

Full Marks: 20

Max. Time: 1 hr

Q1. Disney is contemplating to acquire Capital Cities. Of the total acquisition price \$10,000 is to be funded through debt and the balance through equity. What would be the impact of this acquisition on Disney's market risk? (5 marks)

	Disney	Capital Cities
Beta (pre-acquisition)	1.15	0.95
Market Value of Equity	31100	18500
Debt	3186	615
Market Value of Firm	34286	19115
D/E Ratio	10.24%	3.32%
Tax Rate	36%	36%

OR

Q1. Explain corporate restructuring? Using real world examples list down the motives for M&A. (5 marks)

Q2. Zenith Ltd. is planning to acquire and merge Maltech Ltd. As one entity. Following are the financials of the two companies before the merger. (6 marks)

	<i>Zenith Ltd.</i>	<i>Maltech Ltd.</i>
Revenues	\$4,400.00	\$3,125.00
Cost of Goods Sold	77.50%	79.00%
Depreciation	\$200.00	\$74.00
Tax Rate	35.00%	35.00%
Working Capital	10% of Revenue	10% of Revenue
Market Value of Equity	\$2,000.00	\$1,300.00
Outstanding Debt	\$160.00	\$250.00

Both firms are in steady state and are expected to grow 5% a year in the long term. Capital spending is expected to be offset by depreciation (Net Capex = 0). The levered beta for both firms is 1. The Treasury bond rate is 7% and the risk premium is 5.5%. The interest rate on their debt is 8.5%. Post-merger it is expected that revenue synergies will be realized in terms of increased sales to the tune of \$1000.

- Estimate the value of the combined firm, if there are no synergies.
- Estimate the value of the combined firm, if there is revenue synergy.
- Who gains this additional value if the firm realizes the projected revenue synergy?

Q4. How is buyback a defense tactic against M&A? Also, Explain leveraged recapitalization stating its feasibility for companies in India. (3 marks)

Q6. Differentiate between the following on the given parameters of: 1) Purpose 2) Control 3) taxes 4) impact on cash and 5) market reaction. The answer has to be in tabular/matrix form with demerger forms in columns and parameters in rows: (6 marks)

- Spin-off
- Divestiture
- Equity carve out