ST. PHILOMENA'S COLLEGE (AUTONOMOUS), MYSORE			
PG DEPARTMENT OF COMMERCE			
QUESTION BANK (Revised Curriculum 2018-20)			
SECONDYEAR- FOURTH SEMESTER (2018-20 Batch)			
COURSE TITLE (PAPER TITLE): MERGERS AND ACQUISITIONS QP Code: 53304			
UNIT	**S. I No**	**QUESTIONS**	**MARKS**
1	1	What is a Merger? Explain its importance.	5
1	2	Brief out the motive for mergers.	5
1	3	Briefly explain the Merits of mergers.	5
1	4	Briefly explain the Demerits of mergers.	5
1	5	What could be the reasons for failure of a merger? Explain.	5
1	6	What are the reasons for merging of companies?	5
1	7	"Every merger is not a success". Comment.	5
1	8	Explain Synergy in a merger.	5
1	9	Briefly explain Amalgamation.	5
1	10	Discuss the value creation in Vertical Merger.	5
1	11	Distinguish between Amalgamation and Absorption.	5
1	12	Explain Acquisition with examples.	5
1	13	Explain a Hostile takeover.	5
1	14	Explain Friendly takeover.	5
2	15	Briefly explain the term Corporate Valuation.	5
2	16	Write short notes on: a) Book value b) Intrinsic Value.	5
2	17	What are the objectives of Corporate Valuation?	5
2	18	Explain Asset based valuation.	5
2	19	What are the principles of Business Valuation?	5
2	20	Briefly explain the factors influencing PE based valuation.	5
2	21	Earnings of SPC Ltd., after tax is 5,00,00,000. The company pays 80% of its profits as dividend. The company has 25,00,000 shares of Rs. 100 each. Rate of return on investment is 12%. Cost of equity is 10%. Calculate the market value of share as per Walter's model.	5
3	22	Discuss any 2 failures of Mergers or acquisitions with real time examples.	5
4	23	Mergers and acquisitions are the best mode to go international. Comment.	5
2	24	ABC company has estimated that the profit-after-tax of XYZ ltd., can be maintained in future at a level of Rs. 154,000. **Additional information about XYZ is below** 10,000 equity shares of face value of Rs. 10 each 5000, 6% performance shares of Rs. 100 each. What is the value per share of equity if P/E ratio is 7?	5
2	25	ABC company has estimated that the profit-after-tax of XYZ ltd., can be maintained in future at a level of Rs. 154,000. Additional information about XYZ is below 10,000 equity shares of face value of Rs. 10 each 5000, 6% performance shares of Rs. 100 each. What is the value per share of equity if P/E ratio is 9.5?	5
2	26	ABC company has estimated that the profit-after-tax of XYZ ltd., can be maintained in future at a level of Rs. 154,000. Additional information about XYZ is below: 10,000 equity shares of face value of Rs. 10 each	5

