

--	--	--	--	--	--	--	--	--	--

Third Semester MBA Degree Examination, December 2011
Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer any FOUR full questions from Q.No.1 to Q.No.7
2. Question No. 8 is compulsory.

- 1 a. What do you mean by synergy? (03 Marks)
b. Write a note on tender offer, hostile takeover and reverse merger. (07 Marks)
c. Explain various takeover defenses available to target company. (10 Marks)
- 2 a. What is meant by equity curve out? (03 Marks)
b. Explain managerial challenges in mergers and acquisitions. (07 Marks)
c. Explain various theories of mergers. (10 Marks)
- 3 a. Distinguish mergers from acquisitions. (03 Marks)
b. Elucidate post merger integration problems in mergers and acquisitions. (07 Marks)
c. What is MLP? Explain its types. (10 Marks)
- 4 a. What are cash cows in BCG matrix model? (03 Marks)
b. Explain the compelling reasons for mergers and acquisitions. (07 Marks)
c. The following data concerns ABC and XYZ companies :

Particulars	Company ABC	Company XYZ
Earnings after taxes	₹1,60,000	₹40,000
Equity shares outstanding	16,000	5000
Market price per share	₹75	₹50

ABC company acquires XYZ by exchanging one share for every two shares of XYZ co. Assume that ABC co. expects to have same earnings and PIE ratios after the merger as before (no synergy). Show extent of gain accruing to the share holders of two companies as a result of merger. Apportion the gain among share holders and comment. (10 Marks)

- 5 a. What is purchase consideration? List its types. (03 Marks)
b. Narrate on the tax benefits of mergers and acquisitions. (07 Marks)
c. Smart Ltd has free cash flow of ₹19 lakh, and is expected to grow at a rate of 26.5% for the next five years. Retention ratio is 50%. The applicable tax rate is 30%. Smart's cost of capital is 10%. After the period of super normal growth, smart Ltd. is not expected to grow any further. What is the value of smart Ltd.? (10 Marks)
- 6 a. What is comparable company approach to valuation? (03 Marks)
b. Briefly explain SEBI take over code. (07 Marks)

- c. On 31st March 2000 the Balance Sheet of Y Ltd. stood as follows :

Balance Sheet of Y Ltd.

Liabilities	₹	Assets	₹
Share capital (₹ 10 each)	6,00,000	Furnitures	60,000
Pr. Creditors	1,30,000	Stock	4,15,000
		Debtors	1,15,000
		Cash out bank	40,000
		Profit and loss account	1,00,000
	7,30,000		7,30,000

On this date X ltd took over the business of Y ltd for ₹5,00,000 payable in the form of its equity shares of ₹10 cash at par. Show the necessary ledger accounts in the books of Y ltd.

(10 Marks)

- 7 a. What do you mean by 'LBD' and 'MBD'? (03 Marks)
 b. Write a note on porters five forces model. (07 Marks)
 c. The following is balance sheet of 'A' ltd as on 31st March 2011.

Liabilities	₹	Assets	₹
Equity share capital	10,00,000	Good will	1,90,000
General reserve	1,10,000	Land and buildings	2,00,000
Work men's accident compensation reserve	50,000	Plant and machinery	4,40,000
Profit and loss A/c	70,000	Patents and trade marks	30,000
Sundry creditors	1,60,000	Stock	2,10,000
		Sundry debtors	1,80,000
		Less : provision for bad debts 12000	1,68,000
		Cash at bank preliminary	1,32,000
		Preliminary exps.	20,000
	13,90,000		13,90,000

The company is acquired by X ltd for ₹14,00,00 i.e. ₹ 12,00,000 fully paid ₹10 shares and balance in cash. There was a contingent liability in respect of a claim for compensation under the workmen's compensation Act. The claim was not taken over by X ltd.

Give the journal entries in the books of X ltd.

(10 Marks)

- 8 Compulsory :

Sagar motors, an automobile parts manufacturing firm is in a cyclical business. It plans to acquire Agni auto, an automobile service firm whose business is non – cyclical and in high growth, the motive being diversification of business. The financial details are as follows :

Particulars	Agni	Sagar
Current free cash flow to the firm ₹	150	240
<u>Expected growth rate</u>		
First 3 years	25%	15%
After 3 years	6.5%	6.5%
Debt financing ratio	40%	40%
Cost of debt	10%	8%
<u>Beta</u>		
First 3 years	1.25	1
After 3 years	1	1

The treasury bill rate (risk free) 7% and the market premium is 5.5%. The tax rate for both firms is 36%. Estimate the value of two firms independently.

(20 Marks)

* * * * *