

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA

PGDM / PGDM (M) / PGDM (SM)

FIFTH TRIMESTER (Batch 2022-24)

END TERM EXAMINATIONS, JANUARY 2024

SET – I

Course Name	Corporate Restructuring	Course Code	20240
Max. Time	2 hours	Max. Marks	40 MM

INSTRUCTIONS:

- a. Open book examination. Only the prescribed text book, calculator, pen, pencil, scale and eraser are allowed.
- b. Hand written note / paper / any other material, mobile phone, and scientific watch are strictly prohibited during the examination. Disciplinary action will be taken if any examinee is found to carry / use any such material.
- c. All parts of the same question must be answered in the same place. For example, if the question 2 contains 3 parts – (a), (b) and (c), the answers to each part must be given sequentially in the same place.
- d. Exchange of calculator is strictly prohibited.
- e. Step by step all workings must be shown clearly without which marks will not be awarded.
- f. Extreme caution has been taken in making the questions. There is no ambiguity in the question paper. Hence do not ask for any explanation from the invigilator. Still if you feel that there exists room for any assumption then write the same clearly. However, illogical assumptions will be ignored.

Question 1: Attempt both subsets

(CLO – 1, RBT – II)

- a) Explain the concepts of divestiture, demerger and carve-out forms of corporate restructuring. Compare and contrast the three forms of demergers with the help of examples of companies.
- b) Illustrate various takeover tactics and defense tactics adopted by companies with the help of real time examples in Indian scenario as an emerging economy.

(Marks: 5 + 5)

Question 2. Demonstrate enterprise value of a target firm with discounted cash flow technique of valuation. (CLO – 2, RBT – II)

Cipla wants to acquire and value the target company of Sun Pharma in Pharmaceuticals and Drug Sector and for this aspect, the acquirer company wish to adopt DCF method. Show the enterprise value of Sun Pharma from the data provided by the analyst:

	Cipla Limited	Sun Pharma
Bond Rating	AA	AAA
Interest rate on Bonds	7.20%	7.42%
Effective Tax Rate	25.17%	25.17%
After tax cost of debt	4.39%	4.53%
Beta	1.05	0.99
Cost of Equity	12.18%	13.08%
Debt (% of Capital)	20%	25%
Equity (% of Capital)	80%	75%
10 year treasury bond	5.88%	5.88%
Equity Risk premium	6.00%	6.00%

Show WACC of acquirer and target company. The additional data of Sun pharma is also provided for enterprise value calculations.

Terminal Value Growth	3%
CAPEX	800 per annum
Depreciation and Amortization	1000 per annum

Particulars	Year 1	Year 2	Year 3	Year 4	Year 5
EAIT	915	961	1008	1056	1106
Change in Working Capital	55	66	68	70	72

(Marks: 2+3)

Question 3: Estimate gains from synergy obtained from the merger of A limited and B limited with an objective of growth as a strategy in Indian Automobile sector. (CLO – 2, RBT – V)

Current Financial Information	Acquirer	Target
Revenues in current year =	\$1,000.00	\$800.00
COGS as % of Revenues =	70.00%	75.00%
Tax Rate on income =	35.00%	35.00%
Interest Expenses =	\$100.00	\$100.00
Current Depreciation =	\$50.00	\$75.00
Current Capital Spending =	\$75.00	\$100.00
Working Capital as % of Revenue =	5.00%	5.00%
Expected growth rate - next 5 years =	15.00%	20.00%
Expected growth rate - after 5 years =	6.00%	7.00%
<i>Risk measures</i>		
Beta of the stock =	1.10	1.25
Current Risk-free rate	6.00%	6.00%
Risk premium over risk free rate	5.50%	5.50%

With the advantage of cost synergies, the new COGS of combined firm is expected at 70% and with a combined growth rate of 20%. The combined growth rate after 5 years is expected to be 7%. Estimate:

- FCFE of Bidder company, target company, combined company without synergy and with synergy.
- Combined beta and WACC.
- NPV of Bidder company, target company, combined company without synergy and with synergy.
- Gains from Synergy, maximum bid for target company and % premium over market price.

(Marks: 3+2+3+2)

Question 4: Determine swap ratio of JIO with the acquisition of BSNL in telecommunication sector of India. (CLO – 3, RBT – V)

	JIO	BSNL
PAT	40 Lacs	12 Lacs
No. of Equity Shares	8 Lacs	2 Lacs
Market Value per share	100	80

Estimate:

- Current EPS of Bidder and target company
- Swap Ratio on the basis of Market Price and Combined EPS of JIO
- If BSNL wants to be sure that the earnings available to its shareholders will not be diminished by the merger, determine the exchange ratio in that case?
- Choose between market price method and earnings per share method for determination of ideal swap ratio in option (d) above.

(Marks: 2+3+3+2)

Question 5: Classify various options for financing merger and acquisition transactions. Summarize leveraged buyout as a financing strategy in M&A process of corporate restructuring. (CLO – 2, RBT – IV)

(Marks: 3+2)