

Merges Acquisition & Corporate Restructuring

Roll No.

Total No. of Printed Pages: 4

Total No. Of Questions: 7

Maximum Marks: 60

Duration (hrs): 3 hrs

Note: 1) Question 1(A & B) is compulsory carrying 20 Marks.**Attempt any FOUR out of the remaining SIX questions.****2) Make suitable assumptions wherever necessary.**

Q 1 (A) List down and explain types of Corporate Restructuring and give examples.

Q 1 (B) Explain the following and give examples.

- (a) Vertical Merger
- (b) Conglomerate Merger

Q 2 Explain any Two of the following

- (a) Explain 360-Degree Due Diligence and give example with respect to Indian M & A.
- (b) Explain 'Initial threshold, 'Creeping Acquisition' and 'Acquisition of control' as per SEBI takeover code.
- (c) Explain the term 'Going Private' with respect to M & A and Give example.

Q 3 Write short notes on any Two of the following with respect to M & A.

- (a) Explain vexatious tax issues relating to M & A
- (b) Revenue generating Synergy, give examples.
- (c) Typical Characteristics of Takeover Candidates.

Q 4 Attempt any Two of the following.

- (a) Explain the ways in which capital reduction can be effected as per Companies Act.
- (b) Analysts expect that Target Company Y Ltd. will pay dividends Rs. 4, Rs.5 and Rs.6 per share during next three years and that the share will be sold at Rs. 80 at the end of the third year. Acquirer Company X Ltd. expects 15% rate of return. Compute the value of a share of Target Company Y Ltd.

Q 4

(C) M/s John & sons has been approached by another publisher who is interested in buying the copyright of one of its books. Estimate the value of the copyright with the help of the following information-

(i) The book is expected to generate Rs.5 Cr. per annum after tax cash flows for the next two years and Rs.3 Cr. for a year after that. These are the cash flows after author royalty, promotional expenses and production costs.

(ii) About 30% of these cash flows are from the large organizations that make bulk orders and are considered predictable and stable. The cost of capital applied to these cash flows is 8%.

(iii) The remaining 70% of these cash flows are to the general public and this segment considered much more volatile. The cost of capital applied to these cash flows is 11%.

Q 5 Attempt any Two of the following.

(a) Compute the Share Exchange Ratio by Net Asset Method from the following information

Acquirer Company	
Total Assets	Rs. 1500Cr.
Loan Funds	Rs.480 Cr.
Current Liabilities and Provisions	Rs. 170 Cr.
Total Number of equity shares outstanding	5 Cr.

Target Company	
Total Assets	Rs. 545Cr.
Loan Funds	Rs.195 Cr.
Current Liabilities and Provisions	Rs. 95 Cr.
Total Number of equity shares outstanding	3 Cr.

(b) Big Ltd, a big manufacturer of tyres, is contemplating acquisition of Small Ltd. a rubber manufacturing company for Rs.6000 Cr. Big Ltd. has a high rate of financial leverage, which reflects in its 13% cost of capital. In the post acquisition scenario, Big Ltd. expects an overall cost of capital of 10% due to low financial leverage of Small Ltd. The post acquisition net cash flows attributable to the target company which are expected for next 20 years are Rs.750 Cr. Analyze whether the acquisition is acceptable or not.

(c) The following is the financial data of Hari Ltd. on 31st March 2011.

Liabilities	Rs. in Cr.	Assets	Rs. in Cr.
Share Capital-Subscribed –		Land & Building	4500
Equity Shares of Rs.10 each fully paid	6000	Plant & Machinery	3800
6% Preference Shares of Rs.10 each fully paid	3000	Stock in Trade	1600
General Reserves	2000	Sundry Debtors	1700
Profit & Loss Account	500	Cash & Cash Equivalents	800
Current Liabilities	900		
Total	12400	Total	12400

The following additional information is supplied-

(i)

	Rs in Cr.
Revalued Land & Building	5000
Revalued Plant & Machinery	6000

(ii) The profit and losses of the company for the last three years after charging depreciation and taxation have been as follows-

2009- Rs.1400 Cr.

2010- Rs.1500 Cr.

2011- Rs.1690 Cr.

Assume that the company will be able to maintain its profits for the next few years on the same level as in the past.

(iii) The reasonable return on capital invested in the class of business carried on by Hari Ltd. is at 10%. Fixed assets of the company have been adequately depreciated. Income Tax is to be ignored.

Om Ltd is interested in acquiring Hari Ltd. For this purpose you are required to value the amount of Goodwill of Hari Ltd.

Q 6 Company Sony Ltd. (Acquirer) has decided to acquire company Tom Ltd.(Target company).

The Financial data of the two companies are given below-

Particulars	Sony Ltd.	Tom Ltd
No. of shares outstanding	Rs.100 Cr.	Rs.12Cr.
Current Market Price per Share	Rs.100	Rs.50
Current Earnings	Rs.400 Cr.	Rs.18 Cr.

Assume that EPS of Sony Ltd. will increase at 2% per annum indefinitely as a result of synergistic effect of merger. However, in the Pre-merger situation, the EPS of Tom Ltd is increasing at the rate of 8 % per annum.

With the help of the above information attempt any two of the following-

- Share exchange ratio on the basis of expected EPS of two companies after 5 years.
- Post Merger EPS of Sony Ltd.
- Market value of 2,000 shares of Tom Ltd.post merger. And comment on increase or decrease.

Q 7.

The following are the cash flow forecast for ABC Ltd.

Years	2008	2009	2010	2011	2012
Particulars	(Rs. in Crore)				
Cash flows after all adjustments	15.32	12.08	11.38	12.70	14.10

The cost of capital of company is 14%. Assume that the company acquiring ABC Ltd. will not make any operating improvements or change in the capital structure.

Compute value of Company ABC Ltd. in any Two of the following cases-

- Compute value of Company ABCLtd. Calculate the continuing value by assuming stable perpetuity.
- Compute value of Company ABCLtd. Calculate the continuing value as a multiple of Book Value.

Particulars	Market Value	Book Value
	(Rs. in Crore)	
Equity	30.00	20.00
Debt	15.84	15.84

The book value of Capital at the end of the forecast period – Rs.60 Cr.

- Compute value of Company ABCLtd. Calculate the continuing value as a multiple of Earnings.

The forecast terminal year's profit – Rs.40.24 Cr.

The Current Market Value – Rs.115.24 Cr.

Profit After Tax – Rs.16.46 Cr.