Seat No.: ________ Enrolment No.___________

# GUJARAT TECHNOLOGICAL UNIVERSITY

**MBA – SEMESTER 04 – EXAMINATION – SUMMER 2017**

**Subject Code: 2840201** **Date: 03/06/2017**

**Subject Name: Mergers and Acquisitions**

**Time: 10.30 AM TO 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)** **06**

1. The payments made by a firm to repurchase shares of its outstanding stock from an individual investor in an attempt to eliminate a potential unfriendly takeover attempt are referred to as
   - A. a golden parachute
   - B. greenmail
   - C. a poison pill
   - D. a white knight
2. The public sale of common stock in a subsidiary in which the parent usually retains majority control is called
   - A. a pure play
   - B. a spin-off
   - C. a partial sell-off
   - D an equity carve-out
3. Vertical mergers are those in which the participants are
   - A. In the same industry
   - B. In different industries
   - C. In different phases of the value chain
   - D. None of the above
4. When a leveraged buyout transaction is led by the firm's management then the transaction is called_____________
   - A. IPO
   - B. MBO
   - C. LBOM
   - D. CFO
5. Under AS 14, and amalgamation in the nature of merger is a case where________of shareholders of transferor company have agreed to become shareholders of transferee company
   - A. More than 50%
   - B. 100%
   - C. At least 90%
   - D. 25% or more
6. The complete absorption of one company by another, wherein the acquiring firm retains its identity and the acquired firm ceases to exist as a separate entity, is called a_____________
   - A. Absorption Merger
   - B. Consolidation Merger
   - C. Acquisition
   - D. Divestiture

**Q.1** **(b)** Explain the terms with **example**: **04**

1. Split up
2. Conglomerate merger
3. Equity Carve out
4.Creeping acquisition

**Q.1** **(c)** Write short note on Accounting treatment (AS -14) in amalgamation & merger **04**

**Q.2** **(a)** What is due diligence? Highlight the common aspects examined in due diligence by the acquirer team in corporate restructuring. **07**

**(b)** What are the income tax provisions relating to Amalgamation? **07**

**OR**

**(b)** What are 'ESOPs'? Explain in detail various types & uses of ESOPs. **07**

**Q.3** **(a)** Cross- border mergers and acquisitions transactions face special problems along with general problems encountered in domestic mergers and acquisitions of a firm. Discuss in brief the special problems encountered in cross border transactions and ways to overcome it. **07**

**(b)** Suchi Ltd. and Trusha Ltd. are discussing a merger deal in which Suchi Ltd. will acquire Trusha Ltd. The relevant information about the firms is given as follows: **07**

| **Particulars** | **Suchi Ltd.** | **Trusha Ltd.** |
|---|---|---|
| Total Earnings | Rs. 36 million | Rs. 12 million |
| Number of outstanding shares | 12 million | 8 million |
| Earnings Per Share | Rs. 3 | Rs. 1.5 |
| Price-Earnings Ratio | 10 | 6 |
| Market price per share | Rs. 30 | Rs. 9 |

1. What is the maximum exchange ratio acceptable to the shareholders of Suchi Ltd., if the PE Ratio of the combined firm is 8?

2. What is the minimum exchange ratio acceptable to the shareholders of Trusha Ltd., if the PE Ratio of the combined firm is 9?

3. At what point do the lines ER1 and ER2 intersect?

**OR**

**Q.3** **(a)** What are various sources of funds used in domestic acquisitions? Discuss in brief major merits and demerits of each of them. **07**

**(b)** In 2015, the Harsh Ltd. had revenues of Rs. 16 crore on which it earned Rs. 7 crore before interest and taxes. It had capital expenditure of Rs. 530 lakh and depreciation of Rs. 410 lakh in 2015. Working capital as a percentage of revenues, averaged at 5% between 2014 and 2015(working capital increases by Rs. 150 lakh in 2015)The beta of comparable firms in the industry is 1.05 and the average debt ratio of these firms is 24.79%(the cost of debt for the largest of these firms is approx.. 8%). The long term bond rate is 7.5%and market premium is 5.5%. Tax rate is assumed to be 30%. FCFF is expected to grow 5% a year in the long term. Compute the value of the firm. **07**

**Q.4** **(a)** What are the takeover and antitakeover tactics? Explain it briefly with suitable example **07**

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

| **Particulars** | **A Ltd.** | **B Ltd.** | **C Ltd.** |
|---|---|---|---|
| Market/ Net Income | 30 | 35 | 40 |
| Market/Book value | 2.56 | 2.40 | 3.00 |
| Market/Sales | 2.46 | 2.32 | 2.92 |

The current sales of Viaan Ltd. are Rs. 300 Lakhs, Book value of equity Rs. 250 lakhs and Net Income is Rs. 50 lakhs.

