

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

Date of Exam: 4th Jan'18

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 Usually it is seen that Mergers and Acquisitions often fail even if they looked promising at the beginning. Enlist and enumerate on the probable reasons of their failure. **10 Marks**

OR

Q.1 What is a LBO transaction in M&A? What are its characteristics? Simulate the concept of LBO with an example clearly depicting the profitability associated with the usage of asset with low equity stake and high debt at the beginning and how the same gets translated in to benefits for the owner once the debt is paid off. **10 Marks**

Q.2 Refer to the data below:

Liabilities	Amount	Assets	Amount
Equity Capital per share Rs. 50	4,500,000	Goodwill	700,000
Preference Shares 8% per share Rs.100	1,500,000	Plant & Machinery	4,200,000
Sundry Creditors	900,000	Preliminary Expens	200,000
Bank Overdraft	600,000	Stock	700,000
		Debtors	900,000
		Cash	100,000
		P&L Account	700,000
Total	7,500,000		7,500,000

Three years preference dividends are in arrears. An internal reconstruction is agreed upon by every stakeholder as follows:

1. Creditors agreed to forego 20% of the claim.
2. Preference shareholders not only agreed to forego their dividend claim, but also agreed to lower their capital claim by 60% if the equity shareholders' losses exceeded by 75% on application of the scheme.
3. Bank agreed to convert overdraft into a term loan to the extent required for making current ratio equal to 1.70:1.
4. Revalued figures for plant & machinery were accepted as Rs. 21, 00, 000.
5. Debtors to the extent of Rs. 7, 50, 000 were considered good.
6. Post restructuring, equity shares are exchanged at 1:1 ratio at a revised denomination.

Calculate: A. Total loss borne by shareholders along with bifurcation of individual class of shareholders. B. New capital structure post reconstruction. C. Working capital of reorganized company. D. Revised balance sheet post reconstruction. 10 Marks

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Q.3 Refer to the following table below. 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. 49 per share. **10 Marks**

Particulars	Company A	Company B
Present Earnings	Rs. 7, 00, 00, 000	Rs. 1,00, 00, 000
Outstanding Shares	1,00, 00, 000	20, 00, 000
Earnings Per Share (EPS)	Rs. 7	Rs. 5
Current Market Price of Shares	Rs. 56	Rs. 30

OR

Q.3 Explain the concept of synergy in an M&A deal with a suitable example. **10 Marks**

Q.4 Explain the basics of Corporate Restructuring with specific focus on M&As. **10 Marks**

OR

Q.4 An FMCG company wants to acquire and ultimately merge a smaller firm dealing in confectionaries. Taken this in to account, elaborate at length the due diligence process and the necessary checks to be taken in to account. **10 Marks**

Q.5 Answer the following questions: **10 Marks**

- a. In the TATA JLR deal, an SPV was created in Singapore to initiate the deal financially. True or False?
- b. In the Jet Etihad case, one of the parameters to analyze synergy in the deal is to look for increasing 'ASK' performance. Here, ASK refers to _____.
- c. In the Indian context of M&A, the term CCI (regulatory body) refers to _____.
- d. In the Indian aviation industry, to float international airline operations, a 5/20 rule is applicable. Here, the number 5 reflects _____ and 20 reflects _____.
- e. In the TATA JLR deal, the receivables policy was restructured from 35 days to 27 days post the deal. This is classic example of _____. (Tightening of policy / Relaxation of policy).