VPM's
DR VN BRIMS, Thane
Programme: MMS (2018-20) (Finance)
Third Semester Examination October 2019

Subject	**Corporate Valuation and Mergers & Acquisitions**		
Roll No.		**Marks**	**60 Marks**
Total No. of Questions	**7**	**Duration**	**3 Hours**
Total No. of printed pages	**4**	**Date**	**25.10.2019**

		Instructions:- • **Q. No 1** is compulsory. • Attempt **Any Four** from the Remaining Six Questions. • Figures to the right indicate marks in full.	**Marks**
Q. 1		Case/Case-let Study (500-800 words)	**20**
		Q1) Read the below case; present a SWOT analysis along with cited reasons for merger. Also, briefly explain the important aspects to be considered by this company prior and post-merger. Telecom companies, off late, have looked to mergers to survive. The most recent one is between Bharti Airtel and Tata Teleservices. It is a win-win situation for both the companies involved. For Airtel, the merger brings with it added revenue market share at virtually no cost. About 40 million customers of Tata Telecustomers will directly join the Bharti Airtel network. According to the news website Firstpost.in, “Rs 8,000 crore will be paid by the Tatas while Bharti will pay only Rs 1,500-1,700 crore as spectrum liability.” The customer base of Bharti Airtel is expected to grow by 12-14 percent and cross the 300-million customers' mark. Bharti Airtel, India's top telco and Tata recently entered into an agreement to merge Consumer Mobile Businesses (CMB) ofTata Teleservices Limited(TTSL) and TATA Teleservices (Maharashtra) Ltd. (TTML) into the Sunil Mittal-led telco. As part of the agreement, Airtel will absorb Tata consumer mobile business operations across the country in nineteen circles -- 17 under TTSL and 2 under TTML. These circles represent bulk of India’s population and customer base. The acquisition is subject to requisite regulatory approvals. Bharti Board has recently approved this transaction. The Boards of Tata Sons, TTSL and TTML separately approved this transaction. According to a statement, Goldman Sachs (India) Securities Private Limited is financial advisor to Tata. “This is a significant development towards further consolidation in the Indian mobile industry and reinforces our commitment to lead India’s digital revolution by offering world-class and affordable telecom services through a robust technology and solid spectrum portfolio," Sunil Bharti Mittal, Chairman, Bharti Airtel, said in a joint statement. The proposed acquisition, on completion, will undergo seamless integration, both on the customer as well as the network side, and further strengthen Airtel’s market position in several key circles.The proposed merger will include transfer of all the customers and assets of Tata CMB to Bharti Airtel, further augmenting Bharti Airtel’s overall customer base and network. It will also enable Bharti Airtel to further bolster its strong spectrum foot-print with the addition of 178.5 MHz spectrum (of which 71.3 MHz is liberalised) in the 850, 1800 & 2100 MHz bands.	

The transaction will also provide Bharti Airtel with an undeniable right to use (IRU) for part of the existing fibre network of Tata."The customers of Tata will be able to enjoy India's widest and fastest voice & data network, and bouquet of Airtel's best-in-class products and services.The acquisition of additional spectrum made an attractive business proposition. It will further strengthen our already solid portfolio and create substantial long term value for our shareholders given the significant synergies," Mittal further added.

N Chandrasekaran, Chairman, Tata Sons, said, "We believe this agreement is the best and most optimal solution for the Tata Group and its stakeholders. Finding the right home for our longstanding customers and our employees has been the priority for us. We have evaluated multiple options and are pleased to have this agreement with Bharti."The merger is being done on a debt-free cash-free basis, except for Bharti Airtel assuming a small portion of the unpaid spectrum liability of Tata's towards the Department of Technology (DoT), which is to be paid on deferred basis.

Bharti Airtel will ensure quality services to Tata CMB's customers, while offering them the added benefits of its innovative product portfolio, access to superior voice & data services, mobile banking, Value added services(VAS) and domestic/ international roaming facilities. Tata CMB's operations and services will continue as normal until the completion of the transaction.Tata and Bharti Airtel will work together to further explore other mutual areas of cooperation, that will be value accretive for both the Groups. The employees of Tata will be demerged on the lines of the two businesses i.e. CMB and EFL (Enterprise and Fixed Line and Broadband), and post an optimal manpower planning will be moved accordingly.

