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JAIPURIA INSTITUTE OF MANAGEMENT
POST GRADUATE DIPLOMA IN MANAGEMENT
Vth TRIMESTER (BATCH 2016-18)
END TERM EXAMINATIONS

Course Name	Corporate Restructuring & Turnaround Management	Course Code	FA606
Max. Time	2 hrs	Max. Marks	40

Note: Attempt All Questions

1) Evaluate situations in which: (4 marks)
a. Cash would be a preferred mode of payment for an acquisition
b. Debt instruments cannot be a mode of payment for an acquisition

2. Most of the recent cross border acquisitions taking place in India are big size where the target company has exceeded the net worth of the acquiring India. Evaluate the financing options available for such huge acquisitions with and the rationale behind. (6 marks)

Q3. Firm V was worth $450 and Firm A had a market value of $375. Firm V acquired Firm A for $425 because they thought the combination of the new Firm VA was worth $925. What is the synergy from the merger of Firm V and Firm A? (2 marks)

Q4. The following information is provided related to the acquiring company A and target company T Ltd.: (10 marks)

Particulars	A Ltd.	T Ltd.
Earning after tax (Rs. in lakhs)	1,000	200
Number of shares outstanding (In lakhs)	100	50
EPS (Rs.)	10	4
P/E ratio (times)	10	5

i) What is swap ratio based on current market price?
ii) What is the EPS of A Ltd. after acquisition?
iii) What is the expected market price per share of A Ltd. after acquisition assuming P/E ratio of firm A remains unchanged?
iv) Determine the market value of the merged firm.
v) Calculate gain or loss for shareholders of the two independent companies after merger?

Q5. Compare pooling method of accounting with purchase method of accounting and analyze why a manager would pefer structuring a merger deal as amalgamation in the nature of merger. (8 marks)

<u>CASE</u>

When electrical goods company Havells acquired Sylvania in 2007, all that it was looking for was growth and a strong global presence. Instead, it had to grapple with a major crisis at Sylvania, triggered by the global financial turmoil. The situation threatened to pull Havells down, and it had to come up with a smart turnaround strategy. This case study looks at how Havells pulled it off.

Qimat Rai Gupta quit his job teaching in a school in Punjab, and came to Delhi in 1958 with Rs 10,000 in hand. He started an electrical goods trading company in the old part of the city, but the market was too small for his ambitions. He spotted an opportunity in the distressed Havells brand, named after its founder, Haveli Ram Gupta. He bought it for around Rs 7 lakh in 1971, and followed up with a series of acquisitions, joint ventures and entry into new product categories. Today, Havells India Ltd is a Rs 7,248-crore company.

The journey hasn't always been smooth, but the roughest patch was easily the 2007 acquisition of German lighting and fixtures maker SLI Lighting, owner of the Sylvania brand.

SLI was then the world's fourth-largest lighting company and 1.5 times bigger than Havells. It took Gupta minutes to make up his mind about buying it, while his senior management - including son Anil Rai Gupta, nephew Ameet Gupta and Group CFO Rajesh Gupta - were still weighing the pros and cons.

In February 2007, when negotiations with Sylvania's owners took place, some of Havells's top bosses flew to London to seal the deal. Anil, Havells's Joint Managing Director, recalls the sleepless night before they signed on the dotted line. He and cousin Ameet reckoned they were paying more than they should. "The next morning, I called my father," says Anil. "I told him we have paid i3 million (Rs 23.4 crore today) more. He said that in the big picture, the figure was insignificant." Havells bought Sylvania for i200 million, plus pension liabilities of i35 million.
Qimat Rai was betting on Sylvania's strong 100-year-old brand in about 50 countries, and its worldwide network of 10,000 distributors and dealers. "My father said we would not be able to replicate these two things," says Anil.

Havells had a track record of five successful acquisitions, and high growth in its Indian operations. In 1983, it bought the loss-making Delhi-based Towers and Transformers Ltd and turned it around in a year. Between 1997 and 2001, Havells also bought ECS, Duke Arnics Electronics, Standard Electricals and Crabtree India. The last was a 50:50 joint venture between Havells and the UK-based Crabtree, and Havells later acquired Crabtree's stake in the JV. India revenues had a compound annual growth rate of 50.08 per cent between 2002/03 and 2007/08. In March 2007, Havells bought Sylvania. And then the global financial crisis struck.

As the meltdown rocked European markets, Sylvania's sales fell, leading to net losses of Euro 16.3 million in 2008/09 and Euro 26.1 million in 2009/10. From Euro 515 million in 2007/08, revenues dropped to Euro 438.4 million in two years. Trusting Sylvania's management to deal with the situation turned out to be a mistake on Havells's part. Paul Griswold, then CEO of Havells Sylvania, was hired by the company's previous owners, a group of private equity investors that included DDJ Capital, Cerberus Capital Management and JP Morgan. He had turned Sylvania around after it slipped into bankruptcy in 2002 and made it profitable before Havells bought it, but the magic touch eluded him now. The Havells management sacked him.

In September 2008, Sylvania's bankers, led by Barclays Capital, hit the panic button as the company breached its covenants. Put in place by lenders, covenants are a set of financial ratios that the borrower must maintain. Sylvania's acquisition was funded by debt - a Euro 120-million loan based on operating cash flows and an Euro 80-million loan taken out by a Havells subsidiary. Havells repaid i80 million by raising money from the sale of a stake to Warburg Pincus. "Covenant breach was as good as repayment default," says CFO Rajesh Gupta. "The bankers asked us to repay the loan or hand over the company to them."

Sylvania's poor performance began to affect consolidated numbers, but Havells's growth in domestic operations made up for Sylvania's losses - for a while, at least. For the Guptas, it wasn't just their money but also their reputation at stake. Havells's top management drew up an 18-month restructuring plan.

Q6. a. Analyze the turnaround situation for Havells.
b. Devise a turnaround strategy to restore Havells'sprofitability. (10 marks)