VPM's
DR VN BRIMS, Thane
Programme: PGDM (2014-16)
Fourth Trimester (Fin.)Examination September 2015

Subject	**Merger and Acquisition**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**3**	**Date**	**24.09.2015**

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

Q1) Refer to the case study and answer the following

India Cements Limited's Hostile Bid for Raasi Cements

India Cements Limited ("ICL") made an open offer for Raasi Cements (RCL) shares at ₹ 300 per share at the time when the share price on the Stock Exchange, Mumbai ("BSE") was around ₹ 100. After a long drawn battle between the two parties and also the Indian financial institutions which held substantial stake in the target, the promoter of RCL, B. V. Raju sold out its 32% stake to ICL in a negotiated deal during the term of public offer at a price that was lower than the open offer price (ranging between ₹ 200 to ₹ 286 a share). This resulted in a situation wherein ICL acquired full control of RCL without having to purchase a single share from the institutional investors. The tendency of the Indian FIs has till recently always been to protect the existing promoters in case of a hostile takeover bid. However, in this case they felt cheated as the promoters themselves sold out their stake to the acquirer leaving little room for them to tender their stake to the acquirer during the period of open offer. In a strategic move, ICL also bought out the FIs in the open offer and thereby increased their holding in RCL to 85%.

This corporate bid raised several key issues associated with takeover code and defence mechanism which require appropriate consideration:

Issues

(*i*) B.V. Raju's first demand was that there should exist a buyback provision in law for the target companies' promoters or else they would subject to attempts of hostile bids (The Companies Act has been subsequently amended to permit buyback of securities by a company subject to certain conditions).

(*ii*) ICL decided to pay out a whopping ₹ 300 per share of RCL. This price far exceeded the book value of the target. The ICL lenders raised serious doubts as to how this would affect ICL's balance sheet. However, in the end, ICL was able to justify the price satisfactorily.

(*iii*) B.V. Raju sold out his stake before the financial institutions did. ICL did not need to buy out the stakes of institutions, certainly not at the exorbitant open offer price. Institutions like UTI, which held 12% stake in f RCL even threatened to approach SEBI in order to pursue ICL to purchase its stake in the open offer.

(*iv*) There was another interesting twist to this deal, which made matters more complicated. Raju transferred 39.5% stake of Shri Vishnu Cement Limited ("SVCL"), which was a subsidiary of RCL, to nine investment companies owned by Raju and his family barely days after the purchase by ICL of Raju's shares in RCL. This was in violation of Regulation 23(1) (g) of the Takeover Code, which prohibits a target company from transferring its significant assets after a public announcement has been made by the acquirer to make an open offer for purchase of shares from the public. Since SVCL was the crown jewel of RCL, and in fact the primary reason for ICL's interest in RCL, the matter was taken to SEBI, which held that the transfer was not valid. SEBI understood to have questioned Raju on the transfer of shares in order to delink Sri Vishnu from parent company Raasi Cement. The share transfer came under scrutiny following the open offer by Rajus for an additional 20 per cent stake in the company. India Cement objected to the open offer, saying the transfer of 93.68 lakh shares to nine group companies was a `fraudulent' transaction violating the takeover code. Raju claimed that the holding of Raasi Cement in the company was transferred to nine other group companies much before India Cement made an open offer on March 2, 1998. The matter was ultimately sorted out through a negotiated deal by which Raju's associates sold their shares of SVCL to ICL.

I. Was the takeover of Raasi Cement successful as per the case? (Give reason to your answer)
II. What Strategies were adopted by Raasi Cements
III. What defensive should Raasi cement should have adopted according to you. (20 marks)

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

a) Differentiate between pooling of interest method and purchase method of accounting?

b) Four brothers M/s A B C and D are holding 10% each in equity share capital of XYZ ltd and are existing promoter of the company. Balance 60% is widely held by the public. Mr. P acquires 6% of equity capital of the target company from the public and there after gets into an agreement between A & B to acquire their entire holding in XYZ Ltd, consequently, he makes an open offer to acquire 20% of the equity capital and succeeded in it.

Will Mr. P become the promoter of the company? And what are the other implications of his actions.

c) Considering the same case if Mr. P would only have got into agreement with Mr. A and would have acquire only 15% in the open offer what will be the implication and how will it be different from the above case.

List down the trigger point where company feels a need for restructuring.

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

a) Give 3 examples of each- Horizontal Merger, Vertical Merger, Conglomerate Merger
b) Zaro Ltd wants to acquire Vedic Ltd by way of merger, following information is given

	Zaro LTD	**Vedic LTD**
Earnings after tax	40,00,000	12,00,000
No of Equity shares	8,00,000	2,00,000
Market price per share	100	80

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

a) Explain different types of valuation method adopted before acquiring a company.
b) What are Junk Bonds, what give rise to a junk bond?
c) What is bidding war that takes place during acquisition and how does it benefit the target company.

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

a) Puri Traders Ltd acquires Malhotra Traders Ltd and has offered a swap ratio of 1:2, ie 6.5 shares for every 1 share of Malhotra traders ltd. Following information is given

	A LTD	**T LTD**
PAT	9,00,000	1,80,000
Equity Shares (no, outstanding)	3,00,000	90,000
EPS	1.5	1
PE Ratio	5 Time	1 Times
Market Price Per Share	15	7

Find out the following:

i. No of equity shares to be issued by Puri Traders Ltd for acquisition of Malhotra Ltd
ii. What is an EPS of Puri trader Ltd after acquisition?

b) Determine the equivalent earning per share
What is the expected market price per share of Puri traders Ltd after acquisition assuming PE multiple remain unchanged.
c) What are white knight and grey knight and when are they exercised?

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

a) What were the synergies behind following mergers and acquisitions of the following
  i. Daiichi Sankyo- Ranbaxy
  ii. Kingfisher Airline and Deccan Airways
  iii. HLL-Lakme
b) List down the legal process of M&A (with sections)
c) Discuss Flipkart and Myntra acquisition case in detail.

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

a) What are the options for funding acquisitions available to the acquiring company?
b) If the dividend paid by XYZ Ltd last year was Rs 3 per share and it is expected that it will perceptually grow by 10% p.a, also that the investor needs 15% return to invest in the equity shares of XYZ Ltd, calculate the value of equity share of XYZ Ltd.
c) What weight age should be given to goodwill of the company while determining the Enterprise value?