(Source: Official website of Economic times - www.economictimes.com)

Q. 2 Answer **Any two** from the following. **5x2 = 10**

a. Ajay Ltd. is willing to acquire Vijay Ltd. and the following information is available in respect of these companies:

Particulars	Ajay Ltd.	Vijay Ltd.
Number of Equity Shares	50 lakhs	30 lakhs
Earnings after tax(Rs.)	250 lakhs	90 lakhs
Market price per share(Rs)	210	140

i. What is the present EPS of each company?
ii. If the proposed merger takes place, what would be the new EPS for Ajay Ltd., if the exchange ratio is based on market price?
iii. What should be the exchange ratio, if the shareholders of Ajay Ltd. want to ensure the same EPS as before merger?

b. From the following prepare income statement of Company X and Company Y:

Particulars	**Company X**	**Company Y**
Financial leverage	3	4
Interest(Rs)	20,000	30,000
Operating Leverage	5	6
Variable Cost as % of sales	66.66	75
Tax Rate	35	35

c. Explain the reasons for merger from a buyer as well as seller's perspective?

Q. 3		Answer **Any two** from the following.	**5x2= 10**
	a.	From the following information, you are required to compute the value of True Ltd. using the relative valuation approach. True Ltd. feels that 60% weight should be given to sales in the valuation process.Out of the balance weight, book value& PATwill have equal parts. <table><tr><th>Company</th><th>True Ltd.</th><th>Real Ltd.</th></tr><tr><td>Sales</td><td>250</td><td>210</td></tr><tr><td>Book Value</td><td>100</td><td>110</td></tr><tr><td>Profit After Tax (PAT</td><td>90</td><td>75</td></tr><tr><td>Price (Market Cap)</td><td>?</td><td>290</td></tr></table>	
	b.	The capital structure of Vijaya Co. Ltd. consists of an ordinary share capital of Rs. 10,00,000 with shares of Rs.10 each and Rs.10,00,000 of 10% debentures. The unit sales increased by 20% from 1,00,000 to 1,20,000 units. The selling price is Rs.10 per unit, variable cost amounts to Rs.6 per unit and fixed cost amount to Rs.2,00,000. The income tax rate is assumed is 35%. Calculate the % change in EPS, degree of financial leverage, degree of operating leverage and degree of combined leverage in relation to increase in production.	
	c.	Considering any company, present a due diligence report for the same.	
Q. 4		Answer **Any two** from the following.	**5x2 = 10**
	a.	As per the financial accounts for the last year D Ltd. has paid dividend @ 20%. The paid up equity capital of the company is Rs. 6,00,000 (Rs. 10 face value) and 10% preference shares of Rs.1,00,000. Operating profit is Rs.4,00,000. The tax rate is 30%. The company expects a growth rate of 5%. Compute the value per share using Zero Growth model, Constant Growth model (capitalization rate =10%)	
	b.	Dasappa Enterprises Ltd. has 10,00,000 shares of Rs.10 each with market price of Rs.50 per share. It has also issued bonds for Rs.4 crore @12% per annum, it is considering an expansion plan and needs to mobilise Rs.5 crore. The alternative being considered is: i) Issue equity at Rs. 40 per share. ii) Issue straight bonds at 10% per annum iii) Issue preference shares @ 12% per annum iv) Finance 50% with equity at Rs.40 per share and 50% with bonds at 10% per annum. The company is in tax bracket of 35%. If the company is hopeful of generating an EBIT of Rs.2.50 crore after expansion, which method of valuation for financing is the best from shareholders view point? What more information is required if the market price is the criterion for decision making?	
	c.	Explain various barriers to corporate restructuring.	
Q. 5		Answer **Any two** from the following.	**5x2 = 10**
	a.	Explain the synergy initiatives behind M & A s	
	b.	Explain takeover defense techniques?	
	c.	Calculate the price of an equity share according to Dividend Capitalization Approach and Earnings Capitalization Approach with the following particulars: EPS = Rs.12, Capitalization Rate- 15%, Retained earning – NIL	
Q. 6		Answer **Any two** from the following.	**5x2 = 10**
	a.	Sales 1,00,000, operating costs (excl. depreciation) 40,000, Depreciation 20,000, Tax @ 30%, Decrease in net working capital	

		1,000, capital spending (Capital Expenditure) 10,000. If interest on debentures is 5,000 and the company resorts to net borrowings (raising) of 25,000 in the year, Find FCFF & FCFE.	
	b.	Explain the different corporate restructuring methods.	
	c.	Calculate the Economic Value Added from the following data for the year ended 31st March 2017 from the following:	

Particulars	**Amount**
Average Debt (Rs. in crores)	50
Average equity (Rs. in crores)	27.66
Cost of debt	12%
Cost of equity	14%
Profit after Tax	15.41
Interest (Rs. in crores)	6
Tax Rate	35%

Q. 7		Elaborate **Any two** from the following	**5x2 = 10**
	a.	McKinsey's 7-S Model with example	
	b.	Valuation Approach	
	c.	Spin-offs and split-offs	