VPM's
DR VN BRIMS, Thane
Programme: MMS (2014-16) (Finance)
Fourth Semester Examination April 2016

Subject	**Merger and Acquisition**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	7	**Duration**	**3 Hours**
Total No. of printed pages		**Date**	**12-04-2017**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.

Q1) Refer to the case and answer the questions

1. Analyze the case
2. Reason for failure of the merger in long run
3. As a management student list down your suggestion in overcoming the challenges ahead.

Q2. ***Any two from (a) or (b) or (c) —————— (5x2) = 10 Marks***

Yes Ltd. wants to acquire No Ltd. and the cash flows of Yes Ltd. and the merged entity are given below:

					(₹ In lakhs)
Year	*1*	*2*	*3*	*4*	*5*
Yes Ltd.	*175*	*200*	*320*	*340*	*350*
Merged Entity	*400*	*450*	*525*	*590*	*620*

Earnings would have witnessed 5% constant growth rate without merger and 6% with merger on account of economies of operations after 5 years in each case. The cost of capital is 15%.

The number of shares outstanding in both the companies before the merger is the same and the companies agree to an exchange ratio of 0.5 shares of Yes Ltd. for each share of No Ltd.

PV factor at 15% for years 1-5 are 0.870, 0.756; 0.658, 0.572, 0.497 respectively.

You are required to:

(i) Compute the Value of Yes Ltd. before and after merger.

(ii) Value of Acquisition and

(iii) Gain to shareholders of Yes Ltd.

Q3. ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

(a) Explain the case of Flipkart Myntra in detail.

(b) Veena Ltd wants to acquire Sheena Ltd by way of merger, following information is given

	Veena Ltd	Sheena Ltd
Earning after tax	80,00,000	24,00,000
No of Equity shares	16,00,000	4,00,000
Market price per share	200	160

If there is exchange of equity and swap is based on market price, what is the new EPS of acquired firm?

(c) Veena Ltd wants to be sure that earning available to its shareholders should not be diminished by way of merger, in such a scenario what should be the exchange ratio?

Q4. ***Any two from (a) or (b) or (c) ————— (5x2) = 10***

(a) Explain the following with examples- Merger, Acquisition, Joint Venture, Slum sale and Equity carved out.

(b) List down Synergies in merger in various industries- Manufacturing, Aviation and Automobile.

(c) Why is due diligence important in Merger and Acquisition .

Q5. ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

(a) Lal Ltd is an unlisted company, where in 100% equity is held by Parekh family. Lal Ltd has invested 40% in equity capital of Lara Ltd and Parekh family has directly invested 10% in it. The management of Lara Ltd is controlled by Lal Ltd and therefore by Shah family. Parekh family sells its entire shareholding in Lal Ltd to Aggarwal family, but retains its direct shareholding in Lara Ltd

Based on the above scenario, answer the following
What type or category of acquisition is it
Will there be any open offer, (give reason for your answer)

(b) What is minority interest? Where is it seen in a consolidated balance sheet.

(c) What is a special purpose vehicle? Why is it created during acquisitions?

Q6. ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***

The following information is provided relating to the acquiring company Efficient Ltd. and the target Company Healthy Ltd.

	Efficient Ltd.	Healthy Ltd.
No. of shares (F.V. ₹ 10 each)	10.00 lakhs	7.5 lakhs
Market capitalization	500.00 lakhs	750.00 lakhs
P/E ratio (times)	10.00	5.00
Reserves and Surplus	300.00 lakhs	165.00 lakhs
Promoter's Holding (No. of shares)	4.75 lakhs	5.00 lakhs

Board of Directors of both the Companies have decided to give a fair deal to the shareholders and accordingly for swap ratio the weights are decided as 40%, 25% and 35% respectively for Earning, Book Value and Market Price of share of each company:

(i) Calculate the swap ratio and also calculate Promoter's holding % after acquisition.

(ii) What is the EPS of Efficient Ltd. after acquisition of Healthy Ltd.?

(iii) What is the expected market price per share and market capitalization of Efficient Ltd. after acquisition, assuming P/E ratio of Firm Efficient Ltd. remains unchanged.

(iv) Calculate free float market capitalization of the merged firm.

Q7. ***Any two from (a) or (b) or (c) ————— (5x2) = 10 Marks***
a

Simple Ltd. and Dimple Ltd. are planning to merge. The total value of the companies are dependent on the fluctuating business conditions. The following information is given for the total value (debt + equity) structure of each of the two companies.

Business Condition	Probability	Simple Ltd. ₹ Lacs	Dimple Ltd. ₹ Lacs
High Growth	0.20	820	1050
Medium Growth	0.60	550	825
Slow Growth	0.20	410	590

The current debt of Dimple Ltd. is ₹ 65 lacs and of Simple Ltd. is ₹ 460 lacs.

Calculate the expected value of debt and equity separately for the merged entity.

b. Comment on post merger profitability of Simple and Dimple Ltd.

c. List down the defensive strategies of Hostile Takeover