MMS-III (Finance)

MAC 03

31-10-2006

M&A Corporate Restructure

Roll No.

Total No. of Questions : 9

Duration (hrs) : 3 hrs.

Total No. of Printed Pages : 3

Maximum Marks : 60

Note : Question 1 is compulsory (20 marks)

Answer any Five from the rest. (5 x 8 = 40)

Q. I A Ltd. intends to acquire T Ltd. through an exchange of equity shares. Following are the financial statements of both the companies for the current year.

Balance Sheets

	A Ltd. (Rs.)	T Ltd. (Rs.)
Total Current Assets	14,00,000	10,00,000
Total Fixed Assets (Net)	10,00,000	5,00,000
Total Assets	24,00,000	15,00,000
Equity Capital (Rs. 10 each)	10,00,000	8,00,000
Retained Earnings	2,00,000	-
14% long Term debt	5,00,000	3,00,000
Total current liabilities	7,00,000	4,00,000
	24,00,000	15,00,000

Income Statement

	A Ltd. (Rs.)	T Ltd. (Rs.)
Net Sales	34,50,000	17,00,000
Cost of Goods sold	27,60,000	13,60,000
Gross Profit	6,90,000	3,40,000
Operating Expenses	2,96,923	1,45,692
Interest	70,000	42,000
Earnings Before Tax	3,23,077	1,52,308
Taxes (35%)	1,13,077	53,308
Earnings after Tax	2,10,000	99,000

Additional Information

Market Price per Share A Ltd. Rs. 40

T Ltd. Rs. 15

Required :

1. Calculate EPS, Book value and P/E ratio for both the companies before Merger.
2. If the merger in expected to generate a synergy gain of 5% what is the minimum exchange ratio acceptable to T Ltd. if the combined P/E is 15.
3. What is the maximum exchange rate acceptable to A Ltd. with no synergy gain and combine P/E is 16.
4. Assuming no synergy gain ratio at what level of P/E ratio ER_1, and ER_2 will intersect ?
5. Calculate ER based on Book Value, EPS and MPS.
6. What is the post merger EPS of A Ltd. if the exchange ratio 1 : 5 with no synergy gain.

Q. II What conditions should be fulfilled for an amalgamation in the nature of merger according to AS-14 ?

Q. III What is meant by Going Private ? What is Leveraged Buyout ? What are its features ?

Q. IV What is due diligence in Mergers & Acquisitions ? Enumerate some of the aspects to be considered in corporate and organizational due diligence .

Q. V Briefly explain the following terms.

a) Equity carve out

b) Shark Repellants

c) Poison Pill

d) Letter of offer

Q. VI Explain with example comparable companies approve ach for valuation in relation to Mergers.

Q VII Amarapali Ltd. plans to acquire Arrow Ltd. The relevant financial details of the two firms prior to merger are given below :

	Amarapali Ltd.	Arrow Ltd.
Market Price per Share	Rs. 60	Rs. 25
Number of shares	3,00,000	2,00,000

The merger is expected to bring gains which have a present value of Rs. 40,00,000. Amrapali Ltd. offers one shares in exchange for every two shares in Arrow Ltd.

Contd.... 3

Required :

a) What is the true cost for Amarapali Ltd. for acquiring Arrow Ltd.

b) What is the net present value of the merger to Amrapali Ltd.

c) What is the net present value of merger Arrow Ltd.

Q. VIII A Ltd. is considering the acquisition of B Ltd. the financial data at the time of acquisition is as follows :

	A Ltd. (Rs.)	B Ltd. (Rs.)
Net Profit after Tax (Rs. In lakhs)	30	6
Number of shares (in lakhs)	6	2.50
Earning per share (in Rs.)	5	2.40
Market Price per share (Rs.)	75.	24
P/E ratio	15	10

Assuming that the net profit after tax of the two companies would remain the same after amalgamation, explain the effect on EPS of the merged company under each of the following situation (the consideration paid in shares)

a) A Ltd. offers to pay Rs. 30 per share to the share holders of B Ltd.

b) A Ltd. offers to pay Rs. 40 per share to the share holders of B Ltd.

Q.IX Company Y is being acquired by Company X on share exchange basis. The relevant data for the companies are given below :

	Company X	Company Y
Number of Share	6,00,000	4,00,000
Earnings after Tax (Rs)	30,00,000	12,00,000
EPS (Rs.)	5	3
P/E Ratio	16	8

You are required to determine :

1. Pre merger market value per share and
2. The maximum share exchange ratio that company X should offer without dilution of (a) EPS (b) MPS.