0 mins	Max Marks:	40	Sem:	II	Branch:	MBA

	Marks	OBE	
		CO	RBT
l Questions (16*02=32 Marks)			
	[02]	CO4	L1
ist its types	[06]	CO4	L4
	[08]	CO4	L2
nportance	[02]	CO4	L1
	[06]	CO4	L2
t of ∴ Ltd as on 31^{st} March 2017,	[08]	CO4	L3

Rs	Assets	Rs
150,000	Fixed assets	32,50,000
900,000	Investments	600,000
750,000	Current assets	500,000
700,000		
500,000		

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Internal Assesment Test - II

Sub:	Mergers Acquisitions and Corporate Restructuring							Code:	17MBAFM401
Date:	15.04.2019	Duration:	90 mins	Max Marks:	40	Sem:	II	Branch:	MBA

	Marks	OBE CO	OBE RBT

Part A - Answer Any Two Full Questions (16*02=32 Marks)

1 (a) **Define Corporate Restructuring** [02] CO4 L1

Corporate restructuring refers to the changes in ownership, business mix, asset mix & alliance with a view to *enhance the shareholders value*.

Hence, corporate restructuring may involve:

a) ownership restructuring,
b) business restructuring,
c) asset restructuring

Purpose of making it more efficient and more profitable

(b) **Explain purchase consideration, list its types** [06] CO4 L4

purchase consideration is the agreed amount which transferee company (Purchasing company) pays to the transferor company (Vendor company) in exchange of the ownership of the transferor company. It may be in form of cash, shares or any other assets as agreed between both the companies.

For example, XYZ Ltd is purchasing the business of ABC Ltd for an agreed amount of INR 5000K and 100K shares of INR 10 each. Here, purchase consideration is INR 6000K (5000000 + 1000000).

Methods of Purchase Consideration:

There are four various methods which can be used in this calculation:

Net asset method –

Net payment method –.

Lump sum method –

Intrinsic value/ Share exchange method –

(c) Discuss MLP and its types [08] CO4 L2

A **master limited partnership (MLP)** is a publicly traded limited partnership. Shares of ownership are referred to as units. MLPs generally operate in the natural resource, financial services, and real estate industries.

Types:

Roll up MLP
Liquidation MLP
Acquisition MLP
Roll out MLP
Start up MLP

2 (a) **What is Business Valuation its importance** [02] CO4 L1

Business valuation is the general process of determining the economic value of a whole business or company unit. Business valuation can be used to determine the fair value of a business for a variety of reasons, including sale value, establishing partner ownership, taxation, and even divorce proceedings. Owners will often turn to professional business evaluators for an objective estimate of the value of the business.

(b) **LBO VS MBO** [06] CO4 L2

LBO	MBO
In LBO investors remain outsiders	In MBO owners are insiders
LBO preserves equity liquidity	In MBO shares remain illiquid
LBO remains the company publicly traded	MBO leads to private companies
Acquiring using borrowed funds	Owners are insiders

(c) The following is the balance sheet of A Ltd as on 31st March 2017, [08] CO4 L3

Liabilities	Rs	Assets	Rs
Equity Share capital: of Rs 10 each fully paid	150,000	Fixed assets	32,50,000
General Reserve	900,000	Investments	600,000
Preference share capital	750,000	Current assets	500,000
15% Debentures	700,000		
Current liabilities	500,000		

Calculate purchase consideration under the following conditions using Net asset method

a) Discharge debentures at a premium of 12% debenture of X Ltd.
b) Fixed Assets above 15% of the book value
c) Investments at par value@ 10% Premium
d) Current assets at a discount of 12%
e) Current assets at a book value.

3 (a) **State the meaning of buy back of shares** [02] CO4 L1

A buyback, also known as a share repurchase, is when a company buys its own outstanding shares to reduce the number of shares available on the open market. Companies buy back shares for a number of reasons, such as to increase the value of remaining shares available by reducing the supply or to prevent other shareholders from taking a controlling stake.

