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

*(An Autonomous Institution affiliated to VTU, Belgaum)*

**Third Semester - Master of Business Administration (MBA)**

**Semester End Examination; Dec. - 2015**

**Mergers, Acquisitions and Corporate Restructuring**

*Time: 3 hrs* *Max. Marks: 100*

***Note**: Answer any **FOUR** full questions from **PART-A** and **PART – B** (Case Study) is compulsory.*

## PART - A

1 a What is industry life cycle? With the help of an illustration, explain the types of mergers that take place at each stage of industry life cycle. 10

b Explain SWOT analysis as a tool strategy formulation. 10

**OR**

2 a What do you mean by synergy? Explain in all types of synergies. 10

b A target company has an economic life of 5 years. If it has steady after tax cash flows of Rs. 30.00 million every year and the cost of acquisition is 10%, what is its present value. 10

3 a Explain all the merger defenses available to a firm to ward off hostile takeover. 10

b What is takeover? Explain its types. 10

**OR**

4 a Write the meaning of corporate restructuring. Explain its methods. 10

b Explain the concept of LBO and LBO. 10

5 a Describe the process of merger including the legal steps involved. 10

b What do you mean by due diligence? Explain the process of due diligence bringing out the steps involved. 10

**OR**

6 a The following is the extract from the balance sheet of a company which is having an economic life of 5 years. At what price this company can be acquired, if the cost of capital is 10%? 10

| PARTICULARS | YEAR 1 | YEAR 2 | YEAR 3 | YEAR 4 | YEAR 5 |
|---|---|---|---|---|---|
| After tax cash flow (Rs. Lakhs) | 10.00 | 11.00 | 10.50 | 11.50 | 11.00 |
| Depreciation (Rs. Lakhs) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |
| Preliminary expenditure Written off (Rs. Lakhs) | 1.00 | 1.00 | 1.00 | 1.00 | 1.00 |

b. Describe the HR issues that are to be addressed in a merger. 10

7 a Company A (acquirer) is taking over a target company T (acquiree or acquired company) and the following are the details of both companies before take over. 10

Contd…2

| | BEFORE TAKEOVER | |
|---|---|---|
| PARTICULARS | ACQURER(A) | ACQUREE(T) |
| Number of shares | 10,000 | 5000 |
| PAT or Net Earnings | Rs.1,00,000 | Rs. 50,000 |
| Current Market Price of the share | Rs. 20 | Rs. 15 |
| P/E Ratio | 2:1 | 1.5:1 |

On the basis of the above, compute the following :

i) Total number of shares of the combined company

ii) EPS of the merged entity

iii) Recommended share exchange ratio.

b Explain the differences between pooling interest method and purchase method. 10

**OR**

8 a Explain the concept of consideration and different methods for calculating it. 10

b What is free cash flow? The following is the details of a company which has been identified for takeover. If the cost of acquisition is 10%, at what price it can be acquired as per free cash flow evaluation method? 10

| All figures are in Rupees million | | | | | |
|---|---|---|---|---|---|
| | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| Before tax cash flows | 240.00 | 288 | 346 | 415 | 415 |
| Tax rate | 40% | 40% | 40% | 40% | 40% |
| Proposed investment | 120.00 | 144.00 | 172.80 | 0 | 0 |

Note : In the above table, it can be seen that, that company it steadily investing in capital assets till the third year after which the before tax cash flow will remain constant at Rs. 415.00 million.

## PART - B
## Compulsory

9. **Case Study:**

Small company is being acquired by a large company by exchange ratio of 0.5. The following particulars are given: 20

| Particulars | Large Co. | Small Co. |
|---|---|---|
| EAT | 18,00,000 | 3,60,000 |
| No. of equity shares o/s | 6,00,000 | 1,80,000 |
| EPS | 3 | 2 |
| P/E Ratio | 10 | 7 |
| MPS | 30 | 14 |

You are required to determine :

i) No. of shares required to be issued by large co. ii) Pre merger EPS

iii) Combined firm's EPS

iv) Comment on Post merger EPS and market value compared to pre-merger values.

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