Seat No.: ________ Enrolment No.______________

GUJARAT TECHNOLOGICAL UNIVERSITY

M.B.A -IVth SEMESTER–EXAMINATION – MAY- 2012

Subject code: 840201 Date: 19/05/2012

Subject Name: Corporate Restructuring (CR)

Time: 10:30 am – 01:30 pm Total Marks: 70

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 (a) On 31st March 2011, Flexi Ltd merged with Fix Ltd agreed to take over all assets and liabilities of Flexi Ltd at book value. The consideration was decided at Rs. 8,00,000 to be discharged by the transferee company in the form of its fully paid up equity shares of Rs. 10 each. **07**

Balance sheets of both the companies are as follows:

Liabilities	Fix Ltd (Rs.)	Flexi Ltd(Rs.)	Assets	Fix Ltd (Rs.)	Flexi Ltd(Rs.)
Share Capital (equity share of Rs. 10 each fully paid)	18,00,000	4,00,000	Goodwill	4,00,000	1,20,000
General Reserve	3,60,000	1,00,000	Plant and Machinery	8,24,000	2,00,000
Profit & Loss a/c	41,004	25,800	Furniture	1,60,000	60,000
Workmen Compensation Fund	24,000	18,000	Stock in trade	5,31,000	1,20,000
Sundry Creditors	1,17,134	60,912	Sundry Debtors	4,42,400	93,400
Staff Provident fund	20,400	8,000	Income tax refund claims	----	12,000
Provision for taxation	24,600	10,000	Cash in Hand	1,738	712
			Cash at Bank	28,000	16,600
	23,87,138	6,22,712		23,87,138	6,22,712

Amalgamation expenses amounting to Rs. 2,000 were paid by Fix ltd.You are required to show the balance sheet after amalgamation.

(b) What is meant by synergy? Explain with example. **07**

Q.2 (a) Explain in detail different modes of payment of purchase consideration. **07**

(b) Give meaning with example of each, Spin-off, Split-up, Split-off **07**

OR

(b) Maxi Ltd. is considering merger with Mini Ltd. Details are given below: **07**

Particulars	Maxi Ltd.	Mini Ltd.
Earnings After Taxes	Rs. 50,00,000	Rs. 18,00,000
No. of Outstanding Shares	10,00,000	6,00,000
Market Price per Share	Rs. 42	Rs. 28

The merger will be affected by means of a stock exchange.

(a) What are the pre-merger earning per share (EPS) and Price- Earning Ratios (P/E ratios) of both the companies?

(b) What would be the new EPS for Maxi Ltd. assuming that the merger takes place by exchange of equity shares and the exchange ratio is based on current market price?

(c) What must the exchange ratio be, for Mini Ltd's that its pre and post merger earning to its members remain same.

Q 3 **(a)** What is restructuring? What are the basic reasons for restructuring? **07**

(b) Define the term "Due Diligence". Discuss key challenges in Due Diligence. **07**

OR

Q.3 **(a)** Explain Provisions under Indian Companies Act 1956 relating to mergers. **07**

(b) Distinguish between Joint venture and Strategic alliance. **07**

Q.4 **(a)** The summarized balance sheet of XX ltd. as on 31st March 2011 is given below. **07**

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Equity Share Capital	40,00,000	Fixed Assets	38,00,000
		Investments	2,00,000
13% preference share capital	2,00,000	Current Assets:	
		Inventories	10,00,000
Retained Earnings	8,00,000	Debtors	8,00,000
		Bank	2,00,000
12% Debentures	6,00,000		
Current Liabilities	4,00,000		
	60,00,000		60,00,000

Negotiations for takeover of XX Ltd. result in its acquisition by YY Ltd.
The purchase consideration is consist of

(i) Rs. 6, 60,000, 13% debentures of YY Ltd. for redeeming the 12% debentures of XX Ltd.
(ii) Rs. 2, 00,000 12% convertible preference shares in YY Ltd. for the payment of preference share capital of XX Ltd.
(iii) 3,00,000 equity shares of YY Ltd. to be issued at current market price of Rs. 15, and
(iv) YY Ltd. would meet dissolution expenses of Rs. 60,000.

The break-up figures of eventual disposition by YY Ltd. of unrequired assets and liabilities of XX Ltd. are investments Rs. 2,50,000, debtors Rs. 7,00,000, inventories Rs. 8,50,000, and payment of current liabilities Rs. 3,80,000.

The project is expected to generate yearly operating cash flow after tax of Rs. 14, 00,000 for 6 years. It is estimated that fixed assets of XX Ltd. would fetch Rs. 6, 00,000 at the end of 6^{th} year.
The firm's cost of capital is 15%. Comment on the financial prudence of merger decision of YY Ltd.

PV at 15% rate of discount is 1^{st} year – 0.870, 2^{nd} year – 0.756, 3^{rd} year – 0.658, 4^{th} year – 0.572, 5^{th} year – 0.496 and 6^{th} year – 0.432.

(b) Explain the merits and demerits of Employee Stock Options Plans (ESOPs). **07**

OR

Q.4 **(a)** Briefly discuss the stages envisaged for implementation of "Leveraged buy-out (LBO) programme. **07**

(b) Explain various approaches to the valuation of a company along with their limitations. **07**

Q.5 **(a)** Discuss the major objectives and significance of cross-border mergers and acquisitions with latest examples. **07**

(b) Explain the concepts of differences between divestiture and demerger. **07**

OR

Q.5 **(a)** Explain the significance of strategic and financial motives of mergers. **07**

(b) Explain various tax implications over mergers. **07**

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