QPC: RA19MBA089 AR - 19 Reg. No

GIET UNIVERSITY, GUNUPUR – 765022

M. B. A (Fourth Semester) Examinations, May' 2021

MB 403 B – CORPORATE RESTRUCTURING AND VALUATION

Time: 2 hrs Maximum: 50 Marks

The figures in the right hand margin indicate marks.

PART – I: (Multiple Choice Questions) (1 x 10 = 10 Marks)

Q. 1 Answer ***ALL*** questions

a. The "information effect" refers to the notion that

(i) A corporation's actions may convey information about its future prospects.
(ii) Management is reluctant to provide financial information that is not required by law.
(iii) Agents incur costs in trying to obtain information.
(iv) The financial manager should attempt to manage sensitive information about the firm.

b. Forms of business combinations include

(i)Mergers
(ii)Consolidations
(iii)Holding companies and consolidations
(iv) Mergers, Consolidations and Holding companies

c. When the net income of the combined companies after merger exceed the sum of the net incomes prior to the merger,--------- is said to exist

(i)Synergy
(ii) leverage
(iii)goodwill
(iv) greenmail

d. The following reasons are good motives for merger except

(i) Economies of scale
(ii)complementary resources
(iii)diversification
(iv)eliminating inefficiencies

e. Which of the following hypotheses attempt to explain the motivation behind creating barriers to receiving unsolicited takeover offers?

(i) Only the shareholders' interest hypothesis.
(ii) Only the managerial entrenchment hypothesis.
(iii) Both the first and second answers are hypotheses that attempt to explain this motivation.
(iv) only take over hypothesis

f. What is a business organizational model that involves the large-scale outsourcing of business functions?

(i) Corporate liquidation
(ii) joint venture
(iii) Virtual corporation.
(iv) equity carve-out

g. The restructuring of a corporation should be undertaken if

(i) the restructuring can prevent an unwanted takeover
(ii) the restructuring is expected to create value for shareholders
(iii) the restructuring is expected to increase the firm's revenue
(iv) the interests of bondholders are not negatively affected.

h. Suppose that the market price of Company X is Rs.55 per share and that of Company Y is Rs.35. If X offers three-fourths a share of common stock for each share of Y, the ratio of exchange of market prices would be:

(i)1.1785
(ii)1.2161
(iii)1.512
(iv)2.1

i. One means for a company to "go private" is

(i)divestiture
(ii) LBO
(iii)the pure play
(iv) the pre packaged reorganization

j. A bidder that offers a higher price to the first fixed quantity of shares tendered and a lower second price for all remaining shares is engaging in __________.

(i) Strategic acquisition (ii) Financial acquisition

(iii)two –tier tender offer (iii) Shark repellent

PART – II (A): (Short Answer Questions) (2 x 5 = 10 Marks)

Q.2. Answer ***ALL*** questions

a. Define corporate restructuring

b. What do you mean by cross border acquisitions?

c. What are the different types of merger?

d. State different methods of valuation

e. Define franchise acquisition

PART – III: (Long Answer Questions) (6 x 5 = 30 Marks)

Answer any **FIVE** questions.

3. Write a brief note on provisions relating to competitive bid under SEBI (Substantial acquisition of shares and takeover), Regulations 1997 ?

4. Raj Ltd. is intending to acquire Vishnu Ltd. by merger and the following information is available in respect of both the companies: Vishnu Ltd. Raj Ltd. No. of equity shares 5,00,000 3,00,000 Profit after tax (Rs.) 25,00,000 9,00,000 Market price per share (Rs.) 21 14

(i) Calculate the present EPS of both companies.

(ii) (ii) If the proposed merger takes place, what would be the new EPS for Vishnu Ltd? Assume that the merger takes place by exchange of equity shares and the exchange ratio is based on the current market price.

(iii) Will you recommend the merger of both the companies? Justify your answer.

5. Differentiate between takeover and acquisitions

6. Discuss the factors involved in post merger reorganization

7. "Corporate restructuring is carried out to meet certain predetermined objectives". Discuss.

8. What are the various implications of corporate restructuring

9. Mergers, demergers, takeovers or combinations or acquisitions take place as a vehicle for achieving faster corporate growth. Discuss.

10. XYZ Ltd. is considering merger with ABC Ltd. XYZ Ltd.'s shares are currently traded at Rs. 25. It has 2,00,000 shares outstanding and its profits after taxes (PAT) amount to Rs. Rs. 4,00,000. ABC Ltd. has 1,00,000 shares outstanding. Its current market price is Rs. 12.50 and its PAT are Rs. 1,00,000. The merger will be effected by means of a stock swap (exchange). ABC Ltd. has agreed to a plan under which XYZ Ltd. will offer the current market value of ABC Ltd.'s shares:

(i) What is the pre-merger earnings per share (EPS) and P/E ratios of both the companies?

(ii) (ii) If ABC Ltd.'s P/E ratio is 8, what is its current market price? What is the exchange ratio? What will XYZ Ltd.'s post-merger EPS be?

(iii) (iii) What must the exchange ratio be for XYZ Ltd.'s that pre and post-merger EPS to be the same?

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