2404M233

Candidate's Seat No :_________

MBA (General Management-Financial Management) - SEM IV

Subject: LS407 Mergers and Acquisition Management (M&AM)

TIME: 2.5 Hours	DATE: 24/04/2024	MARKS: 70

Q-1 A) What do you understand by Due Diligence? Mention the types of due diligence and what should be the contents of the due diligence report? 14

Q-2 A) What are the regulatory approvals of merger/amalgamation in detail with suitable practical example? 14

OR

B) The balance sheet of X Ltd. as on 31-3-2019 is as under:

Liabilities	Amount	Assets	Amount
Paid-up capital	3,50,000	Software division:	
Reserves and surplus	1,50,000	Building	2,50,000
Creditors	0	Debtors	1,00,000
Software division	1,50,000	Stocks	50,000
Cement division	2,00,000		
		Cement division:	
		Building	2,00,000
		Debtors	1,50,000
		Stocks	1,00,000
Total	8,50,000	Total	8,50,000

On 1-4-2019, X Ltd. decides to sell the cement Division for Rs.6,00,000 which was set up on 15-06-12.
The Building transferred in the slump sale belongs to 10% block. The WDV as on 1-4-19 of 10% block is Rs.5,00,000.
All the Buildings belonging to Cement Division were purchased on 18-12-2017 for Rs.3,00,000.
Determine tax treatment.

P.T.O

M233-2

Q-3	A) What do you mean by the term "takeover"? Describe different types of takeover bids and objectives. Which takeover seeks to achieve? **OR** B) "SEBI has formulated a comprehensive code for takeover of listed companies"-Explain this statement along with practical example.

Q-4

A) Smart Ltd. wants to acquire Dull Ltd. The balance sheet of Dull Ltd. as on 31st March, 2005 is as follow as:-

Liabilities	Amount	Assets	Amount
Equity share capital (60,000 shares)	6,00,000	Cash	20,000
Retained earnings	2,00,000	Debtors	30,000
12% debentures	2,00,000	Inventories	1,70,000
Creditors and other liabilities	3,20,000	Plant-Equipment	11,00,000
Total	13,20,000	Total	13,20,000

Additional information:

1. Shareholders of Dull Ltd. will get one share in Smart Ltd. for every two shares. External liabilities are expected to be settled at Rs.3,00,000 Shares of Smart Ltd. would be issued at its current price of Rs.15 per share. Debenture holders will get 13% convertible debentures in the purchasing company for the same amount. Debtors and inventories are expected to realize Rs.1,80,000

2. Smart Ltd. has decided to operate the business of Dull Ltd. as a separate division. The division is likely to give cash flows (after tax) to the extent of Rs.3,00,000 per year for 6 years. Smart Ltd. has planned that, after 6 years, this division would be de-merged and disposed of for Rs.1,00,000

3. Company's cost of capital is 14%.

Make a report to the managing director advising him about the financial feasibility of the acquisition.

Note: Present Value of Re. 1 for six years @ 14%: 0.8772, 0.7695, 0.6750, 0.5921, 0.5194 and 0.4556.

OR

B) An unlisted company AB Ltd.; manufacturing electrical equipments is currently in the expansion mode and is expected to be a good investment keeping in mind the expected sales and profits over the next 5 years. The projection statement of free cash flows is given below for the period 2006-2010. The shares are likely to be listed after an initial public offer (IPO) shortly.

Particulars(Rs. In Crores)	31/03/06	31/03/07	31/03/08	31/03/09	31/03/10
Income	99.58	121.48	151.91	189.76	231.4
Expenditure	87.63	106.29	132.16	164.15	199.01
Operating profit (PBDIT)	11.95	15.18	19.75	25.62	32.4
Less: Depreciation	3.23	9.29	9.63	9.63	9.31
Less: interest	0.85	0.67	0.39	0.12	0
PBT	7.87	5.23	9.73	15.87	23.08
Less: provision for taxation	2.6	1.72	3.21	5.24	7.62
Net profit	5.28	3.5	6.52	10.64	15.47
Add Depreciation	3.23	9.29	9.63	9.63	9.31
Less: Capital spending	14.57	30.3	1.7	0	0
Less: Working capital	17.09	22.59	12.59	12	12
Free cash flow to the firm	-23.16	-40.1	1.85	20.26	24.78

This is a company with similar risk characteristics that of XY Ltd. which is listed and whose average beta is 0.85. The risk free rate and the market risk premium are 7% and the company is funded with 93% equity and 7% debt, whose cost is 9.25%. A 5% growth is projected beyond 5 years till perpetuity. The firm falls in the 33% tax bracket. The total of 1.06 Crores shares would be outstanding. Find out the intrinsic value of share using Discounted Cash Flow Analysis.

Q-5 A) The following are the Balance Sheet of X Limited and Y Limited as on 31-12-2023.

Liabilities	X Ltd.	Y Ltd.	Assets	X Ltd.	Y Ltd.
Equity Shares of Rs. 100 each	36,00,000	18,00,000	Land and building	1800,000	9,00,000
				4,50,000	1,50,000
8% Preference shares of Rs. 100 each	15,.00,000	-	Investments	3,00,000	-
			Goodwill	9,60,000	4,50,000
			Debtors	6,00,000	3,60,000
General reserve	-	5,40,000	Stock	5,55,000	2,40,000
Bank Loan	3,00,000	-	Cash at Bank	1,50,000	-
Capital Reserve	1,05,000	3,60,000	Preliminary Exp.	3,90,000	-
			P&L A/c		
Workers Profit sharing funds	-	60,000			
10% Debentures	6,00,000				
Creditors	6,00,000	2,40,000			
	67,05,000	30,00,000		67,05,000	30,00,000

P.T.O

	Other Information: **On this date, these two companies decided to amalgamate and a new company XYZ Limited is formed with an authorised share capital of Rs. 84 lacs dividend into 69,000 equity shares and 15,000 10% Preference shares of Rs. 100 each.** **XYZ Limited takes over all assets and liabilities of both the companies except bank balance of Rs. 60,000 of Y Limited.** **The following terms are agreed upon:** **(1) The fixed assets of both the companies are to be taken over 20% more than the book value.** **(2) The equity shareholders of both the companies will be given 7 fully paid equity shares of XYZ Limited for every 6 equity shares held by them at a premium of 20%.** **(3) The Preference shareholders of X Limited, will be given 4 fully paid preference shares of XYZ Limited for every 5 preference shares held by them and Rs. 2,25,000 in cash.** **(4) The debenture holders of X Limited will be given 12% Debentures of Rs. 100 each of XYZ Limited at a discount of 10% so as to discharge their liabilities at 8% premium.** **(5) Rs. 12,000 cash to X Limited.** **XYZ Limited issued the remaining equity shares to the public at a premium of 20%,which were fully paid up. Preliminary expenses amounted to Rs. 60,000.** **You are required to Prepare (AS-14):** **(1) Opening Balance-sheet of XYZ Limited after giving effect to the above scheme of amalgamation.**

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