<table>
<tr><td></td><td></td><td>5000, 6% performance shares of Rs. 100 each.
What is the value per share of equity if P/E ratio is 8.5</td><td></td></tr>
<tr><td>2</td><td>27</td><td>ABC Ltd., has been regularly paying a dividend of ₹ 3.5 on their shares. The number of equity shares is 25,000.
a) What is the value of equity if the return on investment is 14%
b) What is the value of equity if the dividend is expected to grow at 8% and 10% on a constant basis.</td><td>5</td></tr>
<tr><td>2</td><td>28</td><td>ABC Ltd., has been regularly paying a dividend of ₹ 4.5 on their shares. The number of equity shares are 25,000
a) What is the value of equity if the return investment is 15%
b) What is the value of equity if the dividend is expected to grow at 10% and 12% on a constant basis.</td><td>5</td></tr>
<tr><td>2</td><td>29</td><td>ABC Ltd., has been regularly paying a dividend of ₹ 3 on their shares. The number of equity shares are 15,000
a) What is the value of equity if the return investment is 15%?
b) What is the value of equity if the dividend is expected to grow at 8% on constant basis?</td><td>5</td></tr>
<tr><td>2</td><td>30</td><td>The earnings of ABC Ltd., after tax is ₹ 10,00,00,000. The company pays 80% of its profits as dividend. The company has 50,00,000 shares of ₹ 100 each.
Rate of return on investment is 14%.
Cost of equity is 12%.
Calculate the market value as per Walter's Model.</td><td>5</td></tr>
<tr><td>2</td><td>31</td><td>Earnings of ABC Ltd., after tax is ₹ 20,00,00,000. The company pays 80% of its profits as dividend. The company has 50,00,000 shares of ₹ 200 each.
Rate of return on investment is 14%. Cost of equity is 12%.
Calculate the market value of share as per Walter’s Model.</td><td>5</td></tr>
<tr><td>2</td><td>32</td><td>Earnings of ABC Ltd., after tax is ₹ 25,00,00,000. The company pays 75% of its profits as dividend. The company has 50,00,000 shares of ₹ 100 each.
Rate of return on investment is 12%. Cost of equity is 10%.
Calculate the market value of share as per Walter’s Model.</td><td>5</td></tr>
<tr><td>2</td><td>33</td><td>The estimated earnings of ABC Ltd., is ₹ 12. Retention ratio followed by the company is 40%. The return on equity is 14% and the capitalization rate is 15%. Calculate the value of Equity shares of the company.</td><td>5</td></tr>
<tr><td>2</td><td>34</td><td>The estimated earnings of ABC Ltd., is ₹ 10. Retention ratio followed by the company is 30%. The return on equity is 14% and the capitalization rate is 20%. Calculate the value of Equity shares of the company as per Gordon's model.</td><td>5</td></tr>
<tr><td>2</td><td>35</td><td>Calculate free cashflow from the following:<table><tr><td>Earnings after tax</td><td>₹ 1,00,00,000</td></tr><tr><td>Interest</td><td>₹ 20,00,000</td></tr><tr><td>Debenture expected to be redeemed</td><td>₹ 40,00,000</td></tr><tr><td>New capital expenditure</td><td>₹ 15,00,000</td></tr><tr><td>Expected redemption of preference stock</td><td>₹ 10,00,000</td></tr><tr><td>Preference dividend</td><td>₹ 50,000</td></tr><tr><td>Tax rate</td><td>25%</td></tr></table></td><td>5</td></tr>
<tr><td>2</td><td>36</td><td>Calculate free cashflow from the following:<table><tr><td>Earnings after tax</td><td>₹ 2,00,00,000</td></tr><tr><td>Interest</td><td>₹ 40,00,000</td></tr><tr><td>Debenture expected to be redeemed</td><td>₹ 80,00,000</td></tr></table></td><td></td></tr>
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<table>
<tr><td></td><td></td><td><table>
<tr><td>New capital expenditure</td><td>₹ 30,00,000</td></tr>
<tr><td>Expected redemption of preference stock</td><td>₹ 20,00,000</td></tr>
<tr><td>Preference dividend</td><td>₹ 90,000</td></tr>
<tr><td>Tax rate</td><td>25%</td></tr>
</table></td><td></td></tr>
<tr><td>2</td><td>37</td><td>Calculate free cashflow from the following:<table>
<tr><td>Earnings after tax</td><td>₹ 1,50,00,000</td></tr>
<tr><td>Interest</td><td>₹ 25,00,000</td></tr>
<tr><td>Debenture expected to be redeemed</td><td>₹ 50,00,000</td></tr>
<tr><td>New capital expenditure</td><td>₹ 25,00,000</td></tr>
<tr><td>Expected redemption of preference stock</td><td>₹ 20,00,000</td></tr>
<tr><td>Preference dividend</td><td>₹ 60,000</td></tr>
<tr><td>Tax rate</td><td>25%</td></tr>
</table></td><td></td></tr>
<tr><td>2</td><td>38</td><td>Particulars of Alpha & Beta are as follows:<table>
<tr><td>Profit</td><td>100</td><td>75</td></tr>
<tr><td>No. of shares</td><td>20</td><td>25</td></tr>
<tr><td>EPS</td><td>5</td><td>3</td></tr>
<tr><td>PE Multiple</td><td>30</td><td>10</td></tr>
<tr><td>Market price</td><td>150</td><td>30</td></tr>
</table>Alpha proposes to acquire Beta and gives its shares in exchange for the shares of Beta. Evaluate the exchange ratio based on market price and EPS.</td><td></td></tr>
<tr><td>2</td><td>39</td><td>Particulars of A Ltd. & B Ltd. are as follows:<table>
<tr><td>Particulars</td><td>A (₹ in crores)</td><td>B (₹ in crores)</td></tr>
<tr><td>Profit</td><td>120</td><td>65</td></tr>
<tr><td>No. of shares</td><td>30</td><td>15</td></tr>
<tr><td>EPS</td><td>5</td><td>3</td></tr>
<tr><td>PE Multiple</td><td>15</td><td>5</td></tr>
<tr><td>Market price</td><td>100</td><td>20</td></tr>
</table>A Ltd. proposes to acquire B Ltd. and gives its shares in exchange for the shares of B Ltd. Evaluate the exchange ratio based on market price and EPS.</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>1</td><td>40</td><td>Explain the theories of Mergers and Acquisitions.</td><td>10</td></tr>
<tr><td>1</td><td>41</td><td>Explain the types of Mergers with examples.</td><td>10</td></tr>
<tr><td>1</td><td>42</td><td>Explain the concept of Mergers.</td><td>10</td></tr>
<tr><td>1</td><td>43</td><td>Differentiate between Mergers and Acquisitions.</td><td>10</td></tr>
<tr><td>1</td><td>44</td><td>Differentiate between Mergers and Absorption.</td><td>10</td></tr>
<tr><td>1</td><td>45</td><td>Explain the various forms of Acquisition.</td><td>10</td></tr>
<tr><td>1</td><td>46</td><td>Discuss the source of value creation in Horizontal Merger.</td><td>10</td></tr>
<tr><td>1</td><td>47</td><td>Discuss the source of value creation in Conglomerate Merger.</td><td>10</td></tr>
<tr><td>1</td><td>48</td><td>Explain a Takeover and its types.</td><td>10</td></tr>
<tr><td>2</td><td>49</td><td>Explain any 2 approaches to Mergers and Acquisitions.</td><td>10</td></tr>
<tr><td>2</td><td>50</td><td>The details of ABC Ltd., is furnished below:
The capitalization rate is 15%. Number of shares outstanding 100,000. Current selling price share is Rs. 160. Expected net income is Rs. 500,000. Expected dividend Rs. 4 per share.
Calculate the expected market price per share if
a) Dividend would be declared at Rs. 4 per share</td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td>b) No dividend will be declared
c) Suppose the company requires Rs. 20,00,000 for a new project, find out the value of the firm if the dividend declared is Rs. 4 per share.
d) Suppose the company requires Rs. 20,00,000 for a new project, find the value of the firm if the dividend is not declared.</td><td></td></tr>
