

CBCS SCHEME

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20MBAFM404

Fourth Semester MBA Degree Examination, June/July 2023 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. Give the meaning of 'Synergy'. (03 Marks)
b. Explain the motives of merger. (07 Marks)
c. Discuss the various type of merger. (10 Marks)

- 2 a. State the meaning of 'due-diligence'. (03 Marks)
b. Discuss the tips for successful merger. (07 Marks)
c. Describe the various types of due-diligence. (10 Marks)

- 3 a. Recall the meaning of 'Exchange Ratio'. List the methods of determining exchange ratio. (03 Marks)
b. Discuss the various business valuation approaches used in M and A activities. (07 Marks)
c. ABC Ltd is considering to takeover XYZ Ltd. The financial data of both the companies are given below:

| Particulars | ABC Ltd | XYZ Ltd |
|--|---------|---------|
| Equity share capital (lakhs) Rs.100 each | Rs.800 | Rs.300 |
| Earnings (lakhs) | Rs.200 | Rs.60 |
| MPS | Rs.150 | Rs.120 |

Calculate: i) P/E Ratio ii) EPS of ABC Ltd after acquiring XYZ Ltd. (10 Marks)

- 4 a. Describe purchase consideration. (03 Marks)
b. X Ltd. is purchasing the business of Y Ltd. The balance sheet of Y Ltd. is given below as on 31st March, 2021.

Balance sheet – Y Ltd

| Liabilities | Amount | Assets | Amount |
|-----------------|----------|----------|----------|
| General Reserve | 4,00,000 | Land | 1,50,000 |
| P/L a/c | 3,00,000 | Building | 2,00,000 |
| Creditors | 80,000 | Stock | 1,00,000 |
| | | Plant | 2,00,000 |
| | | Goodwill | 1,30,000 |
| | 7,80,000 | | 7,80,000 |

The agreed value for purchase of the assets are :

Goodwill – Rs.1,40,000 ; Land – Rs.3,50,000 ; Building – Rs.2,50,000 ; Stock – Rs.90,000.

However, X Ltd. is considering creditors and plant at their book values. Compute the amount of purchase consideration using Net Asset method. (07 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.

- c. East Ltd. agreed to purchase the business of west Ltd. for consideration of Rs.6,00,000 payable in the form of equity shares of Rs.10 each.

Balance sheet of west Ltd.

| Liabilities | Amount | Assets | Amount |
|--|----------|---------|----------|
| Share capital [40,000 equity shares of Rs.10 each] | 4,00,000 | Land | 2,00,000 |
| General reserve | 2,00,000 | Plant | 4,00,000 |
| P/L a/c | 1,00,000 | Stock | 1,50,000 |
| 10% debenture | 1,90,000 | Debtors | 1,00,000 |
| Creditors | 60,000 | Cash | 60,000 |
| | | Bank | 40,000 |
| | 9,50,000 | | 9,50,000 |

Pass the necessary journal entries in the books of west Ltd. Show realization a/c and equity shareholders a/c. (10 Marks)

- 5 a. Differentiate between friendly and hostile takeover. (03 Marks)
 b. Describe the anti-takeover strategies available to target company. (07 Marks)
 c. PQR Ltd. wants to acquire KLM Ltd. by exchanging 1 share for every 2 shares in KLM Ltd.

| Particulars | PQR Ltd. | KLM Ltd. |
|-------------------|--------------|-------------|
| EAT | Rs.25,00,000 | Rs.5,00,000 |
| EPS | Rs.4 | Rs.2 |
| P/E Ratio (Times) | 8 | 6 |

Compute: i) EPS after merger ii) Equivalent EPS for KLM Ltd. iii) Post merger MPS if P/E ratio remains 8 times iv) Market value of the combined entity. (10 Marks)

- 6 a. State any 3 significances of corporate restructuring. (03 Marks)
 b. Discuss the reasons for failure of merger and acquisitions. (07 Marks)
 c. Examine industry life cycle in the light of mergers and acquisitions. (10 Marks)

- 7 a. Define Leveraged Buy Outs [LBO]. (03 Marks)
 b. The firm wants to take over following assets and liabilities as part of acquisition. Compute purchase consideration and show the mode of purchase consideration in the form of equity shares (5,000 equity shares of Rs.110 each) and remaining balance in the form of cash. The agreed values of assets and liabilities to be taken over are fixed assets = Rs.5,50,000; Debtors = Rs.1,50,000; Stock = Rs.2,10,000; Bank = Rs.90,000; Creditors = Rs.90,000 and debentures = Rs.3,00,000. (07 Marks)
 c. Explain the various forms of corporate restructuring. (10 Marks)

8 CASE STUDY (Compulsory)

Soft Ltd is considering to take over the hard Ltd. the agreed values of assets and liabilities as part of purchase consideration are given below:

Goodwill = Rs.80,000 ; Land = Rs.10,70,000 ; Plant = Rs.6,00,000 ; Stock = Rs.1,40,000 ; Bank = Rs.40,000 and Cash = Rs.10,000.

Additional Information:

- i) Cost of capital is assumed to be 12%
 ii) The expected cash flows are given below:

| Year | Cash flow (Rs.) |
|------|-----------------|
| 1 | 1,50,000 |
| 2 | 4,00,000 |
| 3 | 3,50,000 |
| 4 | 3,00,000 |
| 5 | 2,00,000 |

Compute the NPV and comment on the financial viability of the acquisition. (20 Marks)