

[Time: Hrs]

[Marks: 60]

Please check whether you have got the right question paper.

Instructions :

- There will be Five Questions in all.
- Q1 would be compulsory and would carry 20 Marks
- In addition to Q1, there would be six questions. Each question would carry 10 Marks. Each of these Six Questions will have three sub – questions and each sub – question would carry 05 Marks
- Students have to attempt any four out of the remaining six Questions and within each question; students have to attempt any two out of three sub – questions.

Q.1 Read and attempt the following:

A. Answer Multiple Choice Question:

10 Marks

- i. What does a "liquidation preference" in an investment condition refer to?
 - a) A right of investors to receive their investment back before common shareholders upon liquidation
 - b) A guaranteed profit for investors
 - c) The ability of investors to sell their shares freely
 - d) A preferred interest rate for investors
- ii. A typical condition that might be included in a private equity investment agreement is:
 - a) Unlimited voting rights for all stakeholders
 - b) Non-compete clauses for management
 - c) Open-ended investment duration
 - d) No clause regarding exit strategies
- iii. Which of the following is a common exit strategy for private equity firms?
 - a) Increasing dividends
 - b) Initial Public Offering (IPO)
 - c) Continuing to hold the investment indefinitely
 - d) Selling derivatives
- iv. What type of exit strategy allows a private equity firm to recover its investment by selling to a strategic buyer?
 - a) Secondary market sale
 - b) IPO
 - c) Strategic sale
 - d) Management buyout
- v. What is the primary purpose of venture capital?
 - a) To finance public companies
 - b) To invest in startup companies with high growth potential
 - c) To purchase real estate
 - d) To provide loans to small businesses
- vi. The term "Accredited Investor" typically refers to:
 - a) Individual investors with limited knowledge
 - b) High-net-worth individuals meeting specific financial criteria
 - c) Government institutions
 - d) Institutional investors only

- vii. Capital gains tax on private equity investments is generally:
 - a) Higher for short-term investments than long-term
 - b) Non-existent
 - c) Equal for all investment durations
 - d) Fixed regardless of investor income level
- viii. The Discounted Cash Flow (DCF) method is based on:
 - a) Comparing with similar companies
 - b) Estimating future cash flows and discounting them to present value
 - c) Assessing the book value of assets
 - d) Market capitalization
- ix. One of the primary risks associated with private equity in developing markets is:
 - a) High regulatory standards
 - b) Political and economic instability
 - c) Lack of suitable investment opportunities
 - d) Excessive competition
- x. What advantage do developing markets offer for private equity investors?
 - a) Low growth potential
 - b) High potential returns due to under-penetration
 - c) Stable currency rates
 - d) Established corporate governance

B. State whether true or false

10 Marks

- i. Private equity investments in developing markets are generally less risky than in developed markets.
- ii. Corporate governance practices are crucial for the success of private equity investments.
- iii. Due diligence in private equity funding is a process aimed at identifying potential risks and rewards.
- iv. A term sheet typically outlines the valuation of the company and the percentage of equity stake being offered.
- v. The venture capital industry is known for a high level of competition among investors.
- vi. A secondary market for private equity allows investors to sell their stakes before an exit event occurs.
- vii. Limited partners in a private equity fund are primarily responsible for the management of the fund.
- viii. Venture capital firms usually invest in a diverse range of sectors and industries.
- ix. Regulatory compliance is less stringent for venture capital firms compared to private equity firms.
- x. Ethics in private equity involves fair treatment of all stakeholders throughout the investment lifecycle.

Q.2. Attempt any Two from the following:

10 Marks

- a. What are the primary differences between venture capital and private equity?
- b. How do venture capital firms typically assess startup potential?

c. What role do limited partners play in private equity funding?

Q.3 Answer any Two from the following:

10 Marks

- What are the key stages in the funding process for venture capital?
- How does due diligence influence the funding decision in private equity?
- What criteria do investors use to evaluate potential investment opportunities?

Q.4 Answer any Two from the following:

10 Marks

- What common challenges do venture capitalists face when raising funds?
- How do market conditions influence investment selection in private equity?
- What factors contribute to a startup's attractiveness to venture capitalists?

Q.5 Attempt any Two from the following:

10 Marks

- What are the most widely used valuation methods for startups?
- How do market comparables affect valuation in venture capital?
- What role does discounted cash flow analysis play in private equity valuation?

Q.6 Attempt any Two from the following:

10 Marks

- What are the essential components of a term sheet in venture capital deals?
- How do terms related to equity ownership differ between venture capital and private equity?
- What negotiation strategies can be employed while structuring a term sheet?

Q.7 Attempt any Two from the following:

10 Marks

- What standard legal documents are involved in private equity investments?
- How do investment conditions vary based on the type of financing (equity vs debt)?
- What role do covenants play in private equity investment agreements?
