K.J. Somaiya Institute of Management Studies & Research
Course: PGDM Finance, PGDM FS 2016-18 –Trisem IV End Term Exam
Sub: Mergers & Acquisitions

Date of Exam: 19th Sept'17 Time: 3:00 Hours Marks: 50

Note: 1 Usage of pencil to be restricted to rough work and drawing tables and diagrams only. Answers written or cancelled using pencil shall invoke ***negative*** marking.
2. New question is to be answered on a new page.

Q.1 Answer the following questions: **20 Marks**

i. Free cash flows to the firm (FCFF) for a forecast period of 5 years are as follows: Year 1: Rs. 15 lakhs, Year 2: Rs. 16 lakhs, Year 3: Rs. 17 lakhs, Year 4: Rs. 18 lakhs, Year 5: Rs. 19 lakhs. Cost of capital in both forecasting and perpetual phase is 11% and long term growth rate in perpetual phase (terminal phase) is 4%. Compute and answer the questions below:

a. The PV of all the FCFF in the forecasting phase using cost of capital as discount rate is _____________________. (4 Marks)

b. Using the Gordon Growth Model, the Terminal Value (T.V.)* of the firm is ____________________.
*T.V. is computed by (FCFF of 5th year in forecasting phase) X (1+ perpetual growth rate) divided by (cost of capital – perpetual growth rate) (4 Marks)

c. Present Value of the firm is ___________________________. (4 Marks)

ii. In boot strapping, companies are able to self-finance their assets. True or False? (2 Marks)

iii. Full form of LBO is ___________________________________. (2 Marks)

iv. A company is finding it difficult to survive even for a year or so. A valuator uses duration of five years in the forecasting phase while doing company valuation. The approach of the valuator is most likely to be ___________________________. (Correct / Incorrect) (2 Marks)

v. In context of regulating competition in the Indian markets, the term CCI stands for
____. (2 Marks)

Q.2 Enumerate the reasons of failure of Mergers & Acquisitions **10 Marks**

OR

Q.2 Elaborate on the concept of Leveraged Buyouts (LBO) with a simulation of your choice. **10 Marks**

Q.3 Explain the basics of Corporate Restructuring with specific focus on M&As. **10 Marks**

Q.4 Calculate the exchange ratio of shares in the following case and explain the behavior of EPS, pre and post-acquisition, for Company A shareholders if the offer price for shareholders of Company B is Rs. 40 per share. **10 Marks**

Particulars	Company A	Company B
Present Earnings	Rs. 3, 50, 00, 000	Rs. 50, 00, 000
Outstanding Shares	50, 00, 000	10, 00, 000
Earnings Per Share (EPS)	Rs. 7	Rs. 5
Current Market Price of Shares	Rs. 49	Rs. 25

OR

Q.4 Explain the concept of due diligence in M&A with a suitable sectorial example. **10 Marks**