Important Note : 1. On completing your answers, compulsorily draw diagonal cross lines on the remaining blank pages. 2. Any revealing of identification, appeal to evaluator and /or equations written eg, 42+8 = 50, will be treated as malpractice.

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10MBAFM323

Third Semester MBA Degree Examination, December 2012
Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs. Max. Marks:100

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

1 a. What is an exchange offer? **(03 Marks)**
b. What are the reason's for corporate restructuring? **(07 Marks)**
c. M. Ltd is a firm engaged in textile industry. The firm desires to limit its leverage to 30% of the total capital. The marginal tax rate is 0.4 and beta is 1.5. The corporate bond rate is 8% and the ten year G – sec in trading at 5%. The expected annual return on stock is 10%. Annual FCFF is expected to remain at Rs 4 million indefinitely. Estimate the cost of capital and the value of the firm whose capital structure consists of only Equity share and debt. **(10 Marks)**

2 a. What are deferred pay securities? **(03 Marks)**
b. Chalk out the work flow in a process of merger. **(07 Marks)**
c. Two firms A and B are operating in the cotton industry (textile). They are planning for a merger. Firm A is worth Rs 200 lakh and firm B is worth Rs 50 lakhs. On merging the two would allow cost savings with a present value of Rs 25 lakhs. Assume that B is bought by A for a cash value of Rs 65 lakhs. Estimate i) The value of the combined firm ii) The cost of merger for firm A iii) The NPV to A share holder iv) The NPV to B share holder. **(10 Marks)**

3 a. What is the meaning of proxy contest? **(03 Marks)**
b. What are the various methods of financing mergers? **(07 Marks)**
c. The free cash flow of a firm is projected to grow at a compound rate (Annual Average) of 35% for the next 5 years. Growth in them expected to slow down to a normal 5% annual growth rate. The current year's cash flow to the firm is Rs 4 lakh. The firm's cost of capital during the high growth period is 18% and 12% beyond the 5^{th} year as growth stabilizes. Calculate the value of the firm. **(10 Marks)**

4 a. What is Poison pill? **(03 Marks)**
b. Mention the tax concession available to a Joint stock company as per income tax Act 1961 in case of mergers and amalgamation. **(07 Marks)**
c. Consider the following information relating to 3 companies, which are similar to Tasty Foods Ltd. :

Ratio	JFL	FFL	NFL
Price to EBDIT	20	19	22
Price to Book value	3	4	2
Price to sales	4	3	5

The EBDIT of Tasty Food Ltd., is Rs 20 lakh, Book value of assets is Rs 75 lakh and sales Rs 500 lakh. It may be assumed that the average ratio's of the 3 companies are suitable for Tasty Food Ltd. Estimate the value of Tasty Food Ltd., based on the above information. **(10 Marks)**

5 a. What are Golden Parachutes? **(03 Marks)**
b. What are the reasons for failure of mergers? **(07 Marks)**
c. The relevant financial details of two firms, just prior to a merger announcement are as follows :

	DAY Ltd	NIGHT Ltd
Market price per share	Rs 65	Rs 30
No. of shares	800.000	500.000
Market value of firm	Rs 520,00,000	Rs 150, 00,000

The merger is expected to bring gains which have a present value of Rs 120,00,000. Day Ltd offers 246000 shares in exchange for 5,00,000 shares to the share holders of firms Night Ltd. Assuming that the market value of the two firms just before the merger announcement are equal to their present value as separate entities. Calculate the NPV to Day Ltd and Night Ltd respectively. **(10 Marks)**

6 a. What is Hubris Hypothesis? **(03 Marks)**
b. Briefly explain Differential Efficiency theory and Inefficient management theory. **(07 Marks)**
c. A – 1 international acquires S – I Ltd. The details are as follows :

	A - 1	S - 1
EPS	Rs 6.75	Rs 2.50
DPS	Rs 3.25	Rs 1.00
Price per share	Rs 48	Rs 15
No. of shares	60,00,00	20,00,000

Investors currently expect the dividends and earnings of S – 1 to grow at a steady rate of 7%. After acquisition this growth rate would increase to 8% without any additional investment.

Required : I) Find out what is the benefit of this acquisition?
II) What is the cost of this acquisition to A – 1 if it pays i) Rs 17 per share compensation (cash) to S – 1 and ii) Offers one share for every 3 shares of S – 1. **(10 Marks)**

7 a. What is Purchase consideration? Explain its types briefly. **(05 Marks)**
b. W. Co. Ltd., is absorbed by U. Co. Ltd., the consideration being :
i) Assumption of the liabilities.
ii) Discharge of debentures debt at a premium of 5% by the issue of 6% debentures in U. Ltd.
iii) Payment in cash of Rs 3 per share and the exchange of Rs 3 share of Re 1 each in U. Co. Ltd., at an agreed value of Rs 1.50 per share for every share in W. Co. Ltd.

Below is given the Balance sheet of W. Co. Ltd on the date of transfer.

Balance sheet as on 31.3.2012

Liabilities	Amt (Rs)	Assets	Amt (Rs)
Share Capital 60,000 shares of Rs 5 each	3,00,000	Good will	25000
General Reserve	32000	Building	75000
Profit & Loss A/c	13000	Machinery	2,20,000
Accident Insurance fund	5000	Patents	5000
5 % Debentures	1,50,000	Patterns	2500
S. Creditors	20000	Stock	1,06,000
		Debtors	45,000
		Investments	5000
		Cash at Bank	36500
Total	5,20,000	Total	5,20,000