fertilizers and Cement. Whereas, Paradeep Phosphates is a loss making sick public sector company-manufacturing fertilizers.

Use your own judgment to decide on the answer below:

a. In all probability, the acquisition will bring in improved management benefits

b. In all probability, the acquisition will be bring in tax benefits

c. Both (a) and (b)

d. None of the above

22. Refer to the **news items titled 'APTransco plans …' below:**

APTRANSCO to float Rs 300 crore issue - Sambit Saha in Kolkata - Business Standard, March 04, 2002

The Transmission Corporation of Andhra Pradesh Ltd (APTRANSCO) has decided to hit the debt market with around a Rs 300 crore issue. UTI Bank's Kolkata office and Smifs Capital Markets have been appointed as the arrangers to the issue.

The fund mobilised through issuance of redeemable, transferable, non-convertible bonds will be employed to support and augment the resources for its ongoing operation and retire high cost borrowings. The corporation is planning substantial level of investment in strengthening the transmission and distribution (T&D) network to make the system self-sustaining as the APGENCO, the state-run power generation company, is expected to increase power generation capacity.

The issue, which has received an A (SO) rating from Crisil, will have three different coupons. For the seven-year bond, the coupon is going to be 10.9 per cent, for the 10-year bond it is 11.3 per cent and for the 12-year bond the rate is going to be 11.6 per cent.

The payment of interest would be disbursed semi-annually and the bond would be listed on the National Stock Exchange. The issue will open on March 1 and remain open till March 23.

The Government of Andhra Pradesh would support the issue. The issue has extended unconditional and irrevocable guarantee of the state government towards the repayment of principal and payment of interest and budgetary support from the Andhra Pradesh government during the entire tenure of the bonds by way of a tripartite agreement between APTRANSCO, Andhra Pradesh government and State Bank of Hyderabad.

The issue would give impetus to the ongoing reform process in the state started in 1998 when the Andhra Pradesh Electricity Reforms Bill was approved by state assembly for restructuring of electricity sector in the state.

APSEB (Andhra Pradesh State Electricity Board) was split into two companies -- the generation utility APGENCO and T&D utility APTRANSCO.

Andhra Pradesh regulatory commission was also set up in April 1999. World Bank has also supported the reform project and extended a loan of Rs 100 crore to fund the investment needs of the sector.

APTRANSCO has inherited about 6,15,014 km of T&D lines catering to about 3,800 high tension and 10 million low tension consumers. In addition to 5,884 mw electricity that APGENCO produces, APTRANSCO can carry capacity equivalent 1,458 mw through its network. The fund would help to augment its capacity further.

Tick all the ones that you agree to (i.e., there may be multiple correct answers). Leave all the ones that you disagree to. Use your own judgment to decide on the answers (i.e., interviews and discussions might be biased)

a. The redeemable bond issue is an example of a junk bond
b. APTransco is the guarantor for the issue
c. The coupon rates indicate that yields are decreasing with time
d. None of the above

SECTION V

[Each Correct answer + 3.0 marks; Wrong answer – 1.0 marks]

23. Government of India has privatized domestic airline operations. One of the new entrants is Indigo Airlines. It is known that Indigo Airlines is on an expansion spree and is in need of money. In the space provided suggest a way using 'Securitization' as a means for raising money for them.

24. Refer to the **news item titled 'Dabhol likely …' in page 4.**

Dabhol likely to be split if bid succeeds - Corporate Bureau in Mumbai - Business Standard, March 04, 2002

Reliance Industries is most likely to split the assets of the Dabhol Power Company (DPC) if either BSES or the special purpose vehicle set up by RIL emerges successful.

Answering queries on why RIL had put in a second bid, when RIL has always maintained that BSES will spearhead all its interests in the power sector, RIL managing director Anil Ambani said the decision was based on the "array on bidders who seemed interested in either DPC's gas business or its power business". "We therefore decided to bid through two firms. The gas business is in RIL's domain whereas the power business is BSES's domain," Ambani said, adding that "BSES has the best skills in the power business." RIL has a 34 per cent stake in BSES.

While Ambani refrained from outlining his strategy, assembled analysts said Ambani's gameplan was clear in that if either company gets DPC, the two RIL arms will split the company along the domain knowledge which they excel in.

"In all likelihood, BSES will retain DPC's power business, which adds substantial muscle to its own generating capacity, while the gas business which includes the landing jetty, liquefaction facilities and the like at Dabhol will be of tremendous interest to RIL," an analyst present at Ambani's presentation told Business Standard.

"I think RIL has a very clear strategy of focusing on areas where they are confident and have the skills," another analyst said at the sidelines of Ambani's presentation. "It is quite clear that RIL doesn't want to get into power on its own nor would it want BSES to be dabbling in the gas business. So it is quite clear that they will split the company into two, which gives them the leverage to run two businesses in two diverse markets," he said.

