

Course Outline

VIB (Valuation and Investment Banking)

Xavier Institute of Management (XIMB), XIM University, Bhubaneswar

Credits	3.0
Program	MBA(II)-BM
Academic Year & Term	2022-2023, Term-IV
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I. Course Introduction

This course is a blended introduction to Valuation and Investment Banking (IB). It would combine theory and practice. Moreover, we would have both qualitative and quantitative discussions on most topics, the latter mainly being numerical examples (not any rocket science or high-flying calculus).

First, building on the basics of valuation that you were exposed to in Financial Management, we would familiarize ourselves more intimately with the building-blocks of valuation. We will learn about different valuation methods and consistency between them as well as about treatment of capital structure under different situations (like constant debt and constant debt-ratio). We will also learn about different alternatives to the DCF valuation approach. We will also take up valuation of LBOs, real options, and convertibles and, if time permits, touch upon corporate control transactions.

In the next part, after gaining an idea into what IB is and understanding the basics of Trading, we would study in detail the capital-raising process, mainly Underwriting and Syndication. Here, we would learn about IPO and SEO and ADR and GDR as well as about NIF and RUF. We would also get familiar with Euromarket and the innovative Euro instruments like Euronote and Euro-CP as well as Eurobond and Euroequity. This would also give an opportunity to get a glimpse into Financial Engineering in debt and equity instruments as well as about Structured Financing. We would then talk about MADS (merger, acquisition, divestiture, and spinoff) and learn how to evaluate them. Wealth Management and Mutual Fund would commence one of our focus areas, and, here, we would learn how an AMC works. This would lead to an insight into Hedge Funds and Private Equity. In that light, we would also talk about LBOs and LBO valuation. Project Financing (PF) and PPP (Public Private Partnership) would be touched upon, with a discussion of their forms and Risk Management techniques in PF. We would end with Securitization, wherein we would study about MBS and ABS as well as about CMO, understanding the beauty and risks of these instruments and innovations like IO and PO that have accompanied them.

II. Course Objectives

- The course provides an opportunity to apply the theoretical financial constructs, techniques, and models to the real-world of valuing projects, valuing enterprises, and engaging in investment-banking activities.
- This course introduces the fundamental principles of valuation, securitization, asset-backed financing, financial innovation, capital raising, and leveraged buyout.
- This course offers a comprehensive understanding of the complex current issues relevant to the investment-banking sector and benefit from a knowledge of the businesses of hedge funds, private equity, project financiers, securitizing entities, and wealth-management entities.

III. Course Learning Outcomes (CLO)

Upon successful completion of this course, students will be able to:

- Demonstrate the analytical tools and finance theory necessary for making good financial decisions and for understanding the valuation of projects and enterprises,
- Assess the values and financial benefits of mergers and acquisitions, leveraged buyouts, asset-backed financing, securitization of future cash flows, novel financial instruments, new ways of raising capital,
- Acquire a comprehensive knowledge about nuances of valuation and techniques to resolve the inconsistencies between various valuation approaches as well as a broad understanding of the business of investment-banking.

IV. Course Content (approximately 30-40% Valuation + 60-70% Investment Banking)

- Recap of the four valuation approaches: FCF, APV, CCF, CFE
- Fixing valuation approaches for finite life and non-constant cashflows
- Valuing using decision tree
- Valuing using binomial approach
- Valuation using comparables
- Valuing real-estate (residential & commercial)
- Valuing a takeover candidate
- Valuing a leveraged buyout
- Cross-border valuation
- Capital-raising process
- Financial innovations
- MADS: Merger, Acquisition, Divestiture, Spinoff
- LBO: Leveraged Buyout, the nuances
- Wealth Management
- Hedge Fund
- Private Equity
- Asset-Based Financing
- Securitization

V. Textbooks and Reading

The class discussions and handouts would be exhaustive and self-sufficient. But I would refer to the following books for topics they cover well; they are referred to in the Session Plan by the two-letter code. For cases, you would need to refer to *Case Problems in Finance* by Carl Kester, Richard Ruback, and Peter Tufano (McGraw Hill International Edition, Twelfth Edition).

TM: *Valuation*, Sheridan Titman and John Martin, *Prentice Hall*, 2010

BS: *Corporate Finance: A Valuation Approach*, Simon Benninga and Oded Sarig, *Irwin/McGraw-Hill*, 1996

BC: *Corporate Valuation*, Bradford Cornell, *McGraw Hill*, 1993

CK: *Valuation: Measuring and Managing the Value of Companies*, McKinsey & Company Inc., Tim Koller, Marc Goedhart, David Wessels, *Wiley*, 2010

PR: *Valuing a Business*, Shannon Pratt, Robert Reilly, and Robert Schweihs, *McGraw Hill*, 2000

GT: *Financial Markets & Corporate Strategy*, Mark Grinblatt and Sheridan Titman, *McGraw Hill*, 2001

DS: *An Introduction to Investment Banks, Hedge Funds, and Private Equity: The New Paradigm*, David Stowell, *Academic Press – Elsevier*, 2010

RP: *Investment Banking: Valuation, Leveraged Buyouts, and Mergers & Acquisitions*, J Rosenbaum and J Pearl, *John Wiley*, 2009

SW: *Global Banking*, RC Smith, I Walter, and G DeLong, *Oxford University Press*, 2012

TL: *The Business of Investment Banking: A Comprehensive Overview*, K Thomas Liaw, *John Wiley*, 2012

VI. Pedagogy

The pedagogy will include lecture, case discussion, and numerous numerical examples. In the lecture sessions, the students are expected to come to the class with acquaintance of pre-reading materials (posted PPT files and other readings, if any) for effective learning outcomes. Similarly, students need to read and prepare the case question in group for productive and meaningful class discussion.

