(Please write your Exam Roll No.) *Exam Roll No.* 01015903917

END TERM EXAMINATION

FOURTH SEMESTER [MBA] MAY-JUNE 2019

Paper Code: MS-222	**Subject: Mergers, Acquisitions and Corporate Restructuring**
	(Batch: 2017 Onwards)

Time: 3 Hours **Maximum Marks: 75**

Note: Attempt any five questions. Each question carries 15 marks.

Q1 The last financial year saw tremendous growth (both in numbers and size) of merger and acquisitions deals in India, both inbound and domestic, with few marquee transactions. Like a deal of Flipkart with Walmart, Vodafone and idea cellular and so on. What is the driving interest of investors in merger and acquisitions in these kind of deals?

Q2 Discuss the various Legal provisions including takeover code of SEBI with regard to Merger and Acquisitions.

Q3 ABC corporation wants to acquire XYZ corporation. Financial has estimated enterprise value of XYZ at \$104 million. The market value of XYZ debt is \$15 million, and cash balances in excess of the firm's normal working capital requirement are \$3 million. Final estimates the present value of certain licences that XYZ is not currently using to be.\$4 million. XYZ is the defendant in several outstanding law suits. ABCs legal department estimates the potential future cost of this litigation to be \$3 million, with an estimated present value of \$2.5 million. XYZ has 2 million common shares outstanding. With the help of valuation answer does valuation deal make sense. Justify your answer.

Q4, A Ltd is investigating the possible acquisition of T Ltd. The following data is available:-

	A Ltd	**T Ltd**
Earnings per share (Rs.)	8	2
Dividend for share (Rs)	4	0.8
Number of shares	1,00,000	60,000
Stock price	Rs 100	Rs 20

Current estimates indicate a steady growth of about 6 percent in T Ltd. earnings and dividends. Under the new management, this growth rate would be increased to 8 percent per year without any additional capital investment. Find:-

(a) What is the gain from acquisition?
(b) What is the cost of acquisition if A Ltd. pays Rs 30 in cash for each share of T Ltd.
(c) What is the cost of acquisition if A Ltd offers one share of A Ltd for every two shares of T Ltd.
(d) How do the cost of cash offer alter if the expected growth rate of T Ltd were not changed by the merger.

Q5 Alpha Ltd wants to boost its EPS quickly and is planning for acquiring Beta Ltd. The acquisition of Beta Ltd. is likely to create a synergy of 10% post acquisition. Alpha Ltd. wants to peg its EPS at Rs 8 level post merger. Following are the EPS, market value and number of shares for Beta Ltd.

	Alpha Ltd	**Beta Ltd**
EPS (Rs)	5	5
Market value per share (Rs)	60	50
Number of shares	12,00,000	10,00,000

Determine the exchange ratio that will result in EPS of Rs 8 post acquisition.

P.T.O.

Q6 Sonia Products Ltd. is planning to acquire Madhur Products Ltd. in order to expand its own installed capacity. The company will then be in a position to cater to the increasing demand for its products and services. The equity related cash flow of Sonia Products Ltd. before and after the merger are given below:

Rs. Lakh

Year	1	2	3	4	5
Cash flows before acquisition	14.	16.8	20.4	22.6	24.5
Cash flows after acquisition	20.8	23.4	24.7	32.9	38.6

The cash flows are expected to grow at a rate of 6.5% beyond year 5 whether Madhur Products Ltd. is acquired or not. The other relevant data relating to the two companies is given below:

Company	Sonia Products	Madhur Products
Number of outstanding equity shares	180 lakh	90 lakh
Market Price (Rs)	28	34
Book Value (Rs)	27	22.6

Calculate the maximum exchange rate that the management of Sonia Products Ltd. can offer to the shareholders of Madhur Products Ltd. so that the present value of its equity related cash flows after the merger is at least 18% more than the existing level. The cost of equity may be assumed to be 14%.

Q7 Sarika Ltd. is planning to raise funds through a public issues of equity for the first time. However, the management of the company is not sure is not sure about the value of the company and therefore, it attempts to study similar companies in the same the line which are comparable to Sarika in most of the aspects. The study reveals the following:

(Rs. in millions)

Company	Sarika Ltd.	Diffusion Ltd.	Scarlet Ltd.	Crimson Ltd.
Sales	20.91	22.78	27.98	25.61
EBIT	5.24	7.98	7.71	6.35
Book Value	12.21	10.85	13.77	15.6
Market Value	-	11.32	15.65	18.35

Determine the value of Sarika Ltd. using the comparable company approach.

Q8 'The stock price of the acquirer tumbles if the market considers the rate offered by it for the target to be on the higher side, and vice-versa'. Discuss this statement in the light of Hubris hypothesis.

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