Assuming that BSES wins the bid for DPC and also assuming the game plan of Ambanis given in the newsclip to be true. In the space provided describe any governance problems you perceive.

25. Refer to the **news item titled 'Promoters rush to …' below.**

Promoters rush to gift themselves payouts - B G Shirsat & Samata Dhawade in Mumbai - Business Standard, March 04, 2002

The promoters of as many as 125 companies have rushed to declared interim dividend for 2001-02 to avoid being taxed on dividends.

The Budget for 2002-03 has proposed to abolish the dividend distribution tax of 10 per cent for corporate, and in turn, made the payout taxable in the hands of the investor at the rates applicable to them.

The promoters of top 50 dividend paying companies (during 2000-01) stand to gain Rs 302 crore if they paid interim dividend for 2001-02 now (and thereby avoid being taxed at the rate of 30 per cent plus five percent surcharge on tax payments).

This is because the promoters of top 50 dividend paying private sector companies received Rs 959 crore as dividend during 2000-01. If they received this dividend after March 31, 2002, they would be paying the tax at Rs 302 crore on account of dividend begin taxed in the hands of recipients.

The calculations are based on the assumptions that they would pay same amount of dividend during the fiscal 2002-03.

Further, they are under 30 per cent income tax bracket in which they have to provide for a additional 5 per cent surcharge during the fiscal 2002-03. The promoters of Reliance Industries, the Ambani family, stand to gain Rs 68.3 crore on account of interim dividend of 47.50 per cent declared on March 3, 2002. The Ambanis hold 43.29 per cent stake in Reliance Industries.

On the basis of this, they would have got Rs 216.73 crore as dividend for the year 2001-02. If the dividend was paid after March 31, 2002, the Ambanis will have to pay an income tax of Rs 68.3 crore on account of 30 per cent tax on individual plus five per cent surcharge on tax. The book closure date for receiving such dividend has been set as March 23, 2002.

In the case of Tatas, the savings on account of interim dividend if paid before March 31, 2002, would be Rs 50 crore. The assumption for the Tatas has been based on the dividend paid by three companies which are among the top 50 dividend paying companies. As such, Tatas could save Rs 16 crore through Tata Steel and another Rs 23.5 crore through other companies.

Kumar Mangalam Birla through its five top dividend paying companies would see a additional income of Rs 81.7 crore. This would bring along an additional tax burden of Rs 26 crore. The largest income from dividend would be from Hindalco that would add Rs 20.2 crore to the group's pocket.

The promoters of Bajaj Auto, Rahul Bajaj and family would save Rs 7.3 crore if they declared dividend before March 31, 2002.

In the space provided suggest the governance problems (if any) and stakeholder(s) who will suffer due to this

26. Refer to the **news item titled 'IDBI to redeem 1992 bond …' below.**

IDBI to redeem 1992 bond on March 31 - Yashajit Saha & George Smith Alexander in Mumbai - Business Standard, March 04, 2002

The Industrial Development Bank of India (IDBI) will exercise call option to its 1992 deep discount bonds on March 31 and redeem Rs 1,800 crore well ahead of maturity. The objective is to cut the high cost of borrowing.

By retiring the high cost debt with rate of interest of 15 per cent, IDBI will save an interest cost of around Rs 100 crore annually. Over the last two years, the institution has exercised call option to retire old high cost debt of around Rs 4,000 crore.

The investors of the deep discount bonds will be given option to invest the proceeds of the instrument in IDBI Suvidha Account or in the money multiplier bond of next Flexibonds issue of (Flexibonds Series 13) the FI, a senior IDBI official said.

The Suvidha account of IDBI offers interest rate in the range of nine per cent (for one year) to 10 per cent (for five years). The money multiplier bond will provide the opportunity to the investors to double their money by six year three months. The Flexibonds 13 series will hit the market in the middle of this month and will remain open till the first week of April.

The issue will have a notified amount of Rs 250 crore with a 100 per cent greenshoe option. IDBI will replace growing interest bonds with a step-up interest rate structure with money multiplier bonds.

Flexibonds issues are rated 'AA+' by Credit Rating and Information Services Ltd (Crisil), LAA+ by Investment Information and Credit Rating Agency (Icra) and Ind AA+ by Fitch Ratings India.

In its last issue (Flexi Series 12), IDBI had received Rs 320 crore of subscription in excess of the notified amount of Rs 250 crore. There were 1,16,000 of subscribers to the bond most of which were retail investors. The institution decided to retain the whole subscribed amount.

In the space provided suggest the governance problems (if any) and stakeholder(s) who will suffer due to this move.