**OR**

**Q.4** **(a)** Explain the provisions under various sections of Indian Companies Act., which are relevant for merger and amalgamation **07**

**(b)** Parth Company plans to acquire Videsh Company. The relevant financial details of the two firms, prior to merger announcement, are given below: **07**

| | **Parth Company** | **Videsh Company** |
|---|---|---|
| **No. of Shares** | 3,00,000 | 2,00,000 |
| **Market Price Per Share** | Rs. 60 | Rs. 25 |

The merger is expected to bring gains which have a present value of Rs. 4 million. Parth Company offers one share in exchange for every two shares of Videsh Company.

(a) What is the true cost of Parth Company for acquiring Videsh Company?

(b) What is the net present value of the merger to Parth Company?

(c) What is the net present value of the merger to Videsh Company?

**Q.5** The following is the Balance sheet of Ganesh Ltd. as on 31st March 2016: **14**

| **Liabilities** | **Amount Rs. ( In lacs)** | **Assets** | **Amount Rs. ( In lacs)** |
|---|---|---|---|
| Share Capital( of Rs. 100 each Fully paid up) | 100 | Land & Building | 40 |
| Reserves and Surplus | 40 | Plant & Machinery | 80 |
| Sundry Creditors and Other Liabilities | 30 | Marketable Securities | 10 |
| | | Stock | 20 |
| | | Debtors | 15 |
| | | Cash & Bank | 5 |
| Total | 170 | Total | 170 |

Profit before tax for current year end amount to Rs. 64 lacs, including Rs. 4 lacs as extraordinary income. Besides, the firm has earned interest income of Rs 1 lacs in current year from investments in marketable securities. It is not usual for the firm to have excess cash & invest in marketable securities. However, an additional amount of Rs. 5 lacs per annum, in terms of advertisement and other expenses will be required to be spent for the smooth running of the business in the years to come.

Market value of land and buildings, plant & machinery are estimated at Rs. 90 lacs and Rs. 100 lacs respectively. In order to match the revalued figures of these fixed assets, additional depreciation of Rs. 6 lacs is required to be taken into consideration. Effective corporate tax rate may be taken at 30 percent. The capitalization rate applicable to business of such risks is 15 percent.

1. From the above case, compute the value of business, value of equity and price per equity share based on capitalization method.
2. Also determine the value of business as per the net assets method. Assets are to be valued at market value for this purpose and the value of goodwill is also to be considered which is Rs. 6 lacs as per the valuation of goodwill.
3. Determine the fair price of an equity share. The fair price of an equity share is to be taken as an average of prices estimated according to the capitalisation method and net assets method.

**OR** **14**

**Q.5** The Balance Sheet of Ki Ltd and Ka Ltd as on 31st March, 2016 were as follows:

| **Liabilities** | **Ki Ltd** | **Ka Ltd** | **Assets** | **Ki Ltd** | **Ka Ltd** |
|---|---|---|---|---|---|
| 54,000 10% preference shares of Rs. 100 each | 5,400 | | Goodwill | | 162 |
| 16,20,000 Equity shares of Rs. 10 each | 16,200 | | Land and Buildings | 7,992 | |
| 4,32,000 Equity shares of Rs. 10 each | | 4,320 | Plant and Machinery | 17,690 | |
| Capital Reserve | 5,184 | | Furniture | 292 | 540 |
| General Reserve | 3,780 | 1080 | Patents | 648 | |
| Profit and Loss Account | 648 | 162 | Motor Vehicles | | 761 |
| Creditors | 756 | 270 | Stock | 4374 | 2808 |
| | | | Debtors | 864 | 1,393 |
| | | | Cash at Bank | 108 | 168 |
| Total | 31,968 | 5,832 | Total | 31,968 | 5,832 |

Ki Ltd. & Ka Ltd. merged and formed a new company, called Ki & Ka Ltd, with an authorized capital of Rs. 4.32 crore divided into 54,000 preference shares of Rs. 100 each and 37,80,000 equity shares of Rs. 10 each. The two companies merged on the following conditions:

1. Ki & Ka Ltd. allotted to Ki Ltd 54,000, 13% fully paid preference shares and 21.6 Lakh fully paid equity shares to satisfy the claims of Ki Ltd.'s preference and equity shareholders, respectively.

2. Ki & Ka Ltd. allotted to Ka Ltd. 4, 75,200 fully paid equity to be distributed among Ka Ltd.'s shareholders in full satisfaction of their claims.

3. Mr. Arjun, who mooted the scheme, was allotted 5,400 fully paid equity shares in consideration of his services. The company debited the amount of Preliminary Expenses Account.

4. Expenses on liquidation of Ki Ltd. & Ka Ltd. Totaled Rs. 3,240 and were borne by Ki & Ka Ltd.

   Ki & Ka Ltd. made a public issue of 2. 16 lakh equity shares of Rs. 10, each at a premium of Rs. 2 per share. The issue was underwritten at a commission of 2.5% on the issue price of the shares. The issue was fully subscribed for by the public. Ki & Ka Ltd. Paid Rs. 91,800 in cash as preliminary expenses.

   Prepare Balance sheet of Ki & Ka Ltd after the merger.

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