Seat No.: _____ Enrolment No._____

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA - SEMESTER– IV EXAMINATION – SUMMER 2014

Subject Code: 2840201 **Date: 05-05-2015**

Subject Name: Mergers and Acquisitions (M & A)

Time:10.30 am - 13.30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q.1 **(a)** What is Corporate Restructuring? Discuss in brief major forms of corporate restructuring. **07**

(b) State the major methods of effecting payment of consideration to the shareholders of target company. Explain features of each method in detail. **07**

Q.2 **(a)** Explain the concept of Friendly and hostile takeovers. Discuss in brief various tactics that can be used by target company to defend the hostile takeover by an acquirer. **07**

(b) With reference to Accounting Standard-14, discuss in brief different methods of amalgamation and conditions for the same, if any. **07**

OR

(b) The law governing amalgamations (whether mergers or consolidations) and demergers is contained in sections 390 to 394A and 396 and 396A of Companies act 1956. Explain major provisions of each section in detail. **07**

Q.3 **(a)** Mergers and acquisitions can have an adverse impact on healthy state of competition prevailing in the markets. One of the objectives of the competition act 2002 is to promote and sustain competition in markets. With respect to this explain in detail major provisions of Competition act 2002 governing combinations. **07**

(b) Firm A is planning to acquire firm B relevant financial details of both the firms before acquisition are, **07**

Particulars	A Ltd.	B Ltd.
Market Price per Share	Rs. 50	Rs. 20
Number of shares	10,00,000	5,00,000
Market Value of firm	Rs. 50 million	Rs. 10 million

The merger is expected to bring the gain which has present value of Rs. 10 million. Firm A offers 2,50,000 shares in exchange of 5,00,000 shares of firm B. Find out

1. Benefit and cost of merger for firm A
2. Net Present Value for firm A
3. Net Present Value for firm B

OR

Q.3 **(a)** Large Company is intending to acquire small company by merger and following information is available in respect of companies. **07**

Particulars	Large Company	Small Company
Number of equity shares	10,00,000	6,00,000
Earnings after tax	Rs. 50,00,000	Rs.18,00,000
Market value per share	Rs. 42	Rs. 28

1. What is present EPS of both the companies?
2. If proposed merger take place, what would be the new EPS of Large Company. Assume that merger take place by exchange of equity shares and exchange ratio is based on current market price.
3. What should be the exchange ratio if Large Company wants to ensure that EPS before merger and EPS after merger remain same?

(b) Under the provisions of Indian Income tax act 1961, explain the tax implications of amalgamation and demerger in terms of capital gain tax and carry forward and set off of losses and unabsorbed depreciation. **07**

Q.4 **(a)** The following financial information is available for company D, a pharmaceutical company **07**

PBDIT	Rs. 18 Crore
Book value of assets	Rs. 90 Crore
Sales	Rs. 125 Crore

Based on evaluation of several pharmaceutical companies, companies A, B and C have been found to be comparable to company D. Looking at the characteristics of A, B and C following multiples are reasonable for company D.

Market Value / PBDIT	17
Market Value / Book value	3
Market Value / Sales	2.2

Find out value of D by using each of the above multiple

(b) Explain major provisions of Securities and Exchange Board of India (Buy back of securities) Regulations, 1998. **07**

OR

Q.4 **(a)** Global limited is interested in acquiring Local Ltd. It is based on the following assumptions **07**

- Growth rate in assets, revenue and after tax profit would be 20% for first three years, 12% for next two years and 8% thereafter.
- The ratio of profit after tax to net assets would be 0.12 (In the beginning of the year)
- The opportunity cost of capital for the proposed acquisition is 11%
- The book value of assets owned by Local Ltd. is Rs.50 million (In year 0)

Find out value of Local Ltd. By using

1. Discounted Cash Flow (DCF) approach
2. Economic Value Added (EVA) approach

(b) Explain major provisions of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 with respect to offer price and offer size. **07**

Q.5 **(a)** What is divestiture? What are the reasons for divestitures? **07**

(b) Explain the concept of strategic alliance. Why do companies enter into strategic alliances? What are the implications of strategic alliance? **07**

OR

Q.5 **(a)** "While due diligence is not an insurance against a bad deal, it certainly provides enough assurance that the due diligence is per se not bad." In context of above statement explain the concept of due diligence and major types of due diligence in brief. **07**

(b) Explain the concept of cross border acquisitions and state the problems encountered in cross border acquisitions. **07**

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