(b) **Explain purchase consideration, list its types** [06] CO4 L4

purchase consideration is the agreed amount which transferee company (Purchasing company) pays to the transferor company (Vendor company) in exchange of the ownership of the transferor company. It may be in form of cash, shares or any other assets as agreed between both the companies.

For example, XYZ Ltd is purchasing the business of ABC Ltd for an agreed amount of INR 5000K and 100K shares of INR 10 each. Here, purchase consideration is INR 6000K (5000000 + 1000000).

Methods of Purchase Consideration:

There are four various methods which can be used in this calculation:

Net asset method –

Purchase consideration is equal to the total net asset of transferor company.

Total agreed amount of asset – Total agreed amount of liabilities

Net payment method –

Payment made to the shareholders of transferor company in form of cash, shares or debentures.

Lump sum method –

Fixed amount paid by the transferee company to the transferor company. This method does not require any calculation as the amount is decided by mutual consent of both the companies.

Intrinsic value/ Share exchange method –

Purchase consideration is calculated by dividing the net asset value of transferor company by price of one share of transferee company.

(c) X Ltd wishes to acquire Y LTd. The financial details are as follows: [08] CO4 L3

Liabilities	X Ltd	Y Ltd	Assets	X Ltd	Y Ltd
10% Debentures	100,000	100,000	Fixed assets	600,000	250,000
P &L A/c	150,000	100,000	Current assets	350,000	210,000
Share Premium A/c	-	10,000			
Equity share @ Rs 100 each	500,000	250,000			
Preference share	200,000	-			
Total	**950,000**	**460,000**	**Total**	**950,000**	**460,000**

Additional information:

a)Annual profit available to equity shareholders after tax and preference dividend is as follows:
X LTd: Rs 150,000 Y Ltd: Rs 80,000

b)MPS per equity share:
X Ltd: Rs 200 Y Ltd:Rs 250

Calculate share exchange ratio based on : a) NAV b) EPS c) MPS

Part B - Compulsory (01*08=08 marks)

4

(a) PQ Ltd wants to acquire MN Ltd by exchanging its 1.6 shares for every share of MN Ltd. It anticipates to maintain the existing P/ E ratio subsequent to merger also. The relevant financial data are furnished below: [08] CO4 L3

Particulars	PQ Ltd	MN Ltd
EAT (Rs)	15,00,000	450,000
No. of equity shares outstanding	300,000	75,000
Market price per share (Rs)	35	40

A) What is the exchange ratio based on market price
B) What is the pre merger and P/E ratio for each company?
C) What will the P/E ratio used in acquiring MN Ltd
D) What is the EPS of PQ Ltd after acquisition?
E) What is the expected market price per share of the merger firm?

CO3 L3

Course Outcomes		PO1	PO2	PO3	PO4	PO5	PO6	PO7
CO1:	Understand Corporate and merger acquisition activity							
CO2:	Analyse M & A deals that took place in the past							
CO3:	Understand the synergies of M &A							
CO4:	Compute the valuation associated with M & A	1a, 1b. 1c, 3a, 3b	2a , 2b				2c, 3c, 4c	
CO5:	Understand the human and cultural aspect of M &A							

Cognitive level	KEYWORDS
L1	List, define, tell, describe, identify, show, label, collect, examine, tabulate, quote, name, who, when, where, etc.
L2	summarize, describe, interpret, contrast, predict, associate, distinguish, estimate, differentiate, discuss, extend
L3	Apply, demonstrate, calculate, complete, illustrate, show, solve, examine, modify, relate, change, classify, experiment, discover.
L4	Analyze, separate, order, explain, connect, classify, arrange, divide, compare, select, explain, infer.
L5	Assess, decide, rank, grade, test, measure, recommend, convince, select, judge, explain, discriminate, support, conclude, compare, summarize.

