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10MBAFM323

# Third Semester MBA Degree Examination, June/July 2013
# 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. Explain value creation in horizontal merger? **(03 Marks)**
b. Define ESOP? Explain types of ESOPS. **(07 Marks)**
c. A Ltd. is considering takeover of B Ltd. and C Ltd. The financial data for the 3 companies are as follows :

| Particulars | A Ltd | B Ltd | C Ltd |
|---|---|---|---|
| Equity shares of Rs. 10/- each | 450 | 180 | 90 |
| Earnings | 90 | 18 | 18 |
| Market price of share | Rs. 60 | Rs.37 | Rs. 46 |

Calculate :
i) P/E ratio
ii) EPS of A Ltd after the acquisition of B Ltd and C Ltd. separately. Will you recommend the merger of either/Both of the companies? Justify your answer. **(10 Marks)**

2 a. Explain types of takeovers. **(03 Marks)**
b. Explain efficiency theories of merger. **(07 Marks)**
c. Shubham fertilizers Co. is taking over Jitesh petrochemical Co. The shareholders of Jitesh would receive 0.8 share of Shubham for each share held by them. The merger is not expected to yield in economics of scale and operating synergy. The relevant data for the two companies are as follow :

| Particular | Shubham | Jitesh |
|---|---|---|
| Net sales | 335.00 | 118.00 |
| PAT | 58.00 | 12.00 |
| No. of shares | 12.00 | 3.00 |
| EPS | 4.83 | 4.00 |
| MPS | Rs. 30 | Rs. 20 |
| P/E ratio | 6.21 | 5.00 |

For the combined company (after merger) you are required to calculate :
i) EPS ii) P/E ratio iii) total market capitalization. Also calculate the premium paid by Shubham to the shareholders of Jitesh. **(10 Marks)**

3 a. Define shark repellent, shark watchers and poison puts. **(03 Marks)**
b. Explain BCG matrix. **(07 Marks)**
c. Explain pre –bid and post-bid takeover defences. **(10 Marks)**

4 a. Define joint venture and purpose of JV? **(03 Marks)**
b. Explain the types of LBO operations. **(07 Marks)**
c. What are the stages in merger process? **(10 Marks)**

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.

5 a. What are the motives behind sell-off? **(03 Marks)**

b. What are the reasons for merger? **(07 Marks)**

c. Black and Co. plans to acquire White and Co. The relevant financial details of the firms prior to the merger announcement are :

| Particular | Black and Co. | White and Co. |
|---|---|---|
| MPS | Rs. 70 | Rs. 32 |
| No. of outstanding shares | 20 million | 15 million |

The merger is expected to generate gain which have a present value of Rs. 200 million. The exchange ratio agreed to is 0.5 what is the true cost of the merger from the point of view of Black and Co. **(10 Marks)**

6 a. Define due diligence. **(03 Marks)**

b. Firm A is planning to acquire firm B. The relevant financial details of the two firm prior to the merger ammuncement are as follows :

| Particular | Firm A | Firm B |
|---|---|---|
| MPS | Rs. 75 | Rs. 30 |
| No. of shares | 10,00,000 | 5,00,000 |
| Marked value of the firm | 7,50,00,000 | 1,50,00,000 |

The merger is expected to bring gains which have present value of Rs. 1.5 crore. Firm A offers 2,50,000 shares in exchange for 5 lakh shares to the shareholders of Firm B. You are required to determine :

i) Total value of firm after merger
ii) Gain to the shareholders of firm A
iii) True cost of acquiring firm B and NPV of the merger to Firm B. **(07 Marks)**

c. Explain Porter's five force model? **(10 Marks)**

7 a. Define MLP? What are the types of MLP? **(03 Marks)**

b. Explain provisions of companies Act 1956 for mergers and Re – construction. **(07 Marks)**

c. The summarized balance sheet of R Co. Ltd as on 31st December 2011 given below

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Equity share capital (2,00,000 @ Rs 10 each) | 20,00,000 | Fixed assets | 19,00,000 |
| 13% preference share capital | 1,00,000 | investment | 1,00,000 |
| Retained earning | 4,00,000 | Current assets<br>Inventories 5,00,000<br>Debtors 4,00,000<br>Bank 1,00,000 | 10,00,000 |
| 12% debentures | 3,00,000 | | |
| Current liabilities | 2,00,000 | | |
| | 30,00,000 | | 30,00,000 |

Negotiations for takeover of R Ltd. result in its acquisition by A Ltd. the purchase consideration consists of

i) Rs. 3,30,000, 13% debentures of A Ltd for redeeming the 12% debentures of R Ltd
ii) Rs. 1,00,000, 12% convertible preference share capital of R Ltd
iii) 1,50,000 equity shares of A Ltd to be issued at its current market price of Rs. 15
iv) A Ltd. would meet dissolution expenses of Rs. 30,000

The break-up figure of eventual disposition by A Ltd, of unrequired assets and liabilities of R Ltd. are investment Rs. 1,25,000 debtors, Rs. 3,50,000 inventories Rs. 4,25,000 and payment of current liabilities Rs. 1,90,000

The project is expected to generate yearly operating CFAT of Rs. 7,00,000/- for 6 years. It is estimated (had fixed assets of R Ltd. would fetch Rs. 3,00,000 at the end of 6th year)

The firm's cost of capital is 15%. As a company secretary, comment on the financial prudence of merger decision of A Ltd. (PV @ 15% rate of discount 1st year - 0.870 2nd year – 0.756, 3rd year– 0.658, 4th year – 0.572, 5th year – 0.496 and 6th year – 0.432) **(10 Marks)**

8 On 31st march, 2011 the balance sheet of X Ltd. stood as follows :

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Share capital : 1,50,000 equity shares of Rs. 10/- each, fully paid | 15,00,000 | Plant and machinery | 16,10,000 |
| Securities premium | 1,50,000 | Furniture and fixtures | 1,94,400 |
| General reserve | 6,25,500 | Stock | 7,05,500 |
| Profit and loss A/c | 1,85,300 | Debtors | 1,98,440 |
| Creditors | 3,60,740 | Cash at bank | 1,13,200 |
| | 28,21,540 | | 28,21,540 |

On this date, X Ltd took over the business of Y Ltd. for Rs. 6,60,000 payable in the form of its fully paid equity shares of Rs. 10 each at par shareholders of Y Ltd. getting 110 shares of X Ltd. for every 100 shares held in Y Ltd. The scheme of amalgamation also provided that 3,000 11%. Debentures of Y Ltd. would be converted into equal number of 12% debentures of X Ltd. of Rs. 100 each. The balance sheet of Y Ltd. on the date of the amalgamation was as follows :

| Liabilities | Rs. | Assets | Rs. |
|---|---|---|---|
| Share capital : 60,000 equity shares of Rs. 10/- each fully paid | 6,00,000 | Machinery | 5,50,000 |
| Capital reserve | 13,000 | Furniture | 1,35,200 |
| Foreign projects reserve (statutory reserve) | 9,700 | Stock | 3,15,800 |
| General reserve | 75,350 | Debtors | 1,29,300 |
| Profit and loss a/c | 24,130 | Cash at bank | 68,260 |
| 3000 11% debentures of Rs. 100 each | 3,00,000 | Preliminary express | 6,100 |
| Creditors | 1,82,480 | | |
| | 12,04,660 | | 12,04,660 |

You are required to :

i) Pass journal entries in the books of X Ltd and draw X Ltd. balance sheet immediately after the takeover, assuming

a. The amalgamation is in the nature of merger

b. The amalgamation is in the nature of purchase. **(20 Marks)**

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