

KADI SARVA VISHWAVIDYALAYA

MBA SEMESTER – IV EXAMINATION MAY 2014

CORPORATE FINANCE & RESTRUCTURING FS 422

Date –14/05/2014

Seat No. _____

Time – 2 hrs 30 min.

Marks – 40%

1. a) Define Corporate Restructuring. List out the various components of corporate restructuring with appropriate figure. 4%
- b) The H Company Ltd. has to make a choice between debt and equity issue for its expansion program. Its current position is as follows: 4%

Particulars	Amount (Rs.)
5% Debt	20,000
Equity capital (Rs. 10 per share)	50,000
Surpluses	30,000
Total Capitalization	1,00,000
Sales	3,00,000
Total Costs	2,69,000
Income before interest & taxes	31,000
Interest	1,000
Earnings before taxes	30,000
Income tax	10,500
Income after taxes	19,500

The expansion program is estimated to cost Rs.50,000. If this is financed through debt, the rate of interest on new debt will be 7% and the price-earnings ratio will be 6. If the expansion program is financed through equity, new shares can be sold netting Rs.25 per share; and the price-earnings ratio will be 7. The expansion will generate additional sales of Rs.1,50,000 with a return of 10% on sales before interest and taxes. If the company is to follow a policy of maximizing the market value of its shares, which form of financing should it choose?

OR

- b) Why do M&As quite often fail? List the important reasons for failures of mergers. 4%
2. a) Explain the Agency Theory and Hubris Hypothesis in brief. 4%
 - b) Differentiate between Purchase method and Pooling of Interest method of accounting. 4%
- OR
- a) Which are the globally practiced prominent defense tactics? Enumerate them and discuss any four. 4%
 - b) Under the SEBI buy-back regulations, what are the different methods of buy-back? 4%
3. a) What are the various funding options to effect the payment of consideration to the target company's shareholders? 4%

b) Explain the concept of leverage buy-out in brief. 4%

OR

a) Define strategic alliances and briefly explain the key drivers of the same. 4%

b) It is rightly said, "A coin has two sides". Explain this statement considering joint ventures. 4%

4. a) Write short notes on: (Any 1) 4%

i. ESOPS

ii. Treatment of Reserves specified in a Scheme of Amalgamation.

b) List and explain the various factors that determine the value of the firm. 4%

OR

a) Discuss in detail the Market-Based Approach of business valuation. 4%

b) Distinguish between: (Any 1) 4%

i. Demerger & Reconstruction

ii. Demerger & Hiving-off

5. You have been provided the following financial details of two companies: 8%

Particulars	Krishna Ltd.	Rama Ltd.
Earnings after taxes	Rs. 7,00,000	Rs. 10,00,000
Equity shares outstanding	2,00,000	4,00,000
EPS	3.5	2.5
P/E Ratio	10 times	14 times
MPS	Rs. 35	Rs. 35

Company Rama Ltd. is acquiring the company Krishna Ltd. exchanging its shares on a one-one basis for company Krishna's shares. The exchange ratio is based on the market prices of the shares of the two companies.

You are required to calculate:

i. The EPS subsequent to merger.

ii. Change in EPS for the shareholders of both the companies.

iii. The market value of the post-merger firm.

iv. The profits accruing to shareholders of both the companies.

Kadi Sarva Vishwavidhlaya
MBA II Sem IV End Term Examination
Corporate Finance and Restructuring (FS422)

Time 2.00 to 4.30

Marks 40

Date: 5th May 2015

Q-1(a) The EBIT indifference point between two alternative financing plans helps in determining an appropriate mix of debt and equity in a firm's capital structure-Discuss (4)

Q-1(b) "Risk is inherent in capital budgeting decisions as they involve costs and benefits extending over a long period of time", Sensitivity analysis tells what happen to NPV or IRR if sales decline by 7 % or 10% from their expected level? Explain with the help of example (4)

OR

Q-1(b) Explain various motives behind Corporate Restructuring. (4)

Q-2(a) Not all the changes that a company undergoes would qualify to be called 'Corporate Restructuring'. Explain different forms of Corporate Restructuring. (4)

Q-2(b) Tata Steel acquiring Corus, is the case of horizontal integration- Explain. (4)

OR

Q-2(a) Oriental Bank of Commerce's (OBC) takeover of Global Trust Bank (GTB) was because of the fact that OBC had strong branch network in the north, but had not explored the western and southern part of India where GTB had a strong network and franchise. Explain type of synergy recognised by the efficiency theory of Mergers and Acquisition. (4)

Q-2(b) How does buyback of shares by the company help in increasing the promoters' stake in the company? Explain as s takeover defence tactic. (4)

Q-3(a) Explain in detail the Due Diligence Process. (4)

Q-3(b) Briefly explain Enterprise DCF Model of valuing a company. (4)

OR

Q-3(a) Enterprise is evaluating a project for introducing a new product. Depending on the response of the market company had forecasted three different Scenarios as follows:

	(Rs in million)		
	Scenario 1	Scenario 2	Scenario 3
Initial investment	300	300	300
Unit Selling Price	25	15	40
Demand (Unit)	20	40	10

Variable cost per unit Rs 12, Fixed cost 50 Rs, Depreciation Rs 20, Tax rate 50 %, project life is 10 years, calculate NPV at different scenario if discount rate is 15 %. (4)

Q-3 (b) Based on the above calculation of scenario analysis suggest the management about the capital budgeting decision of the company, whether the company should introduce a new product and if yes under what scenario. (4)

Q-4(a) Distinguish between Pooling of Interest and Purchase method of accounting for amalgamation. (4)

Q-4(b) Elaborate on the benefits of Strategic alliance. Provide suitable examples. (4)

OR

Q-4(a) What are the basic elements of a joint venture? Discuss. (4)

Q-4(b) Discuss the steps involved in an Leveraged buyout model of restructuring with the help of example. (4)

Q-5 (a) Explain the mechanism of a leveraged buyout ESOP. (4)

Q-5(b) Vodafone's intention behind acquisition of Hutchison Essar was to gain operating synergy- do you agree? Justify your answer (4)