

P P SAVANI UNIVERSITY

Fourth Semester of MBA Examination

May 2022

SLMB8240 Mergers and Acquisitions (Major)

09.05.2022, Monday

Time: 09:00 a.m. To 11.30 a.m.

Maximum Marks: 60

Instructions:

1. The question paper comprises of two sections.
2. Section I and II must be attempted in same answer sheets.
3. Make suitable assumptions and draw neat figures wherever required.

SECTION - I

Q - 1 Review the concept of corporate restructuring and summarize the types of corporate restructuring it. [10]

OR

Q - 1 (a) The reasons behind corporate restructuring - Compile the list. [05]

Q - 1 (b) What do you mean by due diligence? Also discuss its types. [05]

Q - 2 Design the process of M&A. [10]

OR

Q - 2 (a) Summarize the concept of revised merger. [05]

Q - 2 (b) Examine the motive behind M &A. [05]

Q - 3 Prepare list of the recent M&A in India (at least 5) also evaluate it. [10]

OR

Q - 3 (a) Propose the reasons for failure of M &A. [05]

Q - 3 (b) Prepare a list of the barriers of restructuring. [05]

SECTION - II

Q - 1 X Ltd. is considering merger with A Ltd. X Ltd's shares are currently trade at Rs. 20. It has 2,50,000 shares outstanding and its earnings after taxes (EAT) amount Rs. 5,00,000. A Ltd. has 1,25,000 shares outstanding. Its current market price is Rs. 10 and its EAT are Rs. 1,25,000. The merger will be effected by means of a stock swap (exchange). A ltd. has argued to plan under which X Ltd. will offer the current market value of A Ltd's shares : [10]

What is the pre-merger EPS and P/E ratio of both the companies?

If ABC Ltd's P/E ratio is 6.4, what is the current market price? What is the exchange ratio? What will X Ltd's post-merger EPS be?

What should be the exchange ratio, if X Ltd's pre-merger and post-merger EPS are to be the same?

OR

Q - 1 (a) Compare the difficulties and benefits in cross border acquisition with domestic acquisition. [05]

- Q - 1 (b)** A Ltd. is considering takeover of B Ltd. and C Ltd. The financial data for the three companies are as follows: [05]

Particulars	A Ltd.	B Ltd.	C Ltd.
Equity Share Capital of Rs. 10 each (Rs. crores)	450	180	90
Earnings (Rs. crores)	90	18	18
Market price of each share (Rs.)	60	37	46

Calculate :

Earnings per share of A Ltd. after the acquisition of B Ltd. and C Ltd. separately. Will you recommend the merger of either/both of the companies? Justify your answer.

- Q - 2** XYZ Ltd. is considering merger with ABC Ltd. XYZ Ltd.'s shares are currently traded at Rs. 25. It has 2,00,000 shares outstanding and its profits after taxes (PAT) amount to Rs. 4,00,000. ABC Ltd. has 1,00,000 shares outstanding. Its current market price is Rs. 12.50 and its PAT are Rs. 1,00,000. The merger will be effected by means of a stock swap (exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer the current market value of ABC Ltd.'s shares: [10]

What are the pre-merger earnings per share (EPS) and P/E ratios of both the companies?

If ABC Ltd.'s P/E ratio is 8, what is its current market price? What is the exchange ratio? What will XYZ Ltd.'s post-merger EPS be?

What must the exchange ratio be for XYZ Ltd.'s that pre and post-merger EPS to be the same?

OR

- Q - 2 (a)** X Ltd. is considering the proposal to acquire Y Ltd. and their financial information is given below: [05]

Particulars	X Ltd.	Y Ltd.
No. of Equity shares	10,00,000	6,00,000
Market price per share (Rs.)	30	18
Market Capitalization (Rs.)	3,00,00,000	1,08,00,000

X Ltd. intend to pay Rs. 1,40,00,000 in cash for Y Ltd., if Y Ltd.'s market price reflects only its value as a separate entity. Calculate the cost of merger: When merger is financed by stock.

- *Q - 2 (b)** Compare and contrast going private and leverage buyouts. [05]

- Q - 3** The following information is provided related to the acquiring firm Mark Limited and the target firm Mask Limited: [10]

Particulars	Mark Limited	Mask Limited
Profits after tax (PAT)	Rs. 2,000 lakhs	Rs. 400 lakhs
Number of shares	200 lakhs	100 lakhs

Outstanding P/E ratio (times)	10	5
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Required :

What is the swap ratio based on current market price?

What is the EPS of Mark Limited after acquisition?

What is the expected market price per share of Mark Limited after acquisition, assuming P/E ratio of Mark Limited remains unchanged?

Determine the market value of the merged firm.

OR

Q - 3 (a) ABC Ltd. is run and managed by an efficient team that insists on reinvesting 60% of its earnings in projects that provide an ROE (Return of Equity) of 10% despite the fact that the firm's capitalization rate (K) is 15%. The firm's currently year's earnings is Rs. 10 per share. **[05]**

At what price will the stock of ABC Ltd. sell?

What is the present value of growth opportunities?

Q - 3 (b) Evaluate the concept of ESOP in terms of M& A. **[05]**
