

Name:

Enrolment No:



UNIVERSITY OF PETROLEUM AND ENERGY STUDIES

End Semester Examination, May 2019

Course: Mergers, Acquisitions and Corporate Restructuring

Programme: BBA (FAS)

Time: 03 Hours

Instructions: Attempt all the sections.

Semester: IV

Course Code: FINC 3008

Max. Marks: 100

SECTION A

Q.1.	Select the most appropriate answer from the following: Note – Attempt all questions carrying two marks each. (20 Marks)	Marks	CO
1	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	2	CO1
2	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	2	CO2
3	What is the most important fundamental reason for an acquiring company to acquire a target company? a. To acquire strategic options b. To maximize acquiring firm value c. To gain economies of scale d. To entrench management	2	CO1
4	A business deal in which all publicly owned stock in a firm is replaced with complete equity ownership by a private group is called a: a. Tender offer. b. Going-private transaction. c. Proxy contest. d. Leveraged buyout	2	CO2
5	Which of the following are commonly cited reasons for M&As? a. Synergy b. Market power c. Strategic realignment d. All of the above	2	CO2
6	If the merger & takeover is done through negotiation with the consent of target companies it is termed as: a. Hostile takeover b. Friendly takeover c. Takeover bid d. Hostile bid	2	CO1
7	What is one reason why mergers and acquisitions often fail? a. The costs involved are too high. b. The companies involved have different attitudes to business. c. The merger or acquisition is not given a clear goal. d. Staff leave because they feel their jobs are not secure.	2	CO1
8	_____ is a process through which capital structure is changed, labour readjustment is made, technology up gradation takes place etc. a. Demerger b. Acquisition c. Merger d. Restructuring	2	CO2
9	If Microsoft were to acquire U.S. Airways, the acquisition would be classified as a _____ acquisition. a. Horizontal b. Vertical. c. Longitudinal d. Conglomerate.	2	CO3
10	An agreement between firms to cooperate in pursuit of a joint goal is called a:	2	CO3