<tr><td>3</td><td>51</td><td>Mention the recent mergers and acquisition and explain the reasons. (clearly mention the acquirer and acquired company)</td><td>10</td></tr>
<tr><td>3</td><td>52</td><td>Elucidate the SEBI regulations governing Mergers and Acquisitions.</td><td>10</td></tr>
<tr><td>4</td><td>53</td><td>Explain the motives for various forms of international Mergers and Acquisitions.</td><td>10</td></tr>
<tr><td>4</td><td>54</td><td>Explain the regulatory issues in Cross-border Mergers and Acquisitions.</td><td>10</td></tr>
<tr><td>2</td><td>55</td><td>A company desires to acquire the shares of company B whose latest balance sheet is given below:
The Balance Sheet as on 31st March, 2019
<table>
<tr><th>Liabilities</th><th>Rs</th><th>Assets</th><th>Rs</th></tr>
<tr><td>6% Preference shares of Rs. 100 each</td><td>1,00,000</td><td>Goodwill</td><td>40,000</td></tr>
<tr><td>Equity shares of Rs. 10 each</td><td>2,00,000</td><td>Plant and Machinery</td><td>1,70,000</td></tr>
<tr><td>General Reserves</td><td>50,000</td><td>Other long-term assets</td><td>10,000</td></tr>
<tr><td>Current years earning after Equity dividend</td><td>1,20,000</td><td>Stock</td><td>1,25,000</td></tr>
<tr><td>Creditors</td><td>60,000</td><td>Debtors</td><td>1,60,000</td></tr>
<tr><td>Proposed equity dividend</td><td>60,000</td><td>Cash at bank</td><td>1,25,000</td></tr>
<tr><td>Taxation for current year</td><td>40,000</td><td></td><td></td></tr>
<tr><td></td><td>6,30,000</td><td></td><td>6,30,000</td></tr>
</table>
1. Goodwill is worth nothing
2. Book value of long-term assets in 15% less than the realizable value
3. Contingent liability amounts to Rs. 30,000 and they may turn to become actual liability
4. A sundry debtor declared insolvent owes Rs. 10,000.
Compute value per share both on
a) Cum-dividend basis b) Ex-dividend basis
if (I) preference dividend has already been paid
(ii) preference dividend has not been paid.</td><td></td></tr>
<tr><td>2</td><td>56</td><td>A company desires to acquire the shares of company B whose latest balance sheet is given below:
Balance sheet as on 31st March, 2019
<table>
<tr><th>Liabilities</th><th>Rs</th><th>Assets</th><th>Rs</th></tr>
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<tr><td>Proposed equity dividend</td><td>60,000</td><td>Cash at bank</td><td>1,25,000</td></tr>
<tr><td>Taxation for current year</td><td>40,000</td><td></td><td></td></tr>
<tr><td></td><td>6,30,000</td><td></td><td>6,30,000</td></tr>
</table>
</td><td></td></tr>
<tr><td>2</td><td>57</td><td>Assuming that the preference dividend has not been paid and no dividend has been proposed for equity shareholders. Compute the value of equity share if the normal return on investment is
a) 10% b) 14% c) 16%</td><td>10</td></tr>
<tr><td>2</td><td>58</td><td>ABC company has estimated that the profit-after-tax of XYZ ltd., can be maintained in future at a level of Rs. 154,000.
Additional information about XYZ is below:
• 10,000 equity shares of face value of Rs. 10 each
• 5000, 6% preference shares of Rs. 100 each.
What is the value per share of equity if P/E ratio were?
(a) 7
(b) 9.5
(c) 8.25</td><td>10</td></tr>
<tr><td>2</td><td>59</td><td>. The financial information of ABC Ltd., is given below (in 1000’s of Rs)
<table>
<tr><td>Particulars</td><td>I Year</td><td>II Year</td><td>III Year</td><td>IV Year</td></tr>
<tr><td>Net Worth</td><td>1140</td><td>1470</td><td>1610</td><td>1850</td></tr>
<tr><td>Tax adjusted profit</td><td>114</td><td>162</td><td>194</td><td>240</td></tr>
</table>
<table>
<tr><td>Net worth</td><td>₹ 20,75,000</td></tr>
<tr><td>Equity</td><td>₹ 12,00,000</td></tr>
<tr><td>5.5% Preference Shares</td><td>₹ 8,00,000</td></tr>
<tr><td>Face Value of an equity share</td><td>₹ 100</td></tr>
<tr><td>Market return on investment</td><td>7%</td></tr>
<tr><td>Non-trade investment</td><td>₹ 1,34,000</td></tr>
</table>
Determine the maximum price that you may wish to pay for 1 share of the company.</td><td>10</td></tr>
<tr><td>02</td><td>60</td><td>The financial information of ABC Ltd., is given below (in 1000’s of Rs)
<table>
<tr><td>Particulars</td><td>I Year</td><td>II Year</td><td>III Year</td><td>IV Year</td></tr>
<tr><td>Net Worth</td><td>1150</td><td>1490</td><td>1620</td><td>1850</td></tr>
<tr><td>Tax adjusted profit</td><td>115</td><td>172</td><td>196</td><td>240</td></tr>
</table>
<table>
<tr><td>Net worth</td><td>₹ 20,85,000</td></tr>
<tr><td>Equity</td><td>₹ 13,00,000</td></tr>
<tr><td>5.5% Preference Shares</td><td>₹ 9,00,000</td></tr>
<tr><td>Face Value of an equity share</td><td>₹ 100</td></tr>
<tr><td>Market return on investment</td><td>8%</td></tr>
<tr><td>Non-trade investment</td><td>₹ 1,54,000</td></tr>
</table>
Determine the maximum price that you may wish to pay for 1 share of the company.</td><td>10</td></tr>
<tr><td>2</td><td>61</td><td>ABC Ltd., has been regularly paying a dividend of ₹ 3.5 on their shares.
The number of equity shares are 25,000
a) What is the value of equity if the return investment is 14%</td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td>b) What is the value of equity if the dividend is expected to grow at 8% on constant basis.
Calculate Free cash flow.</td><td></td></tr>
<tr><td>2</td><td>62</td><td>Calculate free cashflow from the following:
<table>
<tr><td>Earnings after tax</td><td>₹ 1,00,00,000</td></tr>
<tr><td>Interest</td><td>₹ 20,00,000</td></tr>
<tr><td>Debenture expected to be redeemed</td><td>₹ 40,00,000</td></tr>
<tr><td>New capital expenditure</td><td>₹ 15,00,000</td></tr>
<tr><td>Expected redemption of preference stock</td><td>₹ 10,00,000</td></tr>
<tr><td>Preference dividend</td><td>₹ 50,000</td></tr>
<tr><td>Tax rate</td><td>25%</td></tr>
</table></td><td>10</td></tr>
<tr><td>2</td><td>63</td><td>Find out the value of Equity shares for the following.
Return on Equity = 8%, 14%, 15%, and 20% respectively.
Dividend pay-out ratio = 0%. 40%, 60%, and 80% respectively.</td><td>10</td></tr>
<tr><td>2</td><td>64</td><td>Estimated earnings share = ₹12.
Earnings per share ₹25, Cost of equity 14%. Return on investment 12%.
Calculate the market price per share if,
a) No profit is retained
b) If the company retains 25% of its profits
c) If the retention ratio is 50%
d) If the retention ratio is 80%
e) If the retention ratio is 100%</td><td>10</td></tr>
<tr><td>2</td><td>65</td><td>ABC Ltd., is calculating an investment proposal of manufacture for XYZ Ltd. The project will require an initial investment of ₹ 10,00,000 in plant and machinery. This initial investment will be depreciated under straight line method and the salvage value will be ₹ 200,000 at the end of 8 years. The project will generate revenues of ₹ 300,000 and will incur operating expenses of ₹ 100,000 in the first year. These revenues and expenses are expected to grow at around 5% by year over the remaining 7 years of the project.
The marginal tax rate for the company is 36%. Estimate the free cash flows of the firm assuming that the cost of Capital is 10%.</td><td>10</td></tr>
