Seat No.: ________ Enrolment No.___________

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER– IV EXAMINATION – WINTER 2019

Subject Code: 3549221 **Date: 30-11-2019**

Subject Name: Mergers & Acquisition (M&A)

Time: 2.30 PM to 5.30 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 Explain the following Terms: **14**

a. Corporate Restructuring
b. Spin Off
c. Consolidation
d. ESOP
e. Reverse Merger
f. Leverage Buy Out
g. Synergy

Q.2 **(a)** Differentiate Mergers & Acquisition. Discuss various motives for M&A citing recent examples of M&A in India. **07**

(b) Write a note on Competition Act for M&A. **07**

OR

(b) Discuss the provisions for M&A under Companies Act 2013. **07**

Q.3 **(a)** What is due diligence? Discuss various types of due diligence. **07**

(b) What is takeover? What are the different takeover defense tactics? **07**

OR

Q.3 **(a)** Explain the concept of divestitures. Why do companies seek divestitures? What are the benefits of divestitures? **07**

(b) Explain the concept of cross border acquisitions and state the problems encountered in cross border acquisitions. **07**

Q.4 **(a)** Highlight the differences between the Pooling of Interest Method & Purchase Method with respect to Accounting Standard 14. **07**

(b) A Ltd wants to acquire T Ltd. and has offered a swap ratio of 1:2 (0.5 shares for every one share of T Ltd.) Following information is provided: **07**

Particulars	A Ltd	T Ltd
Profit after tax	Rs. 18,00,000	Rs. 3,60,000
Equity Shares Outstanding	6,00,000	1,80,000
Earnings Per Share	3	2
Price Earnings Ratio	10 times	7 times
Market Price Per Share	Rs. 30	Rs. 14

Required:

1. The number of equity shares to be issued by A Ltd for acquisition of T Ltd.
2. What is the EPS of A Ltd after the acquisition?
3. Determine the equivalent earnings per share of T Ltd.
4. What is the expected market price per share of A Ltd after the acquisition, assuming PE multiple remains unchanged?
5. Determine the market value of the merged firm.

OR

Q.4 **(a)** State the major methods of effecting payment of consideration to the shareholders of target company. Explain features of each method in detail. **07**

(b) Firm Alpha plans to acquire firm Beta. Following are the pre-merger vital statistics of the two firms: **07**

	Alpha (A)	**Beta (B)**
Market Price Per Share (in Rs.)	50	20
Book Value Per Share (in Rs.)	34	16
Number of Outstanding Shares	4,50,000	2,25,000
Market Value of the Firm (in Rs.)	2,25,00,000	45,00,000

Firm Alpha offers to the shareholders of Firm Beta one share in exchange for every two shares held by them in Beta Ltd. The merger is expected to bring gains, which have a PV of Rs. 50 lakh. Calculate the amount of benefits to both companies.

Q.5 Following information are available in respect of XYZ ltd which is expected to grow at a higher rate for 4 years after which growth rate will stabilize at a lower level: **14**

Base year information:

Revenues	Rs. 2,000 Crores
EBIT	Rs. 300 Crores
Capital Expenditure	Rs. 280 Crores
Depreciation	Rs. 200 Crores

Information for high growth and stable growth are as follows:

	High Growth	**Stable Growth**
Growth in Revenue & EBIT	20%	10%
Growth in Capital Expenditure & Depreciation	20%	Capital expenditure are offset by depreciation
Risk Free Rate	10%	9%
Equity Beta	1.15	1
Market Risk Premium	6%	5%
Pre-tax cost of debt	13%	12.86%
Debt Equity Ratio	1:1	2:3

For all time, working capital is 25% of revenue and corporate tax rate is 30%. What is the value of the firm?

OR

Q.5 Balance sheet of diamond Ltd. As on 31st March, 2010: **14**

Liabilities	**Rs. in Lakhs**	**Assets**	**Rs. in Lakhs**
Equity Share Capital (of Rs. 100 each fully paid up)	200	Land & Building	110
General Reserve	40	Plant & Machinery	130
Profit & Loss Account	32	Patents & Trademarks	20
Sundry Creditors	128	Stock	48
Provision for Income Tax	60	Sundry Debtors	88
		Bank Balance	52
		Preliminary Expenses	12
	460		**460**

The expert valuer valued the land and building at Rs. 240 lakhs, goodwill at Rs. 160 lakhs and plant and machinery at Rs. 120 lakhs. Out of the total debtors, it is found that debtors for Rs. 8 lakhs are bad.

The profits of the company have been as follows:

	Rs. In Lakhs
For the year 2007-08	92
For the year 2008-09	88
For the year 2009-10	96

The company follows the practice of transferring 25% of profits to general reserve. Similar type of companies earn at 10% of the value of their shares. Plant and Machinery and land and building have been depreciated at 15% and 10% respectively.
Ascertain the value of shares of the company under: (1) Intrinsic Value Method (Net Assets Method) (2) Yield Method (3) Fair Value Method.

****