

**GUJARAT TECHNOLOGICAL UNIVERSITY**  
**MBA – SEMESTER 4 – EXAMINATION – WINTER 2016**

**Subject Code: 2840201****Date: 24/10/2016****Subject Name: Mergers & Acquisitions (M&A)****Time: 02:30 pm to 05:30 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) Multiple Choice Questions (1x6 = 6 Marks)**

1. Which of the following are commonly cited reasons for M&As?
  - a. Synergy
  - b. Market power
  - c. Strategic realignment
  - d. All of the above
2. A merger is a combination of businesses in which \_\_\_\_\_
  - a. two businesses combine to form a new business.
  - b. the participants are necessarily comparable in size, competitive position, profitability, and market capitalization.
  - c. one of the two firms becomes a wholly owned subsidiary of the other firm.
  - d. none of the above.
3. An employee stock ownership plan (ESOP) is a trust that \_\_\_\_\_
  - a. can be used as alternative to a divestiture.
  - b. can be used to purchase the shares of the owners of a privately held firm in a leveraged buyout.
  - c. can be used as a means of placing a firm's stock in "friendly" hands to help dissuade an unwanted takeover attempt.
  - d. all of the above.
4. Vertical mergers are those in which the participants are \_\_\_\_\_
  - a. in the same industry.
  - b. in different industries
  - c. in different phases of the value chain.
  - d. none of the above.

5. All of the following are common motives for a merger or acquisition except for \_\_\_\_
- operating synergy
  - financial synergy
  - raising the cost of capital.
  - buying undervalued assets.
6. A strategy of anti-takeover under which the acquirer puts pressure on the management of the target company by threatening to make an offer is known as:
- Street sweep
  - Bear Hug
  - White knight
  - Brand power

**Q. 1. (b). Define the Following. (1x4 = 4 Marks).**

- Divestiture
- Consolidation
- Carve-out
- Book Value

**Q. 1. (c). What are the ten main forms of corporate restructuring? 04**

**Q. 2. (a). Why do companies resort to reduction of capital despite the buy-back route being available? Explain with the help to example. 07**

**(b). Discuss the provisions related to Mergers and Acquisition given in Income Tax Act, 1961. 07**

**OR**

**(b). How does buy-back of shares of by a company help in increasing the promoters stake in the company? Explain with a numerical example. 07**

**Q. 3. (a). Explain the accounting treatment of assets, liabilities and reserves in the purchase method contrasting the same with the pooling of interest method. 07**

**(b). What is due diligence? Why there is a need for due diligence in M&A? 07**

**OR**

**Q.3.(a). Explain the concept of ESOP in detail 07**

- (b). Ajeet Company plans to acquire Jeet Company. The relevant financial details of the two firms, prior to merger announcement, are given below: **07**

	<b>Ajeet Company</b>	<b>Jeet Company</b>
Market Price Per Share	Rs. 60	Rs. 25
No. of Shares	3,00,000	2,00,000

The merger is expected to bring gains which have a present value of Rs. 4 million. Ajeet Company offers one share in exchange for every two shares of Jeet Company.

- (a) What is the true cost of Ajeet Company for acquiring Jeet Company?
- (b) What is the net present value of the merger to Ajeet Company?
- (c) What is the net present value of the merger to Jeet Company?

- Q.4.(a).** Explain the concept of strategic alliance. Why do companies enter into strategic alliances? What are the implications of strategic alliance? **07**

- (b). Sunny Ltd. is studying the possible acquisition of Rainy Ltd. And the following information is available :

	<b>Sunny Ltd.</b>	<b>Rainy Ltd.</b>
<b>Profit after tax</b>	Rs. 300000	Rs.75000
<b>Equity shares outstanding</b>	50000	10000
<b>P/E multiple</b>	3	2

If the merger takes place by exchange of equity Shares based on market price, what is the EPS of the new firm? **07**