<tr><td>2</td><td>66</td><td>ABC Ltd., is calculating an investment proposal of manufacture for XYZ Ltd. The project will require an initial investment of ₹ 20,00,000 in plant and machinery. This initial investment will be depreciated under straight line method and the salvage value will be ₹ 300,000 at the end of 9 years. The project will generate revenues of ₹ 300,000 and will incur operating expenses of ₹ 200,000 in the first year. These revenues and expenses are expected to grow at around 5% by year over the remaining 8 years of the project. The marginal tax rate for the company is 36%. Estimate the free cash flows of the firm assuming that the cost of Capital is 10%.</td><td>10</td></tr>
<tr><td>2</td><td>67</td><td>ABC Ltd., is calculating an investment proposal of manufacture for XYZ Ltd. The project will require an initial investment of ₹ 30,00,000 in plant and machinery. This initial investment will be depreciated under straight line method and the salvage value will be ₹ 500,000 at the end of 8 years. The project will generate revenues of ₹ 600,000 and will incur operating expenses of ₹ 300,000 in the first year. These revenues and expenses are expected to grow at around 5% by year over the remaining 7 years of the project. The</td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td>marginal tax rate for the company is 36%. Estimate the free cash flows of the firm assuming that the cost of Capital is 15%.</td><td></td></tr>
<tr><td>3</td><td>68</td><td>XYZ is intended to acquire ABC Ltd., The following information is available in respect of companies:
<table>
<tr><th>Particulars</th><th>XYZ</th><th>ABC</th></tr>
<tr><td>No. of equity shares</td><td>5,00,000</td><td>3,00,000</td></tr>
<tr><td>Earnings after tax</td><td>25,00,000</td><td>9,00,000</td></tr>
<tr><td>Market value of shares</td><td>21</td><td>14</td></tr>
</table>
a) What is the present EPS of both the companies?
b) If the merger takes place, what would be the new earnings per share of XYZ Ltd., (assuming that the exchange ratio is based on current market price)
c) What should be the exchange ratio if XYZ wants to ensure the earnings to members as same as before the merger.</td><td>10</td></tr>
<tr><td>3</td><td>69</td><td>Z is intended to acquire Y Ltd.; The following information is available in respect of companies.
<table>
<tr><th>Particulars</th><th>Z</th><th>Y</th></tr>
<tr><td>No. of equity shares</td><td>6,00,000</td><td>6,00,000</td></tr>
<tr><td>Earnings after tax</td><td>26,00,000</td><td>10,00,000</td></tr>
<tr><td>Market value of shares</td><td>21</td><td>14</td></tr>
</table>
a) What is the present EPS of both the companies?
b) If the merger takes place, what would be the new earnings per share of Z Ltd., (assuming that the exchange ratio is based on current market price)
c) What should be the exchange ratio if Z Ltd., wants to ensure the earnings to members as same as before the merger.</td><td>10</td></tr>
<tr><td>3</td><td>70</td><td>ABC is intended to acquire XYZ Ltd., The following information is available in respect of companies:
<table>
<tr><th>Particulars</th><th>ABC</th><th>XYZ</th></tr>
<tr><td>No. of equity shares</td><td>7,00,000</td><td>5,00,000</td></tr>
<tr><td>Earnings after tax</td><td>30,00,000</td><td>15,00,000</td></tr>
<tr><td>Market value of shares</td><td>20</td><td>15</td></tr>
</table>
a) What is the present EPS of both the companies?
b) If the merger takes place, what would be the new earnings per share of ABC Ltd., (assuming that the exchange ratio is based on current market price)
c) What should be the exchange ratio if ABC Ltd., wants to ensure the earnings to members as same as before the merger.</td><td>10</td></tr>
<tr><td>3</td><td>71</td><td>From the following information evaluate the exchange under different methods of evaluation:
<table>
<tr><th>Particulars</th><th>ABC (₹)</th><th>XYZ (₹)</th></tr>
<tr><td>Total assets</td><td>1,35,297</td><td>23,338</td></tr>
<tr><td>Total liabilities</td><td>12,435</td><td>3305</td></tr>
<tr><td>Contingent liabilities</td><td>250</td><td>200</td></tr>
<tr><td>Weighted average no. of equity shares</td><td>157</td><td>80</td></tr>
<tr><td>Weighted average EPS for 5 years</td><td>800</td><td>250</td></tr>
<tr><td>Average PE Multiple</td><td>16.67</td><td>16.67</td></tr>
<tr><td>Average Market price for last 5 years</td><td>500</td><td>300</td></tr>
</table></td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td><table><tr><td>Face value of share</td><td>10</td><td>10</td></tr></table>Calculate Exchange ratio.</td><td></td></tr>
<tr><td>3</td><td>72</td><td>From the following information evaluate the exchange under different methods of evaluation:
<table>
<tr><td>Particulars</td><td>ABC (₹)</td><td>XYZ (₹)</td></tr>
<tr><td>Total assets</td><td>1,25,297</td><td>22,338</td></tr>
<tr><td>Total liabilities</td><td>10,435</td><td>2305</td></tr>
<tr><td>Contingent liabilities</td><td>260</td><td>210</td></tr>
<tr><td>Weighted average no. of equity shares</td><td>157</td><td>80</td></tr>
<tr><td>Weighted average EPS for 5 years</td><td>800</td><td>250</td></tr>
<tr><td>Average PE Multiple</td><td>16.67</td><td>16.67</td></tr>
<tr><td>Average Market price for last 5 years</td><td>500</td><td>300</td></tr>
<tr><td>Face value of share</td><td>10</td><td>10</td></tr>
</table>
Calculate Exchange ratio.</td><td>10</td></tr>
<tr><td>3</td><td>73</td><td>Particulars of Alpha & Beta are as follows:
<table>
<tr><td>Particulars</td><td>Alpha (₹ in crores)</td><td>Beta (₹ in crores)</td></tr>
<tr><td>Profit</td><td>100</td><td>75</td></tr>
<tr><td>No. of shares</td><td>20</td><td>25</td></tr>
<tr><td>EPS</td><td>5</td><td>3</td></tr>
<tr><td>PE Multiple</td><td>30</td><td>10</td></tr>
<tr><td>Market price</td><td>150</td><td>30</td></tr>
</table>
Alpha proposes to acquire Beta and gives its shares in exchange for the shares of Beta. Evaluate the exchange ratio based on market price and EPS.</td><td>10</td></tr>
<tr><td>4</td><td>74</td><td>ABC retailers Ltd., acquires Logistics Ltd. Details of financial data before merger are as follows:
<table>
<tr><td>Particulars</td><td>ABC (₹ in millions)</td><td>Logistics (₹ in millions)</td></tr>
<tr><td>No. of shares</td><td>50</td><td>40</td></tr>
<tr><td>Market price per share</td><td>120</td><td>60</td></tr>
</table>
It is expected that the merger of above companies will result in gains having present value of ₹ 500 million.
Exchange ratio agreed between companies is 1:1
a) Calculate the value of merger for mega retailers ltd.
b) Provide your comments.</td><td>10</td></tr>
<tr><td>4</td><td>75</td><td>The relevant financial details of 2 firms before merger are given below:
<table>
<tr><td>Particulars</td><td>Day Ltd</td><td>Night Ltd</td></tr>
<tr><td>Market price</td><td>65</td><td>30</td></tr>
<tr><td>No. of shares</td><td>8,00,000</td><td>5,00,000</td></tr>
<tr><td>Market value of the firm</td><td>5,20,00,000</td><td>1,50,00,000</td></tr>
</table>
The merger is expected to bring gains which will have present value of ₹ 120,00,000
Day Ltd., offers 246,000 shares in exchange for 500,000 shares to the shareholders of Night Ltd., separately.</td><td>10</td></tr>
</table>

