K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH

PGDM (EXECUTIVE) – 2017 – 18 – IV TRIM

MERGERS, ACQUISITIONS AND CORPORATE RESTRUCTURING

Date : 22/09/2018 **Time : 3 Hours** **Marks : 50**

Set 1 (10 marks)

1. A Leveraged Buy Out involves the purchase of a Co. financed primarily by debt? ***(2 marks)***

    a) True
    b) False

2. Vertical mergers are those in which the participants are? ***(2 marks)***

    a. in the same industry.
    b. in different industries
    c. in different phases of the value chain.
    d. none of the above.

3. Explain the steps / milestones in a Friendly Merger? ***(6 marks)***

Set 2 (10 marks)

4. Please look at the information below and answer the questions? ***(7 marks)***

MK Ltd. is considering acquiring NN Ltd. The following information is available:

Company	Earning after tax(₹)	No. of Equity Shares	Market Value Per Share(₹)
MK Ltd.	60,00,000	12,00,000	200.00
NN Ltd.	18,00,000	3,00,000	160.00

Exchange of equity shares for acquisition is based on current market value as above. There is no synergy advantage available.

(i) Find the earning per share for company MK Ltd. after merger, and

(ii) Find the exchange ratio so that shareholders of NN Ltd. would not be at a loss.

5. You are the CFO of X Ltd. and are evaluating the acquisition of Y Ltd. and you observe that the FCFE's of the proposed target are discounted using the WACC. The valuation comes to INR 750 Crores. You would? ***(3 marks)***

    a. Contest that this is incorrect and the value should be lower
    b. Contest that this is incorrect and the value should be higher
    c. Accept the valuation
    d. None of the above

<u>Set 3 (10 marks)</u>

6. You are required to value the target given the following factors? ***(10 marks)***

    a) The Co. has an asset base of Rs 1500 Crores
    b) These assets are financed by Equity (Rs 1000 Crores)
        a. The Risk-Free Rate is 7.5%
        b. The Return on the Market is 12.5%
        c. The ß is @ 1.5
    c) The Cost of Debt (Rs 500 Crores) is @ 8%
    d) The tax rate is 30%
    e) The FCFE's are as under:

        a. Y1: Rs 300 Cr
        b. Y2: Rs 500 Cr
        c. Y3: Rs 750 Cr
        d. Y4: Rs 1000 Cr
    f) There are no net borrowings
    g) The FCFF's are expected to grow at 7.5% beyond the forecasting period

What is the value that you, as a merchant banker would endorse for the target?

<u>Set 4 (10 marks)</u>

7. Explain briefly each of the below and highlight the fundamental difference between the? ***(5 marks)***

    a. Comparable Co Method &
    b. Comparable Transaction Method

8. Explain the difference between? ***(5 marks)***

    a. Demerger
    b. Slump Sale

Set 5 (10 marks)

From the information given below, draw up the Balance Sheet of A Ltd. post-merger. ***(10 marks)***

Balance Sheet of A & B Ltd as on 31.3.2010 *INR in Cr.*

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity Share Capital	100	25	Fixed Assets	150	90
General Reserves	40	20	Debtors	50	10
Revaluation Reserve	5	2			
Statutory Reserves	10	3			
P&L Account	20	10			
Secured Loan	-	15			
Current liabilities	25	25			
TOTAL	**200**	**100**	**TOTAL**	**200**	**100**

1. B Ltd. merges into A Ltd. w.e.f. 01.04.2010 and consideration is discharged by issue of 9 cr shares for Rs.10 each
2. Statutory reserves required to be maintained by A Ltd. post merger
3. Fair value of fixed assets of B Ltd. as on 31.03.2010 is 100 cr.