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 **PRESIDENCY UNIVERSITY**

  **Bengaluru**

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| **End - Term Examinations – JANUARY 2025** |
| **Date:** 10- 01-2025 **Time:** 09:30 am – 12:30 pm |

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| **School:** SOM-PG | **Program:** MBA |
| **Course Code :** MBA3073 | **Course Name :** Mergers, Acquisition and Corporate Restructuring |
| **Semester**: III | **Max Marks**: 100 | **Weightage**: 50% |

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| **CO - Levels** | **CO1** | **CO2** | **CO3** | **CO4** | **CO5** |
| **Marks** | **31** | **16** | **34** | **19** |  |

**Instructions:**

1. *Read all questions carefully and answer accordingly.*
2. *Do not write anything on the question paper other than roll number.*

**Part A**

|  |
| --- |
| **Answer ALL the Questions. Each question carries 3marks. 3M x 10Q=30M** |
| **1** | Outline why companies often pursue mergers during specific economic or industry waves. | **3 Marks** | **Knowledge** | **CO1** |
| **2** | A company aims to achieve faster market entry by acquiring a smaller competitor. How does this align with the concept of strategic fit? | **3 Marks** | **Knowledge** | **CO1** |
| **3** | Explain how portfolio restructuring help a company refocus on its core competencies? | **3 Marks** | **Knowledge** | **CO2** |
| **4** | Interpret the option for a spin-off instead of a divestiture? | **3 Marks** | **Knowledge** | **CO2** |
| **5** | Explain the concept Market Value Added with an example. | **3 Marks** | **Knowledge** | **CO3** |
| **6** | A company uses the DCF method for valuation. Why is the consideration of free cash flow critical in this approach? | **3 Marks** | **Knowledge** | **CO3** |
| **7** | The following is the income Statement of a firm for the current year:

|  |  |
| --- | --- |
| Sales revenue | 500 |
| Less: Operating costs | 300 |
| Less Interest costs | 12 |
| EBT | 188 |
| Less Tax @25% | 47 |
| Earnings after Tax | 141 |

The company has a capital of Rs.300 Lakhs and the weighted average cost of capital is 12%. Determine the economic value added during the year. | **3 Marks** | **Knowledge** | **CO3** |
| **8** | White Ltd is taking over Black Ltd. The shareholders of Black Ltd would receive 0.8 share of White Ltd for each share held by them. No. of shares of White Ltd before Merger is 150000 and No. of shares of Black Ltd pre-merger is 15000. Calculate the post-merger no. of shares. | **3 Marks** | **Knowledge** | **CO4** |
| **9** | ABC Ltd acquires PQR Ltd by exchanging one share for every two shares of POR Ltd. Calculate the post-merger number of shares of ABC Ltd outstanding, if pre-merger number of share were as below:  ABC Ltd– 2000 and PQR. Ltd 600 | **3 Marks** | **Knowledge** | **CO4** |
| **10** | Govind Ltd has 700000 shares outstanding and wants to acquire Godwin Ltd which has 300000 shares outstanding, by exchanging its .8 shares for every share of Godwin Ltd. Calculate the post-merger number of shares | **3 Marks** | **Knowledge** | **CO4** |

**Part B**

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| **Answer ALL the Questions. Each question carries 10 marks. 10Mx4Q=40M** |
| **11** | A pharmaceutical company acquires a biotech startup to strengthen its R&D capabilities. Explain how this Merger and acquisition is a strategic investment decision? | **10 Marks** | **Comprehension** | **CO1** |
| **Or** |
| **12** | A retail company acquires a logistics firm to gain control of its supply chain. Identify the type of merger and why is it strategic? | **10 Marks** | **Comprehension** | **CO1** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **13** | A manufacturing company sells off its non-core real estate assets to focus on its main operations. What type of restructuring does this example highlight, and how does it benefit the company? | **10 Marks** | **Comprehension** | **CO2** |
| **Or** |
| **14** | Portfolio restructuring is an important segment in corporate restructuring. Discuss the purpose and various classifications of portfolio restructuring. | **10 Marks** | **Comprehension** | **CO2** |

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **15** | From the following particulars, calculate the value of an equity share.2000,9% Preference shares of Rs 100 each 2,00,00050,000 Equity shares of Rs.10 each,Rs.8 per share paid up 4,00,000Expected profit per year before tax 2,18,000.Rate of tax 25%. Transfer to general reserve every year is 20% of profit. Normal rate of earnings in similar industry is 15%. | **10 Marks** | **Comprehension** | **CO3** |
| **Or** |
| **16** | Suppose a firm has a total capital of Rs.1,000 lakh (provided equally by 10% debt and 5 lakh equity shares of Rs 100 each), its overall cost of capital is 10% The projected free cash flows to all investors of the firm for 5 years are given in the table:

|  |  |
| --- | --- |
| Year End | (Rs. Lakh) |
| 1 | 350 |
| 2 | 225 |
| 3 | 500 |
| 4 | 250 |
| 5 | 750 |

Compute i) Valuation of firmii) Valuation from the perspective of equity shareholders. Assume 10% debt is repayable at the end of 5 years and interest is paid at each year. | **10 Marks** | **Comprehension** | **CO3** |

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **17** | A Ltd. is intending to acquire X Ltd. by merger and the following information is available in respect of the companies :

|  |  |  |
| --- | --- | --- |
|  | A Ltd. | X Ltd. |
| Number of equity shares | 10,00,000 | 6,00,000 |
| Earnings after tax (Rs.) | 50,00,000 | 18,00,000 |
| Market value per share (Rs.) | 42 | 28 |