Solution to Qn 2c

2c. Calculation of purchase Consideration

Total Assets Taken over:

Fixed assets.		32,50,000	
(+) Premium $\frac{15}{100} \times 32,50,000$		487500	37,37,500
Investment. 10%.		600,000	
Premium (+) $\frac{10}{100} \times 600,000$		60,000	660,000
Current assets 12% discount		500,000	
(–) Discount $\frac{12}{100} \times 500,000$		60,000	440,000
	Total assets taken over (A)		48,37,500

Total liabilities Transferred

Current liabilities.			500,000.
Debenture. 700,000			
(+) Premium $\frac{12}{100} \times 700,000$	84000		784000
	Total liabilities Transferred (B)		12,84,000

Purchase Consideration

A – B

48,37,500 – 12,84,000 = 35,53,500 Rs

Purchase Consideration = Rs 35,53,500/-

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Part B

4a).

Share Exchange ratio based on market price

i) $SER = \frac{MPS \text{ of } MN \text{ (Seller)}}{MPS \text{ of } PQ \text{ (Buyer)}} = \frac{40}{35} = 1.14.$

For every one share of MN (seller) the Buyer PQ Exchanges 1.14 shares according to MPS.

∴ ~~The Total number of~~

Calculation of number of shares to be exchanged

PQ Exchanges. 1.6 Shares of every share of MN Ltd

MN Ltd : 1.6

Total share of MN Ltd = x
75000

∴ Number of shares to be Exchanged = 75000 E.S × 1.6
120,000 Eq. Share

ii). Premerger P/E Ratio of each Co

$P/E = \frac{MPS}{EPS}$. MPS is Given for both Co

PQ	MN
35	40

EPS should be calculated

$EPS = \frac{EAT}{\text{No. of Eq. Sh. O/s}}$

PQ	MN
$= \frac{15,00,000}{300,000} = Rs\ 5$	$\frac{450,000}{75000} = 6.$

		PQ	HN
Calculation of P/E :	$\frac{MPS}{eps}$:	$\frac{35}{5}$	$\frac{40}{6}$
	P/E =	7 times	6.7 times

EPS after Merger = $\frac{EAT}{\text{No. of ES. O/s after merger}}$

$= \frac{1500,000 + 450,000}{300,000 + 120,000} = \frac{19,50,000}{420,000}$

eps after merger = Rs = 4.64/share

MPS after merger = eps after merger × P/E Ratio of merged firm

4.64 × 7

= Rs 32.48/-

Solution to 3C

3C. Calculation of Share Exchange Ratio

b) EPS = $\dfrac{\text{eps of seller}}{\text{eps of buyer}}$

	X	Y
Calculation of eps. = $\dfrac{EAT}{\text{No. of Eq. Sh. O/S}}$	$= \dfrac{150{,}000}{5000}$	$= \dfrac{80{,}000}{2500}$
	= Rs 30/-	= Rs 32/-
	Rs 30/-	

SER = $\dfrac{\text{Eps of Y}}{\text{Eps of X}} = \dfrac{32}{30} = 1.07$

For every 1 share of Y Ltd X Ltd Exchanges 1.07 shares. Hence Total number of shares to be exchanged is $1.07 \times 2500 = 2675$ share

c) Based on MPS = SER on MPS = $\dfrac{\text{MPS of Y}}{\text{MPS of X}}$

$= \dfrac{250}{200} = 1.25$

For every 1 share of seller Y, X Exchanges its 1.25 share

Total number of shares Exchanged is 1.25×2500 share

= 3125 shares.

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Calculation of SER on NAV.

$$NAV = \frac{\text{Book value per share}}{\text{No. of Eq. sh o/s}}$$

Calculation of Book value.

	X	Y.
Fixed assets	600,000	250,000.
Current assets	350,000	210,000
	950,000	460,000
(–) Pref share	200,000	—
(–) 10% debenture.	100,000	100,000
Book value	650,000	360,000

$$NAV = \frac{\text{Book value}}{\text{No. of Eq sh o/s}} \quad \frac{650,000}{5000} \quad \frac{360,000}{2500}$$

= Rs 130   Rs 144

$$SER \text{ based on } NAV = \frac{NAV \text{ of } Y}{NAV \text{ of } X} = \frac{144}{130} = 1.11$$

For Every 1 share of Y, X Exchanges its 1.11 shar
Hence the number of shares to be Exchanged is

1.11 × 2500 = 2769 Eq share