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P.E.S. College of Engineering, Mandya - 571 401

(An Autonomous Institution affiliated to VTU, Belagavi)

Third Semester, Master of Business Administration (MBA)

Semester End Examination; February / March - 2022

Mergers, Acquisitions and Corporate Restructuring

Time: 3 hrs *Max. Marks: 100*

***Note**: i) Answer all **FOUR** full questions from **PART - A** and **PART - B** (Case Study) is compulsory.*
ii) Scientific calculators are allowable.

PART - A

1 a. Discuss the motives behind Horizontal Merger. 10

b. What is conglomerate merger? Explain its types. 10

OR

2 a. Explain strategic perspective of M & A process. 10

b. Explain various takeover defensive strategic adopted by target firms. 10

3 a. Explain the merger process. 10

b. What is due diligence and Elaborate it. 10

OR

4 a. What are the different methods of financing M & A? Explain them. 10

b. Explain the human integration challenges 10

5 a. Distinguish between LBO and MBO. 10

b. Gama Ltd is taking over Teeta Ltd. The share holders of Teeta Ltd. receives 0.8 shares of Gama Ltd for each share held by them. The merger is not expected to yield economic benefit and synergy. The relevant data of companies are as: 10

Particulars	Gama	Teeta
Net Sales	335	180
PAT	58	12
No. of Shares outstanding	12	3
EPS	4.83	4
MPS	30	20
PIE ratio	6.21	5

For the combined firm calculate – EPS, P/E ratio, MPS, No. of Shares.

OR

6. Hypothetical Ltd. wants to acquire Target Ltd. The balance sheet of Target Ltd. as on 31.3.2020 is as follows: 20

(` in lakhs)			
Liabilities	`	Assets	`
Equity Shares (40,000 Shares of 100/-)	400	Cash	10
Retained Earnings	100	Debtors	65
10.5% Debentures	200	Inventories	135
Creditors & Other liabilities	160	Plant & machinery	560
	860		860

Contd… 2

i) The share holder of Target Ltd. will get 1.5 shares in Hypothetical Ltd. for every 2 shares they hold. The shares of Hypothetical Ltd. will be issued at its current market price ` 180 per share. The debenture holders will get 11% debentures of the same amount. The external liabilities to settle at ` 150 lakhs. Dissolution expenses of ` 15 lakhs are to be met by acquiring company.

ii) The projected Free Cash Flows (FCF) are :

Year	1	2	3	4	5	6
FCF	150	200	260	300	220	120

iii) The FCF is expected to grow at 3% p.a. after 6 years

iv) Cost of Capital is 13%

v) There is an unrecorded liability of ` 20 lakhs.

Advice the company about financial feasibility of acquisition.

7 a. Explain the provisions of Company's Act 1956 and 2013 with regard to M & A. 10

b. Distinguish between pooling interest method and purchase method. 10

OR

8 a. Explain different corporate valuation approaches. 10

b. Distinguish between DFC and Non-DFC models. 10

PART - B (Case Study Compulsory)

9. Following is the balance sheet of A Ltd. as on 31-3-2020.

Liabilities	`	Assets	`
Equity Share Capital of ` 10/-	10,00,000	Good Will	1,00,000
General reserves	1,10,000	Land and Building	2,00,000
Workmen's accident Compensation Reserve	50,000	Plant & Machinery	4,40,000
P & L A/c	70,000	Patents	30,000
S. Creditors	1,60,000	Stocks	2,10,000
		S. Debtors 18,000 (-) RBD 12,000	1,68,000
		Cash & Bank	1,32,000
		Preliminary expenses	20,000
	13,90,000		13,90,000

The company is acquired by X Ltd. which pays 14,00,000 in all – ` 12,00,000 is fully paid 10 shares and the balance in cash. There was a contingent liability in respect of a claim for compensation under the workmen's compensation Act. The claim was not taken over by X Ltd. and A Ltd. had to pay ultimately a sum of ` 20,000 against the claim.

The Balance sheet of X Ltd on 31-03-2010 was as follows:

Liabilities	`	Assets	`
Share Capital of Eq. Share ` 10/-	20,00,000	Good Will	2,20,000
General reserves	2,00,000	Land and Building	6,00,000
P & L Account	1,00,000	Plant & Machinery	8,00,000
12% Debentures	3,50,000	Stocks	5,00,000
S. Creditors	2,10,000	S. Debtors	3,00,000
		Cash @ Bank	4,40,000
	28,60,000		28,60,000

The expenses of liquidation of A Ltd. came to ` 10,000

a. Draft journal Entries to close the books of A Ltd. 5

b. Give the Journal Entries in the books of X Ltd. 5

c. Prepare Balance sheet after Amalgamation in the nature of purchase. 10

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