Compute:1. What is the present EPS of both the companies?
2. If the proposed merger takes place, what would be the new earning per share of A Ltd. ? Assume that the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price.
3. What should be the exchange ratio, if X Ltd. wants to ensure the earnings to members are as before the merger takes place?
 | **10 Marks** | **Comprehension** | **CO4** |
| **Or** |
| **18** |  Z Ltd wants to acquire AB Ltd by exchanging 0.5 of its share for each share of AB Ltd. The relevant financial data are as follows:

|  |  |  |
| --- | --- | --- |
| Particulars  | Z Ltd | AB Ltd  |
| EAT(Rs) | 10,00,000 | 4,60,000 |
| Equity Share outstanding | 4,00,000 | 2,00,000 |
| EPS(Rs) | 2.5 | 2.3 |
| P/E Ratio (times) | 12 | 10 |
| Market price per share(Rs) | 30 | 23 |

Required:1. What is the number of equity shares required to be issued by Z Ltd for acquisition of AB Ltd
2. What is the EPS of Z Ltd after the acquisition of AB Ltd?
3. Determine the market price of the merged firm, assuming its P/E multiple is 35
 | **10 Marks** | **Comprehension** | **CO4** |

**Part C**

|  |
| --- |
| **Answer all the Questions. Each Question carries 15 marks. 15Mx2Q=30M** |
| **19** | **Facebook’s Acquisition of WhatsApp**In February 2014, Facebook acquired WhatsApp for $19 billion in one of the largest tech deals of the decade. The deal comprised $4 billion in cash, $12 billion in Facebook shares, and $3 billion in restricted stock units (RSUs) to be distributed over four years to retain WhatsApp’s founders and key employees. WhatsApp, a rapidly growing messaging app with over 450 million monthly active users at the time, was a strategic fit for Facebook’s vision of connecting people globally. The acquisition aimed to enhance Facebook’s presence in the mobile communication space and leverage WhatsApp’s popularity in emerging markets.**Key Elements of the Deal**1. **Cash**: Provided immediate liquidity for WhatsApp’s stakeholders.
2. **Equity**: Ensured alignment of WhatsApp’s stakeholders with Facebook’s future success.
3. **RSUs**: Retained critical talent post-acquisition, encouraging continuity and innovation.

**Challenges and Criticism*** **High Valuation**: The $19 billion price tag, equivalent to $42 per WhatsApp user, raised questions about whether Facebook was overpaying for a company with minimal revenue.
* **Monetization Strategy**: WhatsApp’s "no ads, no games, no gimmicks" policy required Facebook to explore alternative monetization avenues, such as subscription models and business messaging tools.
* **Regulatory Approvals**: Facebook faced scrutiny to ensure compliance with global antitrust laws.

**Outcomes:** The acquisition proved strategically beneficial as WhatsApp’s user base surpassed 2 billion by 2022, becoming a cornerstone of Facebook’s (now Meta’s) ecosystem. The deal demonstrated how a thoughtfully structured consideration value and a long-term vision could drive success despite initial skepticism.**Questions:**1. Why did Facebook choose WhatsApp over other potential acquisitions in the messaging space?
2. Evaluate the risks Facebook faced by acquiring a company with limited immediate revenue.
3. How did the structure of the $19 billion consideration value align with Facebook’s strategic goals?
 | **15 Marks** | **Analysis** | **CO1** |
| **20** | The Income Statement and Balance Sheet of ABC Ltd is furnished below:Income statement for the year ended 31st March, 2023

|  |  |
| --- | --- |
| Particulars | Amount Rs in Million |
| Sales | 98 |
| EBIT | 20 |
| Less Interest on Loan | 2 |
| EBT | 18 |
| Less Tax @ 25% |  4.5 |
| Earnings After Tax | 13.5 |

Balance Sheet as on 31st March 2023 (Rs.Million)

|  |  |  |  |
| --- | --- | --- | --- |
| Liabilities | Amount | Assets | Amount |
| Equity share capital 1 lakh shares of Rs.100 each | 10.0 | Land and Buildings (Net) | 30.0 |
| Profit and loss Account | 33.0 | Plant and Machinery (Net) | 30.0 |
| 10% Debentures | 28.0 | Inventory | 20.0 |
| Creditors | 28.0 | Debtors | 13.0 |
|  |  | Cash Balance | 6.0 |
|  | 99.0 |  | 99.0 |

Additional Information:* 1. The finance Manager of the firm has estimated the future free cash flows of the company as follows:

|  |  |
| --- | --- |
| Year  | Rs. Million |
| 1 | 24.0 |
| 2 | 25.0 |
| 3 | 27.0 |
| 4 | 28.0 |
| 5 | 35.0 |
| 6 | 34.0 |

Free cash flows in subsequent years, after 6 years, are estimated to grow at 4%. The weighted average cost of capital is 12%ii) The current resale value of the following assets are detailed below:-

|  |  |
| --- | --- |
|  | **Rs. Million** |
| Land & Buildings | 50 |
| Plant& Machinery | 32 |
| Stock | 18 |

 The current resale value of the remaining assets are as per their book valuesiii) A company engaged in similar business has a P/E ratio of 7timesCompute the value of the firm as well as value of an equity share on the basis of the following methods:-1. Net assets method ( book value and market value)
2. Price-Earnings method and
3. Free cash flows to the firm
 | **15 Marks** | **Analysis** | **CO3** |