JP – 319

III Semester M.Com. (F.A.) Degree Examination, May/June 2023
(CBCS Scheme) (2021 – 22)
COMMERCE (Financial Analysis)
Paper – 3.1 : Mergers, Acquisitions and Restructuring

Time : 3 Hours Max. Marks : 70

SECTION – A

Answer **any seven** questions out of ten. **Each** question carries **two** marks. **(7×2=14)**

1. a) What is pooling interest method of amalgamation ?
   b) What do you mean by reverse merger ?
   c) What are Leveraged Buy Outs (LBO) and divestitures ?
   d) Mention any two tax incentives available for mergers and acquisitions.
   e) List out the methods of financing mergers.
   f) What do you mean by escrow account ?
   g) What are the various forms of corporate restructuring ?
   h) What is a Bail out takeover ?
   i) What do you mean by Boot Strapping ?
   j) What is white knight ?

SECTION – B

Answer **any four** questions out of six. **Each** question carries **five** marks. **(4×5=20)**

2. Explain SEBI guidelines for takeover of listed companies.
3. Explain operating, financial and managerial synergy of mergers.
4. What are the challenges of the due diligence process in India ?
5. Are greenfield investments better than M and As ? Justify your answer with valid reasons and examples.

P.T.O.

6. Following is the Balance Sheet of A Ltd.

Liabilities	Amount (Rs.)	Assets	Amount (Rs.)
Share Capital (Rs. 10)	1,00,000	Sundry Asset	2,50,000
Debentures	50,000		
General Reserve	50,000		
Creditors	50,000		
	2,50,000		**2,50,000**

A Ltd. is to be taken over by B Ltd. Each share of A Ltd. has a market value of Rs. 15, while that of B Ltd. has a market value of Rs. 30. The purchase consideration is to be satisfied in the form of shares to be issued by B Ltd. You are required to ascertain the amount of purchase consideration.

7. Explain the Poison pills with help of a relevant detailed case study and its impact on stock prices.

SECTION – C

Answer **any two** questions out of four. **Each** question carries **twelve** marks. **(2×12=24)**

8. A Ltd. is a company operating in software industry. It is considering the acquisition of T Ltd. with stock. The relevant financial information is as follows :

	A Ltd.	**T Ltd.**
Present Earnings (Rs.)	9,00,000	4,00,000
Number of Outstanding Shares	1,50,000	60,000
Price Earning Ratio	14	10

A Ltd. is planning to offer a premium of 25% over the market price of T Ltd. Estimate :

a) The exchange ratio.

b) The number of shares to be used by A Ltd. to T Ltd.

c) EPS of new company after the merger.

d) The market price of the share when PE ration remains at 14 times.

e) The market price when PE changes to 12 times.

9. The following information is available for Company X and Y :

Company	**X**	**Y**
Profit after tax	Rs. 120 crore	Rs. 45 crore
Number of Outstanding Shares	35 crore	10 crore
Market price per share	Rs. 22	Rs. 35

Company X is planning to acquire Company Y. The acquisition is expected to be done through a swap of stocks in which 2 shares of Company X will be given for every share of Company Y. The management of X makes a projection that the combined entity will have an expected P/E ratio of 8 with a standard deviation of 2. The shareholders of the company will accept the merger if the probability of the merger being beneficial is more than 70%.

You are required to

a) State whether the merger is acceptable to X.

b) State whether the merger is acceptable to Y at a combined P/E of 8. Show all the necessary calculations.

c) Price of the combined entity if the swap ratio is 2 : 1 and P/E is 8. Also, calculate the gain or loss to the shareholders of Company Y.

10. "Recent times are witnessing a surge in M and A activity across the globe." Comment on the statement discussing examples of two recent mergers.

11. What is the role of arbitragers in mergers and acquisition process and its impact on prices ?

SECTION – D

Compulsory Skill based question on subject. **(1×12=12)**

12. Quick Ltd. is planning to acquire Fast Ltd. in order to expand its installed capacity. The company will then be in a position to cater to increasing demand for its products and services.

The projected equity related cash flows of M/s Quick Ltd. before and after the merger is given below :

Year	**1**	**2**	**3**	**4**	**5**
Projected cash flow before acquisition	14.6	17.1	16.8	20.6	23.9
Projected cash flow after acquisition	21.3	23.4	29.0	35.7	42.5

The cash flows are expected to grow @ 6% beyond year 5 if M/s Fast Ltd. is not acquired and @ 8% if acquisition takes place. The other relevant data relating to the two companies is given below :

Company	**Quick**	**Fast**
No. of outstanding shares (million)	20	10
Market Price (Rs.)	32.0	26.0
Book Value (Rs.)	28.0	21.0

The cost of equity is 16%. You are required to find out the maximum exchange ratio that the management of Quick Ltd. can offer to the shareholders of Fast Ltd. so that the present value of its equity related cash flows is at least 20% more than the existing level.

Whether the exchange ratio offered by Quick Ltd. as calculated in sub part (a) above will be acceptable to shareholders of Fast Ltd. if their present value of pre merger cash flows is Rs. 125 millions ?