

Registration No. :

--	--	--	--	--	--	--	--	--	--

Total number of printed pages – 3

MBA
MGT 405B

Fourth Semester Regular Examination – 2015
CORPORATE RESTRUCTURE AND VALUATION

BRANCH : MBAR

QUESTION CODE : J 394

Full Marks – 70

Time : 3 Hours

Answer Question No. 1 which is compulsory and any five from the rest.

The figures in the right-hand margin indicate marks.



1. Explain the following concepts :

2×10

- (a) Economic advantages of M and A
- (b) Due diligence
- (c) Conglomerate merger
- (d) Hostile Acquisition
- (e) LBO Vs MBO
- (f) Divestiture
- (g) Purchase Method
- (h) Post-merger integration
- (i) Pooling of interest
- (j) EVA Vs MVA.

P.T.O.

2. Alfa Ltd. is considering the acquisition of Beta Ltd. by making an offer of shares at five times of Beta's present earnings. Alternatively, a reverse takeover is possible whereby Beta could offer to buy Alfa's shares at 20 times its present earnings. What are the implications of these proposals? The relevant data are given below :

	Alfa	Beta
EPS (Rs)	2	2
MPS (Rs)	40	20
PE Ratio	20	10
No. of shares	400 k	400 k
Profit after Tax (Rs)	800 k	800 k
Total market value (Rs.)	16000 k	8000 k



- (i) Calculate the effect on EPS
- (ii) Would your answer be different if there are merger benefits of Rs.200,000 and Rs.100,000 in the 1st proposal and 2nd proposal respectively? 10
3. X Company wants to acquire Y Company. If the merger were effected through an exchange of shares, X company would be willing to pay 40% premium for Y company's shares. The following data are pertinent to companies X and Y.
- | | X Company | Y Company |
|------------------------------|-----------|-----------|
| Net profit (Rs.) | 1000 k | 200 k |
| No. of shares | 500 k | 250 k |
| Market price per share (Rs.) | 120 | 30 |
- (a) Compute the combined EPS
- (b) What exchange ratio would you suggest?
- (c) If the exchange ratio were 1 share of company X for each share of company Y, what would happen? 10
4. What leads to the failure of a merger or acquisition? How should a company ensure that merger or acquisition is successful? 10

5. What do you mean by tender offer ? What tactics are used by a target company to defend itself from a hostile take over ? 10
6. Define and distinguish between the concepts of merger, takeover and amalgamation. Illustrate your answer with suitable examples in Indian context. 10
7. In the current year, a firm has reported a profit of Rs.130 lakhs after paying 35% tax. The analyst ascertains that the current years income includes : 10
- (i) extra ordinary income of Rs.20 lakhs
- (ii) an extraordinary loss of Rs.6 lakhs. The company wishes to launch a new product in the coming year. Revenue and cost estimates in respect of the new product are as follows :

Sales	:	Rs.120 lakhs
Material cost	:	Rs.30 lakhs
Labour cost (additional)	:	Rs.20 lakhs
Allocated Fixed Costs	:	Rs.10 lakhs
Additional Fixed Costs	:	Rs.16 lakhs



From the given information, compute the value of business, given the capitalization rate applicable to such business in the market 15%.

8. Calculate EVA with the help of the following information of HH Ltd : 10
- | | | |
|--------------------|---|-----------------------------------|
| Financial Leverage | : | 1.4 times |
| Capital structure | : | Equity capital Rs.170 lakhs |
| | | Reserves and Surplus Rs.130 lakhs |
| | | 10% Debentures Rs.400 lakhs |
| Cost of Equity | : | 17.5% |
| Income Tax rate | : | 30%. |