USN

20MBAFM404

Fourth Semester MBA Degree Examination, July/August 2022
Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs. Max. Marks:100

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

1 a. What do you mean by Triangular Merger? **(03 Marks)**
b. Differentiate between horizontal and vertical mergers and acquisitions. **(07 Marks)**
c. Examine the various theories of the mergers. **(10 Marks)**

2 a. What do you mean by Financial Due-Diligence? **(03 Marks)**
b. Briefly explain the five-stages model of merger process. **(07 Marks)**
c. Explain the different stages of industry life cycle to M and A. **(10 Marks)**

3 a. What do you mean by Hubris Hypothesis? **(03 Marks)**
b. Discuss the methods associated with Accounting aspects of Amalgamation. **(07 Marks)**
c. Firm A acquire firm B by exchanging 0.5 of its share for each share of firm B. Input available is given below:

	Firm A	Firm B
Profit after tax (Rs.)	20,00,000	5,00,000
Number of equity shares	5,00,000	2,00,000
EPS (Rs.)	4	2.5
P/E Ratio	10	8
Market price per share (Rs.)	40	20

You are required to determine:
i) The number of equity shares required to be issued by Firm A for the acquisition of Firm B.
ii) What is the EPS of Firm A after acquisition?
iii) Determine the equivalent EPS of Firm B
iv) The market value of the merged firm. **(10 Marks)**

4 a. What do you mean by Hostile takeover? **(03 Marks)**
b. Briefly explain the different forms of Hostile takeover. **(07 Marks)**
c. The following is the balance sheet of A Ltd. as on 31-03-2021:

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share capital (50,000 equity shares of Rs.10 each)	5,00,000	Buildings	1,50,000
General reserve	1,70,000	Machinery	5,50,000
P and L A/C.	30,000	Stock	80,000
12% debentures of Rs.100 each	1,00,000	Debtors	70,000
Trade creditors	50,000	Cash	15,000
Employee PF	15000		
	8,65,000		8,65,000

Company B has agreed to purchase company A at Rs.6,61,500/- to be paid in fully paid equity shares of Rs.10 each. Pass the journal entries to close the books of account of A Ltd. and also prepare the realization and equity shareholders account. **(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 do you mean by white knight?	(03 Marks)
	b.	Explain the rationale behind joint venture.	(07 Marks)
	c.	Explain the various motives of corporate restructuring.	(10 Marks)
6	a.	What do you mean by LBO?	(03 Marks)
	b.	Discuss the organizational and Human Resource Management aspects of Mergers and Acquisitions.	(07 Marks)
	c.	What do you mean by Divestitures? Explain its type.	(10 Marks)
7	a.	What do you mean by MBOs?	(03 Marks)
	b.	What are the main elements of SEBI takeover code?	(07 Marks)
	c.	Discuss the salient features of the competition Act, 2002.	(10 Marks)

CASE STUDY

8 The Hypothetical Ltd. wants to acquire target Ltd. The balance sheet of target Ltd. as on March 31 (current year) has the following assets and liabilities:

Liabilities	Amount	Assets	Amount
Equity share capital (4 lakh shares of Rs.100 each).	400	Cash	10
Retained earnings	100	Debtors	65
10.5% debentures	200	Inventories	135
Creditors and other liabilities	160	Plant and equipment	650
	86.0		860

Additional information:

i) The share holders of target Ltd. will get 1.5 share in Hypothetical Ltd. for every 2 shares, the share of Hypothetical Ltd. would be issued at its current market price of Rs.180 per share. The debenture holders will get 11% debentures of the same amount. The external liabilities are expected to be settled at Rs.150 lakh. Dissolution expenses of Rs.15 lakh are to be met by the acquiring company.

ii) The following are projected incremental free cash flow (FCFF) expected from acquisition for 6 years (Rs. lakh).

Year	1	2	3	4	5	6
FCFF (in Rs.)	150	200	260	300	220	120

iii) The FCF of Tanget Ltd. is expected to grow at 3% p.a after 6 years.

iv) Given the risk complexion of target Ltd. cost of capital relevant for target Ltd. cash flows has been decided at 13%.

v) There is unrecorded liability of Rs.20 lakh.

Calculate the NPV of acquisitions and comment on the financial feasibility of acquisition. (20 Marks)

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