Roll No. ____________________

(Do not write anything on question paper except Roll No.)

[This paper consists of FOUR Pages]

Jagan Institute of Management Studies

End-Term Examination, December 2017 – January 2018

Trimester V – PGDM (IB)/PGDM (RM) 2016-18

Corporate Mergers Acquisition & Restructuring

ET_IB_RM_CMAR_2812

Time: 3 Hrs. *M. Marks: 70*

INSTRUCTIONS: Attempt any FIVE questions including Q7 which is compulsory.

Q 1 Eastern Petrochemicals Ltd. (EPL) is contemplating with the introduction of upstream in the value chain. With that idea the company is considering the acquisition of Kalna Refineries Ltd. (KRL) in a stock-for-stock transaction. According to the deal, the stockholders of KRL would receive Rs. 119.2 for each stock. The synergistic benefits, which would enhance the earnings of the merged entity by 5%, are expected from this acquisition. EPL thinks that their price-earnings ratio would increase by 10% after the acquisition. The following information is available for the companies:

	EPL	KRL
Earnings (Rs. in lakhs)	35.00	10.15
Number of shares	11,00,000	2,00,000
Market price per share (Rs.)	74.5	89.6

You are **required** to compute:

a) The purchase price premium.
b) The exchange ratio.
c) The number of new shares issued by EPL.
d) Post-merger EPS of the EPL.
e) Post-merger share price of the EPL.
f) Post-merger equity ownership distribution. **12.5**

Q 2 Kiya Automobile India Ltd. (KAIL), a new Indian outfit of Korean auto major Kiya Motors, is planning to acquire Raheja Motors Ltd. (RML), a known name in the field of automobile servicing. RML has its presence in almost all the district headquarters of India. The recent financial details of the two companies are as follows:

	KAIL	RML
Profit after Tax (Rs. in lakhs)	3300	720
Market price per share (Face value Rs. 10)	300	72
P/E Ratio	24	15
Projected growth rates (% p.a.)	8	4

Among the consultants, two equally probable views with regard to the prospect of this acquisition are being expressed. The views are:

i) There is no synergy due to the merger.

ii) There is an increase in earnings of the merged entity by 5% due to synergy.

Based on the information furnished above, you are **required** to:

a) Calculate the maximum exchange ratio from KAIL's point of view.

b) Considering no synergy, compute the dilution in EPS of KAIL when exchange ratio is 0.55 and also show when the dilution would be wiped off. [Detail computations should form part of your answer.] **12.5**

Q 3 In last two decades the market observed number of international mega mergers like Tata acquiring Corus and Land Rover Jaguar, where Indian companies acquired foreign firms. Discuss the objectives of Indian firm going to acquire global firms. **12.5**

Q 4 There were mixed outcomes of all M&A actions, some of these are able to get the benefit beyond their expectations but most of corporates have failed to seize the opportunity forecasted. There have been many reasons for these failures. Discuss the reasons for failure of mergers and acquisition. **12.5**

Q 5 One of the most important element before valuation is due diligence by acquiring companies. It has been observe by analyst that acquiring companies don't give sufficient time and resources for appropriate level of due diligence.

Explain the concept of due diligence in detail and its importance for Acquiring Company and Target Company. **12.5**

Q 6 Sell offs and divestitures are important part of corporate restructuring. Discuss the various factors for corporate to downsize their presence in the market. **12.5**

Q 7 Read the caselet carefully and answer the following questions:

The government is looking at consolidation of at least two state-run banks in this financial year, but some of the lenders identified for merger or takeover by bigger entities have expressed serious reservations on their identities being subsumed in the process.

The target banks are keen that their names survive the consolidation and they continue to have a strong role in business operations, officials said. Earlier this year, four state-run banks – Syndicate Bank, Canara Bank, Vijaya Bank and Dena Bank – made presentations to the finance ministry on their consolidation plans.

“We have worked out some combinations. This involves a larger bank taking over two smaller entities.

Also, there is a case for merging two smaller but strong banks. We can look at some hybrid names which retain characters of the both banks,” said a government official, who did not wish to be identified. The official cited the case of the merger between Centurion Bank and Bank of Punjab that led to the creation of a new entity, Centurion Bank of Punjab, which later merged with HDFC Bank in 2008.

Senior executives of the banks being considered for consolidation have told the finance ministry that the brand names of the lenders have deep-rooted association with their borrowers and the loss of brand names could potentially affect business. Vijaya Bank, for instance, was set up in 1931. Syndicate Bank, set up in 1925, was earlier known as Canara Industrial and Banking Syndicate Ltd. Experts, however, said the merger exercise should not be delayed only because of brand issues.

“These are state-run lenders. The borrowers are aware of this and there is no possibility of losing business just because a lender reinvented its brand name,” said MP Shorawala, a former independent director with Central Bank of India. “We already have a successful example in case of Axis Bank.” In 2007, UTI Bank rechristened itself as Axis Bank. “The idea was to get a grasp on the issues which could come up during the merger exercise,” the official cited earlier said, adding that some of the factors taken into consideration for merger are the business mix, the information technology platform that the banks are operating on and the geographical spread.

In April, State Bank of India absorbed five of its associate lenders and Bharatiya Mahila Bank, creating a larger bank that accounts for a quarter of all outstanding loans. There are 21 state-run banks in India.

In June, after reviewing the quarterly performance of public sector banks, finance minister Arun Jaitley said the government was “actively working” towards consolidation but did not share any details, stating this was price-sensitive information. The government is also undertaking a simultaneous exercise to assess the capital requirements of state-run banks. “We are waiting for the first quarter results. Once that happens, we will allocate further capital based on their requirements,” Jaitley had said at the time. While the government has already allocated Rs 8,000 crore — the spillover from the previous fiscal, this year, it plans to provide another Rs 10,000 crore by way of capital infusion.

Questions:

a) What according to you are the forces that have led to merger wave in the Indian banking industry? Discuss. **10**

b) Mergers in the banking industry are being advocated on grounds of consolidation and reducing the number of banks. However, the caselet remarks that this process should not lower the number of banks to levels that destroy competition. Discuss. **10**

****