**OR**

- Q.4.(a).** Explain the role of major factors that influence Cross Border Mergers and Acquisitions. **07**

- (b). Explain in detail various methods used to do the valuation of Business in an M&A activities. **07**

Taking advantage of the Wall Street meltdown and global financial crunch, the cash-rich IT and BPO firms were on a bargain-hunting spree on the deal street late 2008 and early 2009. The Indian IT and ITES companies witnessed M&A and PE investments worth \$3.8 billion in the year up to December 15, 2008 surpassing \$3.62 billion in 2007, including the WIPRO's acquisition of CITI Technology Services, the India-based captive IT unit of Citigroup Inc at \$127 million.

Of the total M&A & PE deals worth \$3.8 billion, as many as 72 cross-border deals added to nearly \$2.69 billion (\$2.51 billion in 2007), according to advisory firm Grant Thornton. This included \$2.27 billion of outbound acquisitions and \$306 million in inbound deals. However, even as the IT companies went on an acquisition overdrive, the PE deals between January and December 15, 2008 slumped to \$488 million (\$744 million in 2007).

The acquisition spree is with valuable reason. A CFO of a large Indian IT services company said that the valuations, which were earlier ruling at 1.5-2 times sales, became more realistic. "It came down to one time sales. Also, many customers were trying to hive off their non-core business and picking-up such assets can bring committed revenue and access to new customers", he said.

CITI's sale of its captive BPO unit to Tata Consultancy Services in a \$505-million deal in October and HCL Technologies buy-out of UK consulting firm Axon for \$658 million earlier this month in 2008 were big-ticket acquisition. But this entire pale off when we considered Tata Steel's acquisition of Corus Steel few years ago. Market power was the main reason Tata targeted at that time. In July 2008, BPO firm QUATRRO acquired over 60 per cent stake in Babel Media (it invested in the company along with DE Shaw group). BPO firm WNS acquired UK insurance major AVIVA's BPO business for around \$228 million.

IT companies that have huge piles of cash are looking at leveraging it to get more business. Actually meltdowns are new found opportunities for takeover tycoons all over the world. Markets have revived in 2-3 years. So buyouts during troubled times actually do well in value creation. Acquisitions were coming with sourcing agreements, which offered clear revenue streams," says Mr Nishant Verma, Vice-President of advisory firm Tholons Capital. For instance, WIPRO-CITI Technology Services deal came with Master Services

Agreement under which the banking giant will source services worth at least half a billion dollars from the Indian vendor.

Mr Harish HV, Partner (Corporate Advisory Services), Grant Thornton, pointed out that the IT industry had been leveraging the sentiments in the global market as also the valuations to their advantage," adding that the momentum is likely to sustain in 2009, as more global firms, under pressure, will look to sell captive units.

**Answer the questions after carefully reading and understanding the case presented above.**

(a) Are troubled times better time for takeovers? Substantiate. **04**

(b) Leveraging cash chest, Value chain addition and synergy are factors in takeovers. Elucidate with examples. **05**

(c) Could there be occasions of bad acquisitions? Why do they happen? What exit routes are available? What protections are knitted through the deal? **05**

**OR**

**Q.5.** The following information is provided related to the acquiring firm Mark Limited and the target firm Mask Limited: **14**

<b>Particulars</b>	<b>Mark Limited</b>	<b>Mask Limited</b>
Earnings after tax	Rs. 2000 lakhs	Rs. 400 lakhs
Number of shares outstanding	200 lakhs	100 lakhs
P/E ratio (times)	10	5

Required:

- (i) What is the swap ratio based on current market prices?
- (ii) What is the EPS of Mark Limited after acquisition?
- (iii) What is the expected market price per share of Mark Limited after acquisition, assuming P/E ratio if Mark Limited remains unchanged?
- (iv) Determine the market value of the merged firm.
- (v) Calculate gain/loss for share holders of the two independent companies after acquisition.

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