University of Petroleum & Energy Studies

School of Business

Kandoli Campus, Dehradun

End Semester Examination – May 2018

Programme Name: **BBA FAS**	Semester: IV
Subject: **Mergers Acquisition & Corporate Restructuring**	M. Marks: 100
Subject code: BBCG 141	Duration: 3 Hrs.

SECTION A

Q1: Select the most appropriate answer from the following: **Note – Attempt all questions carrying two marks each.** (20 Marks)

A. Why is external growth preferable to internal growth?

a. External growth is hassle free

b. External growth is less expensive mode for expansion

c. Internal growth involves a longer implementation period & entails greater uncertainties

d. External growth alone maximizes the wealth of shareholders

B. What regulation is not a part of mergers & acquisitions?

a. MRTP Act 1969

b. FEMA 1999

c. SEBI Regulation Act1956 and the SEBI Act 1992

d. SEBI (issue and testing of debt securities / regulation 2008)

C. Methods of Accounting for Amalgamations

a. The Pooling of Interest method and Payment Method

b. The purchase method and Lumpsum Method

c. Consideration method and purchase method

d. The pooling of interest method and the purchase method

D. Shares of A ltd and T ltd. are currently traded at Rs 100 and Rs 25 respectively. The share swap ratio based on market price would be

a. 1.00 b. 2.50

c. 0.40 d. 0.80

E. ABC ltd. acquires substantial number of equity shares in XYZ Ltd. It is a case of

a. Merger b. Acquisition

c. Amalgamation d. Absorption

F. Which of the following is not a usual method of calculation of swap ratio?

a. Profit before tax

b. Market turnover

c. Economic Value Added

d. all of the above

G. The fact that a large company can enjoy savings from producing goods in high volume, that are not available to a small company is called:

a. Economies of sales
b. Horizontal integration
c. Vertical integration
d. Economies of scope

H. If an acquisition is made using cash payment then the acquisition is:

a. taxable
b. viewed as exchanging of shares and is not taxed
c. a tax-free transaction as no capital gains or losses are recognized
d. none of the above

I. A dissident group solicits votes in an attempt to replace existing management. This is called a:

a. Proxy fight
b. Shareholder derivative action
c. Tender offer
d. Management freeze-out

J. Which of the following is a case of Spin Off?

a. Assets sold in the market
b. A division converted into a company
c. Assets transferred to lenders
c. none of the above

SECTION B

Q2: **Attempt any four of the following questions: (5 marks each) (4 x 5 =20 Marks)**

(a) Briefly discuss the scope and mode of Corporate Restructuring.
(b) Discuss the motives for International expansion.
(c) What is the meaning of due diligence investigation in the context of a merger?
(d) Explain the managerial challenge in Mergers and Acquisitions.
(e) Discuss the Tax benefits available to companies when they merge.

SECTION C

Attempt any three questions: (3 x 10 = 30 marks)

Q3: Discuss the post mergers integration problem in Mergers and Acquisitions.

Q4: What are the procedural steps involved in a merger?

Q5: Discuss the methods of accounting for amalgamations.

Q6: A company has the following capital structure as on 31st December 2016

Equity Share capita (5000 shares of Rs 100 each)	Rs. 5,00,000
9% Preference shares	Rs 2,00,000
10% Debentures	Rs. 3,00,000

The equity shares of the company are currently quoted at Rs 102 and the company is expected to pay a dividend of Rs 9 per share in the current year. The company has

registered a growth rate of 5%, which is expected to be maintained. Calculate Weighted Average Cost of Capital as per market value method assuming a tax rate of 30%.

SECTION D

Attempt any two questions: (2 x 15 = 30 marks)

Q7: What are the Challenges Associated with Cross-Border M&A Deals? Discuss the factors affecting International Mergers and Acquisitions?

Q8: PQ Ltd wants to acquire MN Ltd by exchanging its 1.6 shares for every share of MN Ltd. it anticipates to maintain the existing Price Earning ratio subsequent to the merger also. The relevant financial data are furnished below:

	A Ltd.	T Ltd.
Earning after Tax	Rs. 15,00,000	Rs. 4,50,000
Equity Shares outstanding (Nos.)	3,00,000	75,000
Market price per share	Rs. 35	Rs 40

Calculate:

i) What is the exchange ratio based on market price?

ii) What is premerger EPS and P/E Ratio for each company?

iii) What is the P/E ratio used in acquiring MN Ltd?

iv) What will be the EPS of PQ Ltd after the acquisition?

v) What is the expected market price per share of the merged company?

Q9: X Ltd. is investigating the acquisition of Y Ltd. Y Ltd.'s balance sheet is given below :

Liabilities	Amount (Rs in Cr)	Assets	Amount (Rs in Cr)
10% Cumulative preference shares	100	Net fixed assets	275
Ordinary share capital (30 crore shares @ Rs 10 per share)	300	Investments	50
Reserves & Surplus	150	Debtors	150
14% Debentures	80	Stock	190
Current Liabilities	100	Cash and Bank	65
	730		**730**

X Ltd. proposed to offer the following to Y Ltd.

(a) 10% cumulative preference shares of Rs. 100 crore in X Ltd. for paying 10% cumulative preference capital of Y Ltd.

(b) 12% convertible debentures of Rs 84 crore in X Ltd. to redeem 14% debentures of Y Ltd.

(c) One ordinary share of X Ltd. for every three shares held by Y Ltd.' s shareholders, the market price being Rs 42 for X Ltd.' s shares and Rs. 20 for Y Ltd.' s shares.

After acquisition, X Ltd. is expected to dispose of Y Ltd.'s stock for Rs. 150 crore, book debts for Rs. 102 crore and investments for Rs. 55 crore. It would pay entire current liabilities. What is the cost of acquisition to X Ltd.? If X Ltd.' s required rate of return is 20% how much should be the annual after- tax cash flows from Y Ltd.' s acquisition assuming a time horizon of 8 years and a zero salvage value?

Would your answer change if there is a salvage value of Rs. 30 crore after 8 years?

Given, Present Value of Rs 1 discounted @ 20% cumulative for 1 to 8 years = 3.837 and Present Value of Rs. 1 in 8th year discounted @ 20% = 0.233.