<table>
<tr><td>3</td><td>76</td><td>Small company is being acquired by large company on share exchange basis. The selected data are as follows:
<table>
<tr><td>Particulars</td><td>Small</td><td>Large</td></tr>
<tr><td>Profit after tax</td><td>21,00,000</td><td>56,00,000</td></tr>
<tr><td>No. of shares</td><td>8,40,000</td><td>10,00,000</td></tr>
<tr><td>EPS</td><td>2.5</td><td>5.6</td></tr>
<tr><td>P/E Ratio</td><td>7.5</td><td>12.5</td></tr>
</table>
Determine (a) Pre-merger market value per share.
(b) Exchange ratio without diluting the EPS also calculate the Market Value per share.</td><td>10</td></tr>
<tr><td>3</td><td>77</td><td>TRCE group of industries is being acquired by Raja group of industries on share exchange basis. The selected data are as follows
<table>
<tr><td>Particulars</td><td>TRCE</td><td>Raja</td></tr>
<tr><td>Profit after tax</td><td>20,00,000</td><td>55,00,000</td></tr>
<tr><td>No. of shares</td><td>9,40,000</td><td>11,00,000</td></tr>
<tr><td>EPS</td><td>3</td><td>5</td></tr>
<tr><td>P/E Ratio</td><td>7.5</td><td>12.5</td></tr>
</table>
Determine (a) Pre-merger market value per share
(b) Exchange ratio without diluting the EPS also calculate the Market Value per share.</td><td>10</td></tr>
<tr><td>3</td><td>78</td><td>Moon industry is acquiring Light industries on a share exchange basis. The selected data are as follows:
<table>
<tr><td>Particulars</td><td>Moon</td><td>Light</td></tr>
<tr><td>Profit after tax</td><td>7,00,000</td><td>40,00,000</td></tr>
<tr><td>No. of shares</td><td>17,00,000</td><td>14,00,000</td></tr>
<tr><td>EPS</td><td>5.3</td><td>2.6</td></tr>
<tr><td>P/E Ratio</td><td>10</td><td>5</td></tr>
</table>
Determine (a) Pre-Merger Market Value per share
(b) Post-Merger EPS
(c) Post-Merger Market price per share</td><td>10</td></tr>
<tr><td>3</td><td>79</td><td>ABC Ltd., is considering taking over JKL Ltd., and XYZ Ltd. The financial data of 3 companies are given below:
<table>
<tr><td>Particulars</td><td>ABC</td><td>JKL</td><td>XYZ</td><td></td></tr>
<tr><td>Equity share capital of ₹ 10 each (in millions)</td><td>₹ 450</td><td>₹ 180</td><td></td><td>₹ 90</td></tr>
<tr><td>Earnings (in millions)</td><td>₹ 90</td><td>₹ 18</td><td></td><td>₹ 18</td></tr>
<tr><td>Market price per share</td><td>60</td><td>37</td><td></td><td>46</td></tr>
</table>
Calculate (a) P/E Ratio.</td><td>10</td></tr>
<tr><td>3</td><td>80</td><td>Mega retailers Ltd., acquires Agro Logistics Ltd. Details of financial data before merger are as follows:
<table>
<tr><td>Particulars</td><td>Mega (₹ in millions)</td><td>Agro (₹ in millions)</td></tr>
<tr><td>No. of shares</td><td>30</td><td>20</td></tr>
</table></td><td>10</td></tr>
</table>

