CBCS SCHEME

USN

18MBAFM401

Fourth Semester MBA Degree Examination, July/August 2021
Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs. Max. Marks:100

Note: ***Answer any FIVE full questions.***

1 a. Explain Conglomerate merger citing suitable example. **(03 Marks)**
b. Discuss the tips for successful mergers. **(07 Marks)**
c. Examine the reasons for failure of mergers and acquisitions. **(10 Marks)**

2 a. Explain Leveraged Buy Out (LBO). **(03 Marks)**
b. Discuss the types of synergies resulting from merger and acquisitions. **(07 Marks)**
c. Describe the reasons for corporate restructuring. **(10 Marks)**

3 a. Describe Equity Curve Out (ECO). **(03 Marks)**
b. Explain the five stage model of merger process. **(07 Marks)**
c. Discuss the steps in due diligence process. **(10 Marks)**

4 a. Explain a demerger. **(03 Marks)**
b. Discuss the HR aspects of mergers and acquisitions. **(07 Marks)**
c. Discuss the different types of due diligence performed in M&A. **(10 Marks)**

5 a. Explain purchase method of accounting for amalgamation. **(03 Marks)**
b. Explain the reasons to form a Joint Venture. **(07 Marks)**
c. XYZ Ltd is considering merger with ABC Ltd. Details are given below:

	XYZ Ltd.	ABC Ltd.
Earnings after taxes	Rs. 0.4 million	Rs. 0.1 million
No. of outstanding shares	2,00,000	1,00,000
Market Price per share	Rs. 25	Rs. 12.50

The merger will be effected by means of a stock swap. ABC Ltd has agreed to plan under which XYZ Ltd will offer the current market value of ABC Ltd's shares.
(i) What is the pre-merger EPS and P/E ratios of both the companies?
(ii) If ABC Ltd's P/E ratio is 8, what is the current market price? What is the exchange ratio?
(iii) What must be the exchange ratio be for XYZ Ltd that pre and post merger EPS to be the same? **(10 Marks)**

6 a. Distinguish between friendly and hostile takeovers. **(03 Marks)**
b. List the salient features of limited liability partnership. **(07 Marks)**
c. Discuss the different takeover defenses available to target firms. **(10 Marks)**

7 a. Explain master limited partnership. **(03 Marks)**
b. Discuss the key features of SEBI takeover code 2011. **(07 Marks)**

c. Smart Ltd wants to acquire Dull Ltd. The balance sheet of Dull Ltd as at 31st March 2020 is as follows :

Liabilities	Rs.	Assets	Rs.
Equity share capital (60,000 shares)	6,00,000	Cash	20,000
Retained earnings	2,00,000	Debtors	30,000
12% debenture	2,00,000	Inventories	1,70,000
Creditors and other liabilities	3,20,000	Plant & Equipments	11,00,000
	13,20,000		13,20,000

(i) Shareholders of Dull Ltd will get one share in Smart Ltd for every two shares. External liabilities are expected to be settled at Rs. 3,00,000. Shares of Smart Ltd would be issued at its current price of Rs. 15 per share. Debenture holders will get 13% convertible debentures in the purchasing company for the same amount. Debtors and inventories are expected to realize Rs.1,80,000.

(ii) Smart Ltd has decided to operate the business of Dull Ltd as separate division. The division is likely to give cash flows (after tax) to the extent of Rs. 3,00,000 per year for 6 years. Smart Ltd has planned that the division would be demerged after 6 years and disposed of for Rs.1,00,000.

(iii) Company's cost of capital is 14%, Make a report to the managing director advising him about the financial feasibility of the acquisition.[Present value of Rs.1 for six years@ 14%: 0.8772, 0.7695, 0.6750, 0.5921, 0.5194 and 0.4556] **(10 Marks)**

8 A and B Ltd were amalgamated on 1st April 2020. 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 31st March 2020 are given below:

(Figures in thousands)

	A Ltd. (Rs.)	B Ltd. (Rs.)		A Ltd. (Rs.)	B Ltd. (Rs.)
Share Capital			Fixed assets	4800	3200
Equity shares of Rs.10 each	2400	1600	Less depreciation	800	600
12% Preference shares of Rs.100 each	1200	800		4000	2600
Reserves & Surplus			Investments	1600	600
Capital Reserve	800	600	Current assets :		
General Reserve	1200	600	Stock	1200	600
Surplus A/c	400	200	Debtors	1600	800
Secured Loans	1600	800	Cash and Bank	1200	600
Trade Creditors	1200	400			
Tax provision	800	200			
	9600	5200		9600	5200

Other 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 one 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 amalgamation is in the nature of merger. **(20 Marks)**

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