K.J. SOMAIYA INSTITUTE OF MANAGEMENT STUDIES & RESEARCH
PGDM (EXECUTIVE) 2017- 18 – IV TRIM
MERGERS, ACQUISITIONS & CORPORATE RESTRUCTURING
(Supplementary Exam)

Date : 12/01/2019 Time : 3 Hours Marks : 50

Set 1 (10 marks)

1. A Leveraged Buy Out involves the purchase of a Co. financed primarily by debt? Elaborate. ***(2 marks)***
2. Explain how "vertical mergers" are strategically different from "horizontal mergers"? ***(2 marks)***
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, if MK is planning to acquire NN?

	MK	NN
PAT	50,00,000	20,00,000
NOS	12,50,000	2,50,000
MPS	100	40

a. If the exchange ratio is based on current market prices, what is the post-merger EPS?

b. What would the absolute earning share for the shareholders of NN Ltd. post-merger, in the above case, drop to?

c. State the exchange ratio, if based on EPS?

d. What is the EPS of the combined entity, post-merger, if the exchange ratio is based on pre-merger EPS?

e. Derive the absolute earning share of shareholders of NN, post-merger, if the exchange ratio is based on pre-merger EPS?

Set 3 (10 marks)

5. 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?

Set 4 (20 marks)

6. Explain briefly each of the below and highlight the fundamental difference between the? ***(10 marks)***

   a. Comparable Co Method &
   b. Comparable Transaction Method

7. 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. Entail with rationale, how would you respond to the valuation? ***(10 marks)***

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