Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER–IV • EXAMINATION – SUMMER 2013

Subject Code: 2840201 **Date: 10-05-2013**

Subject Name: Mergers & Acquisitions

Time: 14:30pm – 17:30pm **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)** Indicate whether the following statements are true or false with valid reason or necessary example: **07**

1. Split-Up is a transaction in which a company distributes to its own shareholders on a pro-rata basis all of the shares it owns in a subsidiary.
2. A low risk or zero coupon bonds is issued to finance a leveraged buyout or a troubled company.
3. In a strategic alliance, two or more firms join their hands to form a separate, independent organization for strategic purpose.
4. ESOPs are used in raising capital in leveraged buyouts and divestitures and also an anti-takeover defense.
5. Poison puts are shares issued by a firm to its shareholders to make the firm less valuable in the eyes of a hostile bidder. These shares have no value till the happening of a triggering event.
6. Golden Parachute refers to the buying back of shares at a substantial premium from the stockholder holding a significant majority of shares in return for an agreement that he will not initiate a bid for control of the company.
7. Section 391 of Companies Act is mentioned the books and papers of a company which has been amalgamated with, or whose shares have been acquired by, another company under this chapter shall not be disposed of without the prior approval of the Central Government.

(b) Anil Starch plans to acquire Jay Chemical. The following information is available **07**

Particulars	Anil Starch	Jay Chemical
Total Current Earnings	Rs. 36 Million	Rs. 12 Million
No. of Outstanding Shares	12 Million	8 Million
Market Price per Share	Rs. 30	Rs. 9
Earnings Per Share, EPS	Rs. 3	Rs.1.5
Price-Earnings Ratio, PE	10	6

(1) What is the maximum exchange ratio acceptable to the shareholders of Anil Starch if the P/E Ratio of the combined entity is 8?

(2) What is the minimum exchange ratio acceptable to the shareholders of Jay Chemical if the P/E Ratio of the combined entity is 9?

Q.2 **(a)** Explain the various forms of Corporate Restructuring. **07**

(b) A Ltd. and B Ltd. were amalgamated on and from 1st April 2012. A new company C Ltd. was formed to take over the business of the existing companies. The Balance sheets of A Ltd. and B Ltd. as on 31st March, 2012 are given below: **07**

(Rs. in Lakhs)

Liabilities	A Ltd.	B Ltd.	Assets	A Ltd.	B Ltd.
Equity Shares of Rs. 100 each	800	750	Land & Building	550	400
12% Pref. Shares of Rs. 100 each	300	200	Plant & Machinery	350	250
Revaluation Reserve	150	100	Investments	150	50
General Reserve	170	150	Stock	350	250
Investment Allowance Reserve	50	50	Sundry Debtors	250	300
P&L Account	50	30	Bills Receivable	50	50
10% Debentures (Rs. 100 each)	60	30	Cash and Bank	300	200
Sundry Creditors	270	120			
Bills Payable	150	70			
	2000	**1500**		**2000**	**1500**

Additional Information:

(1) 10% Debenture holders of A Ltd. and B Ltd. are discharged by C Ltd. issuing such number of its 15% Debentures of Rs. 100 each so as to maintain the same amount of interest.

(2) Preference shareholders of the two companies are issued equivalent number of 15% preference shares of C Ltd. at a price of Rs. 150 per share (face value Rs. 100)

(3) C Ltd. will issue 5 equity shares for each equity share of A Ltd. and 4 equity shares for each equity share of B Ltd. The shares are to be issued @ Rs. 30 each, having a face value of Rs. 10 per share.

(4) Investment allowance reserve is to be maintained for 4 more years.

Prepare the balance sheet of C Ltd. as on 1st April 2012 after the amalgamation has been carried out on the basis of amalgamation in the nature of purchase.

OR

(b) What does due diligence mean? What are the common aspects examined in due diligence? **07**

Q.3 **(a)** Explain various takeover and Defense Tactics. **07**

(b) Briefly discuss the important provisions of SEBI guidelines related with Share Buyback for Indian companies. **07**

OR

Q.3 **(a)** What are the income tax provisions relating to Amalgamation? **07**

(b) Discuss the provisions of Mergers & Acquisitions under Indian Companies Act. **07**

Q.4 **(a)** Explain the various benefits & difficulties of Cross-Border Acquisitions. **07**

(b) Write a note on Leveraged Buyout (LBO). **07**

OR

Q.4 **(a)** What are the advantages & disadvantages of ESOP? **07**

Q.4 **(b)** Write a note on Joint Venture. **07**

Q.5 **(a)** Explain the various reasons & benefits of Divestiture. **07**

(b) Find the Value of Samrat Ltd. on the base of comparable companies approach, which is a prospective target, from the following information: **07**

Particulars	Ashok Ltd.	Ajay Ltd.	Amar Ltd.
Market / Net Income (P/E Ratio)	30	35	40
Market / Book	2.56	2.40	3.00
Market / Sales	2.46	2.32	2.92

The Current Sales of Samrat Ltd. are Rs. 300 lakhs, Book value of equity Rs. 250 lakhs and Net Income is Rs. 50 lakhs

OR

Q.5 **(a)** V Company and W Company are two identical firms that agree to merge. Both have revenues of Rs.1500, operating margin of 15%, a tax rate of 40%, investment rate of 10%, growth rate of 11%, 5 years supernormal growth followed by zero growth thereafter, and a 9% cost of capital. **07**

If the combined firm increases its operating margin by 2%, revenues are combined, and the other value drivers remain unchanged, what is the value of the combined firm?

(b) Discuss the various reasons & types of Strategic Alliance. **07**

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