	i. Consolidation. iii. Joint venture.	ii. Merged alliance. iv. Strategic alliance.																															
SECTION B																																	
Q2	Attempt any four questions. Each questions carries 5 marks. Total marks 20			Marks	CO																												
1	Discuss the post-merger integration problems in mergers and acquisitions.			5	CO1																												
2	Discuss the meaning of a share exchange ratio. On what basis it can be constructed.			5	CO3																												
3	Describe the concept of Financial Restructuring. Why it is done?			5	CO1																												
4	Discuss the Tax benefits available to companies when they merge.			5	CO4																												
5	Discuss the concept of Divestitures and Equity Carve out.			5	CO1																												
SECTION-C																																	
Q3	Attempt any three questions. Each questions carries 10 marks. Total marks 30			Marks	CO																												
1	Discuss the strategic corporate restructuring strategy. Discuss the benefits of Restructuring.			10	CO4																												
2	Discus the concept of Capital Budgeting Decision. Discuss the theoretical factors that would affect Mergers and Acquisition activity.			10	CO2																												
3	Discuss the Role of RBI in regulating International mergers and also discuss the guidelines of Foreign Exchange Management Act 2018.			10	CO4																												
4	What are the Challenges Associated with Cross-Border M&A Deals? Discuss the factors affecting International Mergers and Acquisitions.			10	CO3																												
SECTION-D																																	
Q4	Attempt both the questions. Total marks 30			Marks	CO																												
1	<p>XYZ Ltd is investigating the acquisition ABC Ltd. whose Balance sheet is given as follows:</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 35%;">Liabilities</th> <th style="width: 15%;">Amount (Rs)</th> <th style="width: 35%;">Assets</th> <th style="width: 15%;">Amount (Rs)</th> </tr> </thead> <tbody> <tr> <td>50,000 Equity Share Capital of Rs 10 each</td> <td>5,00,000</td> <td>Land and Building</td> <td>3,00,000</td> </tr> <tr> <td>General Reserve</td> <td>2,50,000</td> <td>Plant</td> <td>5,80,000</td> </tr> <tr> <td>Profit and Loss A/c</td> <td>1,20,000</td> <td>Debtors</td> <td>35,000</td> </tr> <tr> <td>13% Debentures</td> <td>1,00,000</td> <td>Stock</td> <td>70,000</td> </tr> <tr> <td>Current Liabilities</td> <td>30,000</td> <td>Cash and Bank</td> <td>15,000</td> </tr> <tr> <td></td> <td>10,00,000</td> <td></td> <td>10,00,000</td> </tr> </tbody> </table> <p>Additional Information</p> <p>(a) ABC Ltd agrees to takeover all current assets at their book value but fixed assets will be revalued as Land and Building Rs 5,00,000 and Plant Rs 5,00,000. ABC Ltd would further pay Rs 5,00,000 towards Goodwill.</p> <p>(b) Purchase consideration is to be paid as Rs 1,30,000 in cash to pay for 13% debentures and current liabilities</p> <p>(c) Expected cash inflows for 5 years are 1st year Rs 2,00,000 2nd Year Rs 3,00,000 3rd Year Rs 2,60,000 4th Year Rs 2,00,000 5th Year Rs 1,00,000</p> <p>Cost of capital for the purpose of analysis is 15%</p>			Liabilities	Amount (Rs)	Assets	Amount (Rs)	50,000 Equity Share Capital of Rs 10 each	5,00,000	Land and Building	3,00,000	General Reserve	2,50,000	Plant	5,80,000	Profit and Loss A/c	1,20,000	Debtors	35,000	13% Debentures	1,00,000	Stock	70,000	Current Liabilities	30,000	Cash and Bank	15,000		10,00,000		10,00,000	20	CO4
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	Calculate Cost of Acquisition and a merger analysis using NPV technique and decide whether this is beneficial for the company.								
2	<p>A company has the following capital structure as on 31st December 2016</p> <table border="1"> <tr> <td>Equity Share capital (5000 shares of Rs 100 each)</td> <td>Rs. 5,00,000</td> </tr> <tr> <td>9% Preference shares</td> <td>Rs 2,00,000</td> </tr> <tr> <td>10% Debentures</td> <td>Rs. 3,00,000</td> </tr> </table> <p>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 book value method assuming a tax rate of 30%.</p>	Equity Share capital (5000 shares of Rs 100 each)	Rs. 5,00,000	9% Preference shares	Rs 2,00,000	10% Debentures	Rs. 3,00,000	10	CO2
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3	Describe the concept of Financial Restructuring. Why it is done?		5	CO1																										
4	Discuss the different types of Synergies a Company looks for through M & A.		5	CO4																										
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1	“Restructuring is just not a strategic plan” Explain the need and scope of Corporate restructuring as Business Strategy.		10	CO4																										
2	‘Financing of mergers and acquisitions is a crucial exercise requiring utmost care’. Elaborate.		10	CO2																										
3	Discuss the Role of RBI in regulating International mergers and also discuss the guidelines of Foreign Exchange Management Act 2018.		10	CO4																										
4	What are the procedural steps involved in a merger?		10	CO3																										
SECTION-D																														
Q4	Attempt both the questions. Total marks 30		Marks	CO																										
1	<p>X Ltd. is investigating the acquisition of Y Ltd. Y Ltd.’s balance sheet is given below</p> <p>Y Ltd: Balance Sheet (Rs in crore)</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 70%;">10% Cumulative preference shares</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Ordinary share capital (30 crore shares @ Rs 10 per share)</td> <td style="text-align: right;">300</td> </tr> <tr> <td>Reserves & Surplus</td> <td style="text-align: right;">150</td> </tr> <tr> <td>14% Debentures</td> <td style="text-align: right;">80</td> </tr> <tr> <td>Current Liabilities</td> <td style="text-align: right;">100</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">730</td> </tr> <tr> <td>Net fixed assets</td> <td style="text-align: right;">275</td> </tr> <tr> <td>Investments</td> <td style="text-align: right;">50</td> </tr> <tr> <td>Current assets</td> <td></td> </tr> <tr> <td>Stock</td> <td style="text-align: right;">190</td> </tr> <tr> <td>Book debts</td> <td style="text-align: right;">150</td> </tr> <tr> <td>Cash & Bank</td> <td style="text-align: right;">65</td> </tr> <tr> <td>Total</td> <td style="text-align: right;">730</td> </tr> </table> <p>X Ltd. proposed to offer the following to Y Ltd.</p> <p>(a) 10% cumulative preference shares of Rs 100 crore in X Ltd. for paying 10% cumulative preference capital of Y Ltd.</p> <p>(b) 12% convertible debentures of Rs 84 crore in X Ltd. to redeem 14% debentures of Y Ltd.</p> <p>(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.</p>		10% Cumulative preference shares	100	Ordinary share capital (30 crore shares @ Rs 10 per share)	300	Reserves & Surplus	150	14% Debentures	80	Current Liabilities	100	Total	730	Net fixed assets	275	Investments	50	Current assets		Stock	190	Book debts	150	Cash & Bank	65	Total	730	15	CO4
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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.?

Or

The following information is provided related to the acquiring company and target company T Ltd

	A Ltd.	T Ltd.
Earning after Tax (Rs in Lakhs)	1,000	200
Equity Shares outstanding (in Lakhs)	100	50
EPS	Rs. 10	Rs. 4
Price Earning Ratio	10 times	5 times

- i) What is swap ratio based on current market price?
- ii) What is EPS of A Ltd. after acquisition?
- iii) What is the expected Market price per share of A Ltd. after acquisition assuming its Price Earning multiple remains unchanged?

2 “In spite of the huge volume of activity in the cross-border M&A marketplace, an inescapable fact emerges when these deals are examined more closely – the majority of cross border M&As are not successful”. Discuss the opportunities and challenges regarding Cross Border Mergers and Acquisitions.

15

CO2