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**NATIONAL LAW UNIVERSITY, JODHPUR**

End Term Examination November— 2024

Semester: UG IX Semester (Business Law Honours)

Subject: Law of Corporate Finance

**Time: Three Hours**

**Marks:100**

**Instruction:**

1. *Attempt any five questions*
2. *All questions carry equal marks*
3. *The question paper consists of three pages.*

Q1). In the competitive business world, companies are continually seeking to optimize their financial resources to achieve both short-term and long-term goals. Corporate finance plays a pivotal role in managing the financial health of a company by focusing on maximizing shareholder value through planning, investing, and financing decisions. It encompasses critical areas such as capital budgeting, capital structure, and working capital management, all of which are essential for sustaining business operations and growth. Imagine you are the Chief Financial Officer (CFO) of a large conglomerate, XYZ Ltd., that operates in diverse sectors, including manufacturing, real estate, and renewable energy. The company is now planning to expand into a new market by developing a large-scale solar power project, estimated to cost \$500 million. This new venture is part of the company's broader strategic goal to diversify its portfolio and tap into the growing demand for clean energy. While exploring the financing options for this project, your team presents you with two distinct approaches: Corporate Finance and Project Finance. You are tasked with deciding which option is more appropriate for funding the solar project.

*Based on the information provided, assess the suitability of using Corporate Finance versus Project Finance to fund XYZ Ltd.'s solar power project. In your response, consider the key differences between the two financing models. Discuss how each option aligns with the company's strategic goals and overall financial health. Additionally, reflect on the importance of corporate finance in managing a firm's day-to-day operations and long-term investments, and whether project finance would offer the necessary flexibility for the company's future growth. Conclude by recommending the most appropriate financing approach for XYZ Ltd.*

**(Marks 20)**

Q2). Explain the key differences between profit maximization and wealth maximization as objectives of financial management. Why is wealth maximization generally considered a better long-term goal for a company?

**(Marks 20)**

Q3). ABC Technologies Ltd. is a publicly listed company with an authorized share capital of ₹100 crore, divided into 10 crore equity shares of ₹10 each. Over the years, the company has experienced significant growth but now faces financial difficulties due to an economic downturn. The company decided to undertake several corporate actions related to its share capital to stabilize its finances and restructure its equity base.

The following actions are proposed and implemented by the board of directors:

- 1) Technologies Ltd. splits each of its ₹10 equity shares into 2 equity shares of ₹5 each to make the shares more affordable and increase liquidity in the market.
- 2) The company issues bonus shares in a ratio of 1:2, meaning for every 2 shares held by shareholders, 1 additional share is issued, increasing the number of outstanding shares.
- 3) To raise capital, the company announces a rights issue of shares to existing shareholders at a discounted price of ₹8 per share in the ratio of 1:4, allowing shareholders to purchase 1 share for every 4 shares they own.
- 4) Due to excess cash reserves in the company, the board decides to buy back 1 crore shares from the market at a premium price of ₹12 per share. The bought-back shares are cancelled after the buyback process is complete.
- 5) The company has ₹50 crore worth of non-convertible preference shares on its balance sheet. After obtaining shareholder approval, it decides to convert these preference shares into equity shares at the rate of ₹10 per equity share, thereby increasing the number of equity shares.
- 6) To streamline its capital structure, the company also decided to reduce its equity share capital by cancelling 50 lakh equity shares that were deemed excess and not necessary for the company's current needs.

*Based on the actions taken by ABC Technologies Ltd., assess whether these actions amount to an alteration of share capital or a reduction of share capital. Specifically, which of the above steps reflect a reduction of share capital and which fall under alteration of share capital? Analyse each step in the context of the Companies Act, 2013, and explain whether any of the actions could potentially harm the interests of shareholders.*

(Marks 20)

Q4). XYZ Limited, a publicly traded company, is planning to undertake a Follow-on Public Offering (FPO) to raise additional capital for its expansion plans. As the management prepares for this offering, they seek guidance from legal experts to navigate the regulatory requirements and ensure compliance with the Securities and Exchange Board of India (SEBI) regulations. The company's board is particularly interested in understanding the implications of the FPO process, including eligibility criteria, general pre-conditions to meet, and potential impacts on existing shareholders. Furthermore, the board has heard about the Green Shoe Option, which is often used in public offerings, and they are keen to know whether this option could be relevant for their upcoming FPO.

*As the legal experts convene to advise the company, they must address the following questions:*

- 1) *What are the key legal considerations and regulatory requirements that XYZ Limited must comply with before proceeding with the FPO?*

2) *How does the Green Shoe Option function as a price stability mechanism during an FPO, and what advantages might it provide to XYZ Limited in managing share price volatility post-offering?*

**(Marks 2x10=20)**

Q5). Despite being governed under the broader framework of the consolidated External Commercial Borrowings (ECB) policy, instruments like Foreign Currency Convertible Bonds (FCCBs), Foreign Currency Exchangeable Bonds (FCEBs), Debentures and Masala Bonds exhibit significant structural and functional differences. Analyse how each of these instruments differs in terms of their structure, investor base, regulatory requirements, and fungibility. Additionally, explain how their respective roles in raising capital vary for Indian companies looking to access international financial markets. What are the implications of these distinctions on risk exposure, debt-equity conversion, and foreign exchange fluctuation management? Furthermore, explain in detail how Depository Receipts differ from these instruments.

**(Marks 20)**

Q6). Write the difference between the following:

- a) Overdraft and Cash Credit
- b) Bills Finance and Hire Purchase Finance

**(Marks 10+10= 20)**