VPM's
DR VN BRIMS, Thane
Programme: PGDM (2018-20)
PGDM Trimester V Examination January 2020

Subject	**Merger and Acquisitions**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**2**	**Date**	**03/01/2020**

Note: Q1 is compulsory and solve any FOUR from the remaining SIX questions.
Q1) 20 Marks (Compulsory)
Refer to the Case and answer the following

Reliance IPCL Merger (Indian Petrochemicals Corporation Limited)

The Reliance-IPCL merger became effective from 1st April, 2006, wherein Reliance bid at a price of Rs 231/share to increase its holding from 20% to 46% in IPCL. Under the terms of the merger, IPCL shareholders received 1 share of Reliance for every 5 shares of IPCL shares. The exchange ratio was based on a valuation report by Price water House Cooper and Ernst & Young. The thought behind the merger can be very clearly understood from the following lines: “The amalgamation of IPCL with the Company is in line with global trends in the energy and chemicals sector, to achieve size, scale, integration and greater financial strength and flexibility, in the interests of maximizing the overall shareholder value. The amalgamation would also augment the Company’s status of being India‟s only world scale, fully integrated, globally competitive energy company with operations in oil and gas exploration and production (E&P), refining and marketing (R&M), petrochemicals and textiles.” Being a horizontal merger, synergies between Reliance and IPCL had an impact on cash flows and valuation. The following benefits for the future were projected at the time of the merger:

1) Improvement of Pricing Power: After the merger, RIL would be the clear number one player in the Indian Petrochemicals market, with dominant market share across key polymer segments. With such market domination, RIL could easily improve their price realisation.

Product	Capacity (‘000 TPA)		Combined	Total India	Combined as % of Total
	RIL	IPCL			
HDPE	400	380	780	1520	51.3
LDPE		160	160	184	87
PP	1000	190	1190	1415	84.1
PVC	270	205	475	770	61.7
MEG	360	170	530	580	91.4
LAB	100	45	145	320	45.3

2) Feedstock: RIL had a naphtha based cracker, while 2 of the IPCL‟s crackers were gas based, for which feedstock came from ONGC. One of IPCL‟s crackers is naphtha based for which supply came from IOC. After the merger, Reliance would be able to displace IOC for naphtha supply, and selling it domestically was expected to give it a 10% higher realisation. However, transport costs for this would be considerable and weighed against this.
3) Sales & Distribution: The buyers in the Indian polymer market are small and scattered. Due to this there had been a lot of overlap of sales and distribution costs for RIL and IPCL. IPCL spent around Rs 519/ton of product while RIL spent Rs 523/ton of external supply. After the merger a significant decrease in this overlap was expected. However, IPCL was still 33% government owned with its own small shareholders, due to which sharing of this pool of synergies could have been difficult at that time according to various analysts.

4) Cost Savings for IPCL: • Manpower Costs: IPCL had 13,740 employees and it was believed by many analysts that the merger could result in a 50% cut in staff reducing the manpower cost considerably for the company. • Overheads: IPCL"s overheads were 2.5x that of RIL, mainly because of high repairing and maintenance costs mainly due to the aging of IPCL"s plants.

1. What were the synergies and rationale behind the merger?
2. Highlight the company strategy on cost saving.
3. Comment on the market share of RIL post-merger

Attempt Any FOUR from the Remaining SIX Questions

Q2) Explain the concept of Demerger – Illustrate with an example ***10 Marks***

Q3) 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
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?

- 10 Marks

Q4 Answer the following ***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)

Q5) Explain the Legal Aspect of Merger and Acquisition***. 10 Marks***

Q6) List down the forms of corporate restructuring ***10 Marks***

Q7) Explain Purchase and Pooling of interest methods ***10 Marks***

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