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10MBAFM323

Third Semester MBA Degree Examination, Dec. 2013/ Jan. 2014

Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs. Max. Marks: 100

Note: *1. Answer FOUR full questions from Q1 to Q7.*
2. Q8 is compulsory.

1 a. What is due diligence? Who will carry it? **(03 Marks)**
b. Identify differences between spin-off and equity curve outs. **(07 Marks)**
c. Explain the change forces contributing to the mergers and acquisition activities in India. **(10 Marks)**

2 a. What do you mean by reverse merger? **(03 Marks)**
b. Explain usefulness of porters five forces model in mergers and acquisition decisions. **(07 Marks)**
c. What is MLP? Explain its types. **(10 Marks)**

3 a. What is free cash flow? **(03 Marks)**
b. Briefly explain strategic perspective to mergers and acquisition decisions. **(07 Marks)**
c. Explain the various take over defenses. **(10 Marks)**

4 a. What is meant by hostile takeover? **(03 Marks)**
b. Describe managerial challenges of mergers and acquisitions. **(07 Marks)**
c. Firm 'A' is planning to acquire firm 'B'. The relevant financial details of the two firms prior to the merger arrangement are as follows :

Particulars	Firm 'A'	Firm 'B'
Market price per share	Rs 75	Rs 30
Number of shares	10,00,000	5,00,000
Market value of firm	7,50,00,000	1,50,00,000

The merger is expected to bring gains which have present value of Rs. 150,00,000. Firm 'A' offers 2,50,000 shares in exchange for 5,00,000 shares to the share holders of firm 'B' you are required to determine :
i) Combined value of the firm after merger
ii) Gains to share holders of firm 'A'
iii) True cost of acquiring firm 'B'. **(10 Marks)**

5 a. When and why amalgamation adjustment account is created. **(03 Marks)**
b. Explain SEBI takeover code. **(07 Marks)**
c. A Ltd., wishes to acquire 'B' Ltd. the acquisition would require 200 lakhs of initial investment and produce after tax cash flow to the firm of Rs. 60 lakhs forever. 'A' Ltd., borrows 80 lakhs using perpetual bonds with an interst rate of 9% and raises the rest from internal funds. Cost of equity is 16% and the tax rate for the firm is 36% .
Estimate :
i) Cash flow to equity
ii) Cash flow to the firm. **(10 Marks)**

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6 a. What is Hubirs hypotheses? **(03 Marks)**

b. What are the tax benefits of mergers and acquisitions? **(07 Marks)**

c. On 31st March 2011 the balance sheet of X Ltd., and Y Ltd., stood as follows :

Liabilities	X	Y	Assets	X	Y
Share capital (shares of Rs. 10 each)	7,50,000	6,00,000	Plant and machinery	5,00,000	–
General reserve	3,25,000	–	Furniture and fittings	80,000	60,000
Profit and loss A/c	85,000	–	Stock	4,55,000	4,15,000
Creditors	1,60,000	1,30,000	Debtors	1,02,000	1,15,000
			Cash at Bank	1,83,000	40,000
			Profit and loss A/c		1,00,000
Total :	13,20,000	7,30,000	Total :	13,20,000	7,30,000

On this date X Ltd., took over the business of Y Ltd., for Rs 5,00,000 payable in the form of its equity shares of Rs. 10 each at par.
Pass journal entries in the books of 'X' Ltd.,
Pass Journal entries in the books of 'Y' Ltd. **(10 Marks)**

7 a. Name the five stages of merger process. **(03 Marks)**

b. Explain various synergies of mergers. **(07 Marks)**

c. Magnus international 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 40% and beta is 1.5. The corporate bound rate is 8% and the 10 year government security is trading at 5%. The expected annual return on stock is 10%. Annual free cash flow to firm is expected to remain at Rs. 4 million indefinitely. Estimate WACC and value of firm whose capital consists of debt and equity. **(10 Marks)**

8 Compulsory :

The following are the balance sheets of P Ltd., and S Ltd.,

Liabilities	P Ltd.,	S Ltd.,	Assets	P Ltd.,	S Ltd.,
Equity Share capital (shares of Rs. 10 each)	72,000	30,000	Land and Building	25,000	–
11% preference share capital (Rs, 100 each)	–	17,000	Plant and Machinery	32,500	29,000
General Reserve	8,000	4500	Furniture and Fittings	5,750	9,410
Export profit	–	2,000	Stock	21,500	17,390
Profit and loss A/c	7500	4,000	Debtors	7,250	5,200
9% debentures of Rs. 100 each	–	5,000	Cash at Bank	7,000	5,000
Creditors	11,500	3,500			
Total :	99,000	66,000	Total :	99,000	66,000

P Ltd., takes over S Ltd., and pays consideration as under :

i) Issued 35 lakhs equity shares of 10 each at par to equity share holders of S Ltd.,
ii) Issued 12% preference of Rs. 100 to discharge the preference share holders of S Ltd., at a premium of 10%
iii) The debentures of S Ltd., will be converted to equal number and amount of 10% debentures of P Ltd.,
iv) Statutory reserves of S Ltd., is to be maintained for two more years

You are required to show the balance sheet of P Ltd.,

a. When amalgamation is in the nature of merger. **(10 Marks)**

b. When amalgamation is in the nature of purchase. **(10 Marks)**

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