<table>
<tr><td></td><td></td><td>
<table>
<tr><td>Market price per share</td><td>100</td><td>40</td></tr>
</table>
It is expected that the merger of above companies will result in gains having present value of ₹ 300 million.
Exchange ratio agreed between companies is 1:1
a) Calculate the value of merger for mega retailers ltd.
b) Provide your comments.
</td><td></td></tr>
<tr><td></td><td></td><td></td><td></td></tr>
<tr><td>3</td><td>80</td><td>
<table>
<tr><th>Particulars</th><th>U&I</th><th>Linda</th></tr>
<tr><td>Earnings after tax</td><td>25,00,000</td><td>3,00,000</td></tr>
<tr><td>No. of shares</td><td>8,00,000</td><td>3,00,000</td></tr>
<tr><td>EPS</td><td>3</td><td>1</td></tr>
<tr><td>Market capitalization</td><td>5,00,00,000</td><td>60,00,000</td></tr>
</table>
U and I software Ltd., and Linda Ltd., provide the following data.
U&I software Ltd. plans to acquire Linda Ltd.

Calculate (a) Pre-Merger market value per share for both the companies.
(b) Calculate Post-Merger Earnings per share, Market Price per share and P/E Ratio
If shareholders of Linda Ltd., are offered a share of ₹ 60 or ₹ 40.
(c) Calculate U&I software Ltd., EPS if Linda Ltd., shareholders are offered ₹ 150, 14% bonds for each 2 shares held in Linda Ltd.,
Tax rate is 30%.
</td><td>15</td></tr>
<tr><td>3</td><td>81</td><td>
X Ltd., is considering taking over Y Ltd., and Z Ltd. The financial data of 3 companies are given below.
<table>
<tr><th>Particulars</th><th>X</th><th>Y</th><th>Z</th></tr>
<tr><td>Equity share capital of ₹ 10 each (in millions)</td><td>₹ 45</td><td>₹ 18</td><td>₹ 9</td></tr>
<tr><td>Earnings (in millions)</td><td>₹ 9</td><td>₹ 10</td><td>₹ 10</td></tr>
<tr><td>Market price per share</td><td>50</td><td>30</td><td>40</td></tr>
</table>
Calculate
(a) P/E Ratio
(b) EPS of X Ltd., after the acquisition of Y Ltd., and Z Ltd., separately.
(c) Will you recommend the merger of either or both the companies.
Justify your answer.
</td><td>15</td></tr>
</table>