VII. Tentative Session Plan (Reference in the square bracket; refer to V for code meaning)

I. Introduction to Valuation: 2 [TM]

Recap of the four approaches: CCF, FCF, APV, and CFE
Consistency between the Approaches under Infinite and Finite Life

II. Introduction to Investment Banking: 1 [TL]

Investment Banking (IB) is what IBers (Investment Bankers) Do
Types of Investment Banks
Trends in IB
IB in BRICS countries and Asia
Trading: Brokerage and Market-Making
Market Microstructure

III. Capital Raising Process: 2 [SW]

Underwriting, Syndication, Private Placement
IPO (Initial Public Offering) and SEO (Seasoned Equity Offering)
NIF (Notes Issuance Facility) and RUF (Revolving Underwriting Facility)
Euronote, Euro-CP (Commercial Paper), Euro-MTN (Medium Term Note)

IV. Financial Engineering: 2 [SW]

Innovations in Debt, Equity, and Currency-based Instruments
Credit Derivatives and Interest-Rate Swaps
Structured Financing
STRIPS, Americus Trust

V. Advanced Topics in Valuation: 2 [TM]

Using Decision Trees in Valuation
Using Binomial Tree for Valuing Real Option
Cross-Border Valuation

VI. MADS: 2 [RP]

Merger & Acquisition
Motivation for M&A
Evaluation of M&A Deals
Cross-Border M&A
Divestiture and Spin-Off
Equity Carveout
Takeover Defences

VII. LBO (Leveraged Buy Out): 2 [RP]

Economics of LBOs: Return Analysis
Exit or Monetization Strategies
Financing Structure of LBO
LBO Valuation: The Nitty Gritties

VIII. Wealth Management and Mutual Fund: 1 [SW]

Wealth Management

Pension Management

Portfolio Management

Mutual Funds: Varieties

ETF

Evaluating MF

Managing MF AMC (Asset Management Companies)

REIT

IX. Hedge Funds: 1 [DS]

Overview and Recent Performance

Leverage

Market Liquidity and Efficiency

Lockups, Gates, Side-Pockets

HF versus PE (Private Equity) and MF (Mutual Fund)

High-Water Marks and Hurdle Rates

Public Offerings

Hedge-Fund Strategies

X. Private Equity: 1 [DS]

PE Transaction Participants

Structure of a PE Fund

Capitalization of a PE Transaction

Leveraged Recapitalization

PIPE (Private Investment in Public Equity)

Equity Buyouts

PE IPO

VC (Venture Capital) and PE

XI. Asset-Based and Project Financing: 1 [SW]

Structure of a PF Deal

BOT (Build Operate Transfer) Model and Its Variants

PPP (Public Private Partnership)

Concession Agreement

Swiss Challenge

Identifying and Managing PF Risk

Input-Price Swap and Output-Price Swap

Other PF Risk Management Techniques

International Payment

XII. Securitization: 1 [TL]

Asset-Backed Security, Mortgage-Backed Security

Pay-Through and Pass-Through

Securitization Structure and Credit Enhancement

CMO (Collateralized Mortgage Obligation)

Prepayment (or Call) Risk and Extension Risk

Floaters and Inverse Floaters, IO and PO

VIII. Assessment Scheme

Components	Weights (%)	Duration	Position in Course	Assessment of Course (CLO)
Class polls/participation	30%	Every session	Continuous	CLO-1, 2, 3
Case (Group)	10%	Session 19	Session 20	CLO-1, 2, 3
Mid-term exam	30%	90-120 min	Half-way	CLO-1, 2, 3
End-term exam	30%	90-120 min	After last class	CLO-1, 2, 3

The polls would test what is being covered in the current session and a part of what has been covered in the previous session. The end-term exam tests the conceptual clarity and understanding of the subject and will cover the entire course. The total weight on CP (Class polls/participation) for the scheduled 20 classes is 30%; so, on the average 1.50% per class. Therefore, you have to come well-prepared to each class session and answer questions when called upon to do so and do well on the instant polls.

IX. Academic discipline and integrity

Students are expected to come to class on time. Academic Integrity will be adhered as per the norms and policy given by the Institute. No interchange of section attendance is permissible. Students are not allowed to use cell phone and laptop inside the class without permission of the faculty.

X. Policy on plagiarism

Any plagiarism beyond 20% found in the submission (including reproduction from books, online sources, journals or from peers) will NOT be accepted.

XI. Mapping course learning goal with program learning goal (PLG)

PLG#	Program Learning Goal	Trait	Addressed by Course	
			Yes	No
PLG 1	Functional and Business Skill.	The students will demonstrate understanding of elements of all functional areas	Yes	
PLG 2	Analytical Skills	The students will use analytical techniques to identify a business problem and suggest a solution.	Yes	
PLG 3	Collaboration and Teamwork Attributes	The students will exhibit voluntary cooperation and effective teamwork in a group setting.	Yes	
PLG 4	Holistic Thinking	Demonstrate ability to identify interlinkages among functional areas within an enterprise and assess the impact of external environment on its performance	Yes	
PLG 5	Ethical Responsibility	Demonstrate awareness and assess impact of ethical behavior on business	Yes	