

PGDM & IB Batch 2017-19

Mergers, Acquisitions and Corporate Restructuring

Subject Code: DM 514 / IB 512

Trimester V, End Term Examination: December 2018

Instruction: Students are required to write Roll No on every page of the question paper, writing anything except the Roll No will be treated as **Unfair Means**. All other instructions on the reverse of the Admit Card should be followed meticulously.

Time Allowed: 2 hrs 30 min

Roll No.: _____

Max Marks: 50

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Make assumptions wherever necessary and write them down at the beginning of the solution.

Section A: Answer any 3 out of 5 questions. Each question carries 5 marks.

- A1.** When cash is short, which type of business combination is more likely and why?
- A2.** Leveraged restructuring is similar still not the same compared to Leveraged buy-outs. Substantiate your opinion in 20 words.
- A3.** Assuming the markets to be perfectly efficient, what are the two factors that decide PE of the merged entity?
- A4.** Payment consideration being paid in form of shares has a unidirectional advantage of resulting in higher firm valuation and cash conservation. Do you agree with the above statement? Substantiate your opinion in 20 words.
- A5.** If the post-merger earnings will increase by 30% and PE multiple of the merged entity shall be more by 20% than the weighted average pre-merger PE, what is the value of synergy if the arithmetic sum of the pre-merger market cap is Rs. 20 Million?

Section B: Answer any 2 out of 3 questions. Each question carries 10 marks.

- B1.** What are the five ways of divestitures? Explain these briefly each of these concepts using diagrams and discuss the role of various stakeholders involved.
- B2.** Management Buyouts have few structural conflicts of interest. Explain at least three of these taking examples from the MBO of Dell Inc. with specific details wherever relevant.

B3. Following data pertains to two companies A and B that are planning to merge.

	A	B
EPS (Rs. / Share)	5.50	4.50
No of Shares	1,000	800
PE (x)	10	12

Based on the details above and assuming that synergy in earnings will be 30% and post-merger PE shall be 15x, answer the following questions:

- Divide the change in EPS between Bootstrapping Effect and Synergy Effect
- How much is the excess synergy that A will have to share with B? Reconcile the value with two different methodologies/formulae.

Working notes should form part of the main answer.

Section C: The question contains two parts. Both the parts are compulsory to attend.

Case Title: Jet Airways, no way forward

The Indian Airline industry is plagued with chronic problems like seasonality, sensitivity to fuel prices, inefficiencies, high operating leverage to name a few. Naresh Goel led Jet Airways is facing a lot of challenges. It is in talks with various suitors. The call is desperate, putting the operational control also negotiable. Retail shareholders hire you as a pre-merger consultant to safeguard their interest. Answer the following questions given the above context:

Part 1: What are the five things you will ensure get done to safeguard retail shareholders interest? **5 Marks**

Part 2: What are the three sources of synergy you can foresee if the deal goes through with Tata Group? How would you quantify each part of the synergy? Without using numbers, explain your thought process. **10 Marks**

*****End*****