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**Presidency University**

**Bengaluru**

**School of Management**

**End-Term Examination - August 2024**

**Date**: 5th August 2024

**Time**: 1;00 Pm – 4:00 Pm

**Max Marks**: 100

**Weightage**: 50%

**Semester**: Summer term

**Course Code**: MBA 4004

**Course Name**: Mergers, Acquisition & Corporate Restructuring

**Department:** SOM

**Instructions:**

1. *Read the all questions carefully and answer accordingly.*
2. *Do not write any information on the question paper other than roll number.*
3. *Question paper consists of 3 parts.*

**PART A**

**Answer any 10 Questions. Each question carries 3 marks. (10Qx 3M= 30)**

1. Indicate motives behind merger. (CO :1) [Knowledge]
2. Recall the purposes for restructuring. (CO :1) [Knowledge]
3. Define goodwill of a company with an example. (CO :3) [Knowledge]

1. State Free cash flow of a firm. (CO :3) [Knowledge]
2. State the meaning of hostile takeover (CO :1) [Knowledge]

1. Recall share exchange ratio and write its formula (CO :3) [Knowledge]
2. State any three differences between merger and acquisition (CO :1) [Knowledge]
3. Recall any three advantages of merger (CO :1) [Knowledge]
4. State the term “Financial synergy” in the context of merger (CO :2) [Knowledge]
5. Recall any three defenses available in a hostile takeover (CO :1) [Knowledge]
6. State the meaning of liquidation value with an example (CO :3) [Knowledge]
7. Recall the steps involved in a merger process (CO :1) [Knowledge]

**PART B**

**Answer any 4 Questions. Each question carries 10 marks. (4Qx 10M= 40)**

1. Company A is deciding to acquire company B. Illustrate in this case various factors to be considered in deciding the price to be paid by company A to company B. (CO :1) [Application]
2. Company Alpha Limited is facing successive downturn in its business and hence it is planning to acquire its competitor Gama Limited. However, before acquisition it is planning to investigate about the target company. Write in this regard various areas which should be investigated by Alpha Limited before taking this acquisition decision. (CO :2) [Application]
3. X Ltd wants to purchase business of Y Ltd. Y Ltd is in manufacturing business with projected sales of Rupees 2,00,000, 3,00,000, 4,00,000, 6,00,000 and 8,00,000 respectively for next 5 years. Its operating expenses is 30% of the sales except depreciation. The amount of depreciation for next five years are 25,000 every year. It has certain cash flows of 30% to be discounted at 10% cost of capital and 70% uncertain cash flows to be discounted at 12% cost of capital. How much price will you recommend to buy the business assuming tax rate to be 40%. (CO :3) [Application]
4. Due diligence is one of the most important prerequisites for taking any merger and acquisition decision. Make a due diligence report in this regard covering the points that you will include in your report. (CO :3) [Application]

1. While there is no set formula to guarantee a successful merger, in order to minimize the negative impacts of merger, a map of M&A process and issues should be developed and at the same time post-merger integration issues should be resolved. Illustrate in this regard steps involved in M&A process with appropriate examples from market as well as highlight post-merger integration issues.

(CO :2) [Application]

1. Illustrate the steps involved in computing intrinsic value of a company with a suitable example. Suppose total assets of S Limited is Rs. 4,00,000. It consists of Building having book value Rs. 2,00,000 (market value Rs. 5,00,000), Furniture having book value 1,20,000 (market value Rs. 80,000). The balance is inventory having market value of Rs. 70,000. It has 20,000 equity shares of Rs. 10 each and 2000 12% Debentures of Rs. 100 each. You are required to compute intrinsic value of S Limited. (CO :3) [Application]

**PART C**

**Answer the following Questions. (2Qx 15M= 30)**

1. ASLI Limited is considering to buy any one company out of two companies P and Q. As a financial analyst, you are required to compute as specified below for both the companies and comment on their financial position

(a) Enterprise value

(b) Debt- Equity ratio

(c) Working capital

(d) Book value per share and

(e) P/E Ratio

**Balance sheet as on 31-3-2024**

|  |  |  |
| --- | --- | --- |
| **Company** | **P** | **Q** |
| Equity shares of Rs. 10 each | 20,000 | 25,000 |
| Reserve and surplus | 6,000 | 11,000 |
| Long term debt | 8,000 | 13,000 |
| Short term debt | 4,000 | 9,000 |
| **Total Equity and Liabilities** | **38,000** | **58,000** |
| Long term assets | 30,000 | 30,000 |
| Cash and cash equivalent | 5,000 | 15,000 |
| Other short-term Assets | 3,000 | 13,000 |
| **Total Assets** | **38,000** | **58,000** |
| Market price per share | 38 | 52 |

(CO :3) [Analysis]

1. Q Limited is planning to buy R Limited. However, before buying it wants to compute some financials of R Limited. R Limited has generated a sales of Rupees 12,00,000 and its cost of goods sold is 40% of sales. Its other operating expenses (except Depreciation) is amounting to Rupees 1,50,000. It has a yearly depreciation of Rupees 40,000. Its annual interest on loan is Rupees 60,000 with applicable tax rate of 40%. It has 10,000 outstanding equity shares which are trading at a market price of Rs. 540 per share. You are required to compute (a) Earnings per share of company R Limited (b) P/E ratio of R Limited (c) Economic value added of R Limited (d) Market capitalization of R Limited and (e) Suggest some other valuation methods that Q Limited should do before buying R Limited and type of information it requires for doing such valuations. (CO :3) [Analysis]