

PRACTICE QUESTIONS

VENTURE CAPITAL AND PRIVATE EQUITY MODULE

1. Angel investment groups are necessarily incorporated as LLPs or trusts. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: False**
2. A company's shares are trading at Rs. 100 in the market. Of the total 500,000 shares of Rs. 10 each that the company has issued, 60% is held by the promoters. The company also has borrowings of Rs. 2 crore on its books. What is the company's market capitalisation? **[2 Marks]**
- a) Rs. 50,00,000
 - b) Rs. 500,00,000
 - c) Rs. 700,00,000
 - d) Rs. 200,00,000
- Correct Answer: Rs. 500,00,000**
3. PE funds are primarily in the business of providing seed capital. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: False**
4. The profit profile of a PE Fund is typically shaped like the alphabet. **[1 Mark]**
- a) S
 - b) U
 - c) J
 - d) V
- Correct Answer: J**
5. Multiple approach is the most suitable for evaluating the performance of a PE Fund. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: True**
6. The return of a GP may be higher than return of a LP on account of carry. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: True**

7. Which of the following is considered in the Porter model? **[1 Mark]**
- a) Threat of substitutes
 - b) Threat of new entrants
 - c) Bargaining power of buyers
 - d) All the above
- Correct Answer: All the above**
8. Since employees keep coming in and going out of organisations, PE funds are interested in the quality of promoters, rather than quality of management. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: False**
9. Corporate governance is of relevance only for large companies. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: False**
10. Management consulting and investment banking are each, a different kind of service that is best offered by specialists in the respective field. **[1 Mark]**
- a) True
 - b) False
- Correct Answer: True**
11. A PE investor decides to invest USD5mn for a 10% stake. What is the pre-money valuation, if its share capital is USD20mn? **[1 Mark]**
- a) USD50mn
 - b) USD45mn
 - c) USD15mn
 - d) USD30mn
- Correct Answer: USD45mn**
12. The approach and resource configuration used to tap a business opportunity is **[1 Mark]**
- a) Due diligence
 - b) Business Model
 - c) Budget
 - d) Business Plan
- Correct Answer: Business Model**
13. Which of the following are disclosed in a Business Plan? **[1 Mark]**
- a) Human Resources Strategy
 - b) Capital Structure

- c) Competitors
- d) All the above

Correct Answer: All the above

14. Which of the following is / are a disadvantage/s of diversification within a company?

[1 Mark]

- a) No pure sector exposure
- b) Higher valuation
- c) Both the above
- d) None of the above

Correct Answer: Both the above

15. Investors using DCF approach prefer that terminal value is a significant contributor to the value of the share.

[1 Mark]

- a) True
- b) False

Correct Answer: False

16. There is no difference between DCF and fair value of a share.

[1 Mark]

- a) True
- b) False

Correct Answer: False

17. Section 10(47) provides for tax exemption on income from all investments by VC funds in VC undertakings

[1 Mark]

- a) True
- b) False

Correct Answer: False

18. STT is applicable on sale of unlisted equity shares as part of OFS to public.

[1 Mark]

- a) True
- b) False

Correct Answer: True

19. PE funds in India are actively involved in pro-active calling on prospective investee companies.

[1 Mark]

- a) True
- b) False

Correct Answer: False

20. PE funds receive proposals from

[1 Mark]

- a) SEBI
- b) Prospective issuers

- c) Investment bankers
- d) Investment bankers or directly from the companies themselves

Correct Answer: Investment bankers or directly from the companies themselves

21. Which of the following is sent first, in a PE transaction? **[1 Mark]**

- a) Flier
- b) Information Memorandum
- c) Due-diligence report
- d) Term sheet

Correct Answer: Flier

22. Which of the following is / are included in a PE Investment Memorandum? **[1 Mark]**

- a) Industry background
- b) Company background
- c) Promoter background
- d) All the above

Correct Answer: All the above

23. All PE Information Memorandum are vetted by SEBI and only thereafter can they be issued to the public. **[1 Mark]**

- a) True
- b) False

Correct Answer: False

24. Analysis of industry trends is a part of **[1 Mark]**

- a) Financial due diligence
- b) Legal due diligence
- c) Commercial due diligence
- d) None of the above

Correct Answer: Commercial due diligence

25. PE funds generally insist on a seat in the Board of the investee company. **[1 Mark]**

- a) True
- b) False

Correct Answer: True