2	82	The details of XYZ Co. is given as follows. The capitalization rate is 20% No. of shares outstanding 200,000 Current selling price per share ₹ 180 Expected Net Income ₹ 700,000 Expected Dividend ₹ 5 per share. Calculate the expected market price per share a) Dividend would be declared ae ₹ 5 per share b) No dividend will be declared c) Suppose the company requires ₹ 40,00,000 for a new project, find out the value of the firm if the dividend declared is ₹ 5 per share. d) Suppose the company requires ₹ 40,00,000 for a new project, find the value of the firm if the dividend is not declared.	15
2	83	The details of ABC Ltd. are as follows: Its capitalization rate is 15% No. of shares outstanding 100,000 Current selling price per share ₹ 160 Expected Net Income ₹ 500,000 Expected Dividend ₹ 4 per share Calculate the expected market price per share of ABC Ltd., if a) Dividend would be declared ae ₹ 4 per share b) No dividend will be declared c) Suppose the company requires ₹ 20,00,000 for a new project, find out the value of the firm if the dividend declared is ₹ 4 per share. d) Suppose the company requires ₹ 20,00,000 for a new project, find the value of the firm if the dividend is not declared.	15

Note: The attached question paper is to be taken as a model question paper and all the M. Com IV semester Question papers will have the similar pattern.

