PRESIDENCY UNIVERSITY
BENGALURU

SCHOOL OF MANAGEMENT

MIDTERM EXAMINATION

Even Semester: 2018-19   **Date**: 21 February 2019

Course Code: FIN 402   **Time**: 2 Hours

Course Name: Mergers, Acquisitions &   **Max Marks**: 40

Corporate Restructuring   **Weightage**: 20%

Instructions:

(i)

Part A

Answer *any 2* out of following 3 Questions. **Each** question carries 5 marks.   (2x5=10)

1. Define Corporate Restructuring and explain 2 forms of Corporate Restructuring.
2. Explain Merger & Consolidation with 1 example of each.
3. Explain the concepts of, and differences between divestiture, demerger and carve-out.

Part B

Answer *any 2* out of the following 3 Questions. **Each** question carries 10 marks.   (2x10=20)

4. What are the various methods of acquiring control over a target company?
   Discuss the various levels of control related to substantial acquisition of shares and their implications.
5. Explain the main types of synergies recognized by the Efficiency theory and the concepts of revenue generating and cost generating synergies.
6. Analyze the objectives and motives relevant to a real life Mergers & Acquisition case, using the Merger Motive Model.

Part C

Answer *any 1* out of following 2 Questions. **Each** question carries 10 marks.   (1x10=10)

7. Elaborate Mergers & Acquisitions as a Growth strategy with a real life case study, with the use of tool(s) such as, Ansoff's product Market Matrix, Product lifecycle, BCG matrix and / or Grand Strategy Matrix.
8. Identify the merger motives and discuss pros and cons with respect to the proposed Mindtree stake offer proposed by L & T Infotech form the viewpoint of stakeholders,

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END TERM EXAMINATION

Even Semester: 2018-19

Course Code: FIN 402

Course Name: Mergers, Acquisitions &

Corporate Restructuring

Date: 12th March 2019

Time: 3 Hours

Max Marks: 80

Weightage: 40%

Instructions:
> (i)

Part A

Answer all the Questions. **Each** question carries 4 marks.   **(5Qx 4M =20)**

1. Explain the factors that ensure 'value realization' from the Merger & Acquisition transaction.
2. Explain the concept of 'Liquidation value'. How does it differ from 'Replacement value' for acquisition target evaluation?
3. What is the meaning of Terminal value and its relevance to Enterprise Value of a target company?
4. What is the importance of due diligence in the context of Mergers & Acquisitions?
5. Explain the concept of control premium and value from synergy.

Part B

Answer _any 3_ Questions. **Each** question carries 10 marks.   **(3Q x 10M = 30)**

6. Which are the three main basis for valuation of a target company? Explain the rationale for their selection and pros and cons if each one.

7. Company A is planning to acquire 50% shareholding in Company B at an offer price of Rs. 60/- per share. Based on the market price given below, calculate the share swap exchange ratio and total shares of A that would be offered to the shareholders of Company B
   a. Based on market price
   b. Based on EPS.

	Company A	Company B
Share price	Rs 30/-	Rs 40/-
Total shares	5,00,000	2,00,000
Profit After Tax	50,00,000	30,00,000

8. Company X is planning to acquire 60% shareholding in Company Y at an offer price of Rs. 45/- per share with 20% cash payout and balance by shares swap. Calculate the total cash payout, dilution in equity of Company X and control premium.

	Company X	Company Y
Share price	Rs 40/-	Rs 35/-
Total shares	5,00,000	1,00,000

9. Explain the stages in the M & A for post merger integration process. Describe the Pathfinder Model for carrying out the process of M & A integration.

Part C

Answer the following Questions. This question carries 30 marks. **(1QX30M = 30)**

CASE STUDY

10. Statbrite Ltd, a software services company with a good track record, is contemplating a takeover of Richtech Industries, which is expected to generate operational efficiencies after acquisition. Starbrite would like to arrive at a fair market value for the target company.

Summarized financial statements of RichTech Inds 2017-18

Profit & Loss Statement

	Rs (million)
Revenue	12,000
Cost of Goods Sold	6000
SG&A	2000
Interest Expenses	1800
Depreciation	1200
Tax	300

Balance Sheet (Rs. Mn)

Equity Share Capital	8000	Fixed Assets	15000	
Reserves & surplus	4000	Depreciation	3000	12000
Long Term debt	8000	Working capital		8000
	20000			20000

Projected Data & Assumptions

The expected savings to Starbrite from acquisition of RichTech Industries is expected to last for a period over the next 3 years (estimated forecast period).

1. Revenue growth   20% for the next 3 years,
2. Cost of Goods Sold as a percentage of sales reduces by 1% every year compared to previous year. SGA reduces overall by 0.5% every year.
3. Capital expenditure is Rs 500 million per annum
4. Increase in working capital Rs 700 million p.a
5. Depreciation is charged @ 10% on Straight Line basis and same as required for income tax calculation

6. Interest rate on long term debt is 10% pa
7. Tax rate = 30%
8. Cost of equity is 12% per annum
9. Average Market price Rs 40/- per share. Total equity shares: Rs 800 million.

A. Compute the value of RichTech using Free Cash flow method based on the summarized financial data and projections given above. Make appropriate assumptions wherever necessary.   (25 marks)

B. In the above case, compute value using any other methods which may be useful for evaluation of the investment decision. According to you, what would be the fair market value for the target company which Starbrite should pay for the acquisition? (5 marks)