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18MBAFM401

Fourth Semester MBA Degree Examination, July/August 2022
Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs.

Max. Marks:100

Note: 1. Answer any FOUR full questions from Q1 to Q7.
2. Question No.8 is compulsory.

- 1
 - a. What is Synergy? (03 Marks)
 - b. Explain BCG matrix. (07 Marks)
 - c. Discuss the motives behind Mergers. (10 Marks)

- 2
 - a. What is Leveraged Buyouts (LBO)? (03 Marks)
 - b. Discuss the different Anti-takeover strategies available to target firms. (07 Marks)
 - c. Explain the theories of Merger. (10 Marks)

- 3
 - a. Distinguish between concentric merger and conglomerate merger. (03 Marks)
 - b. Discuss the rationale behind formation of Joint Venture. (07 Marks)
 - c. What is Corporate Restructuring? Explain forms of Corporate Restructuring. (10 Marks)

- 4
 - a. Differentiate between pooling and purchase Method of Accounting Treatment. (03 Marks)
 - b. Discuss the HR aspects of Mergers Acquisition. (07 Marks)
 - c. Alfa company wishes to takeover Beta company. The financial details of the two companies are as under :

Liabilities	Alfa	Beta
Equity Shares (Rs. 10 per share)	Rs.100,000	Rs. 50,000
Share Premium Account	—	2000
Profit and Loss Account	38,000	4000
10% debentures	35,000	5000
Assets	1,73,000	61,000
Fixed Assets	1,22,000	35,000
Net current Assets	51,000	26,000
	1,73,000	61,000
Profit Equity Shareholder (PAT)	24,000	15,000
Market price per shear	24	27
P/E ratio	10	9

What offer do you think Alfa company could make to Beta company in terms of exchange ratio on the basis of :

- i) Net Asset Value
- ii) Earning Per Share (EPS)
- iii) Market Price Per Share (MPS).

(10 Marks)

- 5 a. What is purchase consideration? List its types. (03 Marks)
- b. Differentiate between Amalgamation in the nature of merger and Amalgamation in the nature of purchase. (07 Marks)
- c. A Ltd wants to acquire T Ltd by exchanging 0.5 of its shares for each share of T Ltd. The relevant financial data are as follows :

	A Ltd	T Ltd
EAT	Rs.18,00,000	Rs.3,60,000
Equity shares out standing	6,00,000	1,80,000
EPS	3	2
P/E ratio	10	7
Market price per share	30	14

You are required to determine :

- i) The number of shares issued by A Ltd for acquiring T Ltd.
- ii) What is EPS of A Ltd after acquisition?
- iii) Determine the equivalent earnings per share of T Ltd.
- iv) What is expected market price per share of A Ltd after acquisition assuming its PE multiple remains unchanged?
- v) Market value of the merged firm. (10 Marks)
- 6 a. What is limited liability partnership (LLP)? (03 Marks)
- b. Explain the process of due diligence performed in merger and acquisition. (07 Marks)
- c. Vijay Ltd and Ajay Ltd are discussing a merger deal in which Vijay will acquire Ajay. The relevant information about the firms is given as follows.

	Vijay	Ajay
Total Earnings , E	36mm	12mm
Number of outstanding shares	12mm	8mm
Earnings Per Share, EPS	Rs. 3	Rs. 1.5
P/E ratio	10	6
Market Price Per Share	Rs. 30	Rs. 9

- i) What is the maximum exchange ratio acceptable to the shareholders of Vijay Ltd. if the PE ratio of the combined entity is 8?
- ii) What is the minimum exchange ratio acceptable to the shareholders of Ajay Ltd if the PE ratio of the combine firm is 9?
- iii) At what point do the lines ER_1 and ER_2 intersect. (10 Marks)

- 7 a. Define Hostile takeover. (03 Marks)
 b. Explain Five Stage Model of Merger Process. (07 Marks)
 c. Ajeet Ltd and Jeet Ltd carrying on similar business, decided to amalgamate and for this purpose, a new company being formed to take over assets and liabilities of both companies and it is agreed that fully paid shares of Rs. 100 each shall be issued by new company for the value of net assets of each of the old companies.

Balance sheet of Ajeet Ltd. As on as on 31st Dec 2020

Liabilities	Rs.	Assets	Rs.
Share capital of Rs. 50 each	50,000	Good will	5000
General reserve	20,000	Land and building	17000
P and L A/c	3,000	Plant and machinery	24,000
Sundry creditors	4,000	Stock	10,000
Bills payable	4,000	Debtors	12,000
		Furniture and fittings	5,000
		Cash at Bank	8,000
Total :	81,000	Total :	81,000

Balance sheet of Jeet Ltd. As on as on 31st Dec 2020

Liabilities	Rs.	Assets	Rs.
800 shares at Rs. 50 each	40,000	Good will	2,000
Bank over draft	8,000	Land and Building	10,000
Sundry creditors	8,000	Plant and Machinery	16,000
		Debtors	7,000
		Stock	7,500
		Furniture and Fittings	7,500
		Cash	300
		P and L A/c	5,700
Total :	56,000	Total :	56,000

The following is the accepted scheme at valuation of the business of two companies.

Ajeet Ltd.

- To provide for reserve for Bad debts at the rate of 5% on debtors
- To write off Rs.400 from stock
- To write off $33\frac{1}{3}$ % from plant and machinery.

Jeet Ltd.

- To eliminate its good will and P/L A/c balance
- To write off bad debts to the amount of Rs.1000 and provide reserve of 5% on the balance of debtos
- To write off Rs,1400 from the value of stock
- To write down plant and machinery at the rate at 10%

You are required to compute purchase consideration for merger based on Net Asset value.

(10 Marks)

8 CASE STUDY :

The following is the Balance Sheet of A co Ltd as on 31-03-2020.

Liabilities	Amount (in Rs.)	Assets	Amount (in Rs.)
Share capital (50,000 equity shares of Rs. 10 each)	5,00,000	Buildings	1,50,000
General Reserve	1,70,000	Machinery	5,50,000
P and L A/c	30,000	Stock	80,000
12% debentures of Rs. 100 each	1,00,000	Debtors	70,000
Trade Creditors	50,000	Cash	15,000
Employees P.F	15,000		
Total :	8,65,000	Total :	8,65,000

Company B has agreed to purchase company A at Rs.6,61,500/- to be paid in fully paid equity shares of Rs.10 each.

- Pass journal entires to close the books of accounts of A Ltd. (10 Marks)
- Prepare the realization and equity shareholder's account. (10 Marks)