Q.P Code:50292

St. Philomena's College (Autonomous) Mysore
IV Semester M.Com Final Examination : May - 2019
Subject: COMMERCE
Title: Mergers and Acquisitions (HC)

Time: 3 Hours Max Marks: 70

PART – A

Answer any FIVE questions: Each sub-Question carries 5 marks. 5×5=25

1. Distinguish between managerial synergy and financial synergy.
2. Firm E is studying the possible acquisition of firm F by way of merger. The following data is available in respect of the firms:

Particulars	Firm E	Firm F
Earnings after tax	₹ 2,00,000	₹ 60,000
Number of Equity shares	40,000	10,000
Market value per share	₹ 15	₹ 12

   a) If the exchange ratio is based on current market price, what is the new EPS for Firm E?

   The maximum exchange ratio that Firm E should offer without dilution of EPS.

3. What are the Post-Merger integration problems faced by companies? Explain.
4. A Ltd. is considering taking over B Ltd. and C Ltd. The financial data of 3 companies are as follows:

Particulars	A Ltd.	B Ltd.	C Ltd.
Equity share capital of ₹ 10 each (in millions)	450	180	90
Earnings (in millions)	90	18	18
Market price per share	16	37	46

   Calculate:

   a) Earnings per share of A Ltd. after the acquisition of B Ltd. and C Ltd. separately.

   Will you recommend the merger of either or both the companies. Justify your answer.

5. What are the benefits of mergers? Explain.
6. The equity shares of a company offer a current dividend of ₹ 5 per share. The rate of dividend is expected to grow at 6% for the first five years and at 8% per year thereafter. The rate of return required for an investor is 14%. Find the intrinsic value of the equity shares.
7. What do you mean by bootstrapping effect? Illustrate.
8. How is value created through vertical mergers? Explain.

PART – B

Answer any THREE questions. Each-Question carries 10 marks. 3×10=30

9 Explain the process of merger.

10. Day Ltd. plans to acquire Night Ltd. details of financial data before merger are as follows:

Day Ltd.		**Night Ltd.**	
No. of Shares	70 million	No. of Shares	50 million
Market price per share	₹ 250	Market price per share	₹ 130

It is expected that the merger of the above companies will result in gains having present value of ₹ 900 million. Exchange ratio agreed between the companies is 1:1. Calculate the value of merger for Day Ltd. and Night Ltd. separately.

11 Explain the theories of mergers and acquisitions in India.

12 XYZ Ltd., is a calculating an acquisition proposal. The project will require an initial investment of ₹ 2,00,00,000 in plant and equipment. This initial investment will be depreciated under straight line down to a salvage value of ₹ 25,00,000 at the end of 8 years. The project will generate revenues of ₹ 30,00,000 and will incur operating expenses of ₹ 10,00,000 in the first year. These revenues and expenses are expected to grow at around 6% year after year over the remaining 7 years of the project. The marginal tax rate for the company is 30%. Estimate the free cash flows to the firm assuming the cost of capital to be 12%. Advise the firm on the acquisition proposal.

13. Explain the regulatory issues involved in cross border mergers and acquisitions.

PART – C

14 **CASE STUDY (COMPULSORY)** 1×15=15

Sun Ltd., and Moon Ltd., provide the following financial data:

EAT (₹ in lakhs)	28.13	3.75
Net Sales (₹ in lakhs)	350	45
Number of shares	7,50,000	1,50,000
DPS (₹)	1.30	0.60
Market Capitalization (₹ in lakhs)	420	45

Sun Ltd., plans to acquire Moon Ltd. You are required to calculate:

a) Pre-merger market value for both the companies
b) Post-merger EPS, MPS and P/E ratio if the shareholders of Moon Ltd. are offered a share of ₹ 30 or ₹ 56 in a share exchange for merger.
c) EPS of Sun Ltd. if the shareholders of Moon Ltd. are offered ₹ 100, 15% convertible bond for each 3 shares held in Moon Ltd.

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