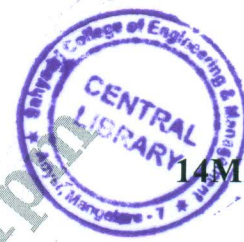


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14MBAFM407

**Fourth Semester MBA Degree Examination, Dec.2018/Jan.2019**  
**Mergers, Acquisitions and Corporate Restructuring**

Time: 3 hrs.

Max. Marks:100

**SECTION – A***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Distinguish between mergers and acquisitions with the help of suitable examples. (03 Marks)
- 2 Describe Hubris hypothesis of corporate takeovers. (03 Marks)
- 3 List the methods of calculating purchase consideration. (03 Marks)
- 4 What are ESOPs? (03 Marks)
- 5 Explain Leveraged Buy Out (LBO). (03 Marks)
- 6 Why do companies opt for buy back of shares? (03 Marks)
- 7 Describe reverse take over. (03 Marks)

**SECTION – B***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 The following data relates to companies A and T:

Particulars	Company A	Company T
Earnings after taxes (Rs.)	1,40,000	37,500
Equity shares outstanding	20,000	7,500
EPS (Rs.)	7	5
P/E Ratio (times)	10	8
Market price per share (Rs.)	70	40

Company A is the acquiring company exchanging one share for every 1.5 share of B Ltd. Assume that company A expects to have the same earning and P/E ratio after the merger as before (no synergy effect), show the extent of gain accruing to the shareholders of the two companies to the shareholders of the two companies as a result of the merger. Are they better or worse off than they were before the merger? (07 Marks)

- 2 Explain the motives for mergers and acquisitions. (07 Marks)
- 3 Why do mergers and acquisitions fail? Discuss. (07 Marks)
- 4 Describe the five stage model of M and A process. (07 Marks)
- 5 List the objectives of Competition Act 2002. Explain the functions of Competition Commission of India (CCI). (07 Marks)
- 6 Discuss the role of HR in mergers and acquisitions. (07 Marks)
- 7 Describe the activities not termed as corporate restructuring. (07 Marks)



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**SECTION – C***Note : Answer any FOUR questions from Q.No.1 to Q.No.7.*

- 1 Discuss the various theories of mergers. (10 Marks)
- 2 Why due diligence is important for M and A? Discuss the types of due diligence. (10 Marks)
- 3 Discuss the types of synergies resulting from mergers. (10 Marks)
- 4 Discuss the different defensive tactics against take overs. (10 Marks)
- 5 Discuss the important provisions of the SEBI (Substantial Acquisition of Shares and take over) Regulations, 1997. (10 Marks)
- 6 A Ltd. wants to acquire B Ltd. by exchanging 0.5 of its shares for each share of B Ltd. The relevant financial data are as follows:

Particulars	A Ltd.	B Ltd.
Earnings after taxes (Rs.)	18,00,000	3,60,000
Equity shares outstanding	6,00,000	1,80,000
EPS (Rs.)	3	2
P/E Ration (times)	10	7
Market price per share (Rs.)	30	14

Required:

- i) What is the number of equity shares required to be issued by A Ltd. for acquisition of B Ltd.?
  - ii) What is the EPS of A Ltd. after the acquisition?
  - iii) Determine the equivalent EPS per share of B Ltd.
  - iv) What is the expected market price per share of A Ltd. after the acquisitions assuming its P/E multiple remains unchanged?
  - v) Determine the market value of the merged firm. (10 Marks)
- 7 The summarized balance sheet of R Co. Ltd. as at 31<sup>st</sup> March 2017 is given below:

Liabilities	Rs.	Assets	Rs.
Equity share capital (2,00,000 shares of Rs.10 each)	20,00,000	Fixed assets	19,00,000
13% preference share capital	1,00,000	Investments	1,00,000
Retained earnings	4,00,000	Inventories	5,00,000
12% debentures	3,00,000	Debtors	4,00,000
Current liabilities	2,00,000	Bank	1,00,000
	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 debentures (13% debentures) of A Ltd. for redeeming the 12% debentures of R Ltd.
- ii) Rs.1,00,000 convertible preference shares in A Ltd. for the payment of the 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 figures of eventual disposition by A Ltd. of unrequired assets and liabilities of R Ltd. are investments 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 that fixed assets of R Ltd. would fetch Rs.3,00,000 at the end of 6<sup>th</sup> year. The firm's cost of capital is 15%.

As a financial advisor, comment on the financial feasibility of merger decision of A Ltd. [PV at 15% rate of discount is 1<sup>st</sup> year 0.870, 2<sup>nd</sup> year 0.756, 3<sup>rd</sup> year 0.658, 4<sup>th</sup> year 0.572, 5<sup>th</sup> year 0.496 and 6<sup>th</sup> year 0.432]. (10 Marks)

**SECTION – D**  
**(Compulsory)**

- 8 A Ltd. and B Ltd. were amalgamated on 1<sup>st</sup> April 2017. A new company AB Ltd. was formed to take over the business of existing companies. The balance sheets of A Ltd. and B Ltd. as at 31<sup>st</sup> March 2017 are given below (Figures in thousands):

<u>Liabilities</u>	<u>A Ltd.</u> (Rs.)	<u>B Ltd.</u> (Rs.)	<u>Assets</u>	<u>A Ltd.</u> (Rs.)	<u>B Ltd.</u> (Rs.)
Share capital: Equity shares of Rs.10 each	2,400	1,600	Fixed assets Less: Depreciation	4,800 800 4000	3,200 600 2600
12% preference shares of Rs.100 each	1,200	800	Investments	1,600	600
<u>Reserves and surplus:</u>			<u>Current Assets:</u>		
Capital reserve	800	600	Stock	1,200	600
General Reserve	1,200	600	Debtors	1,600	800
P and L A/C	400	200	Cash and Bank	1,200	600
Secured loans	1,600	800			
Trade creditors	1,200	400			
Tax provision	800	200			
	9,600	5,200		9,600	5,200

Additional information:

- i) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of AB Ltd. at an issue price of Rs.125 per share.
  - ii) AB Ltd. will issue the equity share of Rs.10 each for every share of A Ltd. and B Ltd. The shares are issued at a premium of Rs.5 per share.
- Prepare the balance sheet of AB Ltd. on the assumption that the;
- a. Amalgamation is in the nature of merger.
  - b. Amalgamation is in the nature of purchase.

(20 Marks)

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