JAIPURIA
INSTITUTE OF MANAGEMENT

**JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA**

**PGDM / PGDM (M) / PGDM (SM)**

**FIFTH TRIMESTER (Batch 2022-24)**

**END TERM EXAMINATIONS, JANUARY 2024**

**SET – II (Reappear)**

| 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 synergy, diversification and strategic realignment forms of corporate restructuring.

b) Explain appropriate discount rate to value the combined cash flows of merged companies. Outline various approaches to estimate and apply appropriate discount rate for valuation purposes.

**(Marks: 5 + 5)**

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

MRF wants to acquire and value the target company of CEAT and for this aspect, the acquirer company wish to adopt DCF method. Show the enterprise value of CEAT from the data provided by the analyst:

| | | | |
|---|---|---|---|
| WACC of CEAT | 10% | Present Revenue 9750 INR | |
| Revenue Growth | 3% | COGS | 55% |
| Terminal Value Growth | 3% | SG&A | 20% |
| Effective Tax Rate | 39% | | |
| CAPEX | 1000 per annum | | |
| Depreciation and Amortization | 800 per annum | | |
| Net increase in Working Capital | 22% | | |

The forecast period is 5 years plus the terminal period for explaining enterprise value.

**(Marks: 5)**

Question 3: Estimate gains from synergy obtained from the merger of A limited and B limited with an objective of cost reduction as a strategy. **(CLO – 2, RBT – V)**

| Particulars | *Bidder* | *Target* | *A+B: No synergy* | *A+B (Synergy)* |
|---|---|---|---|---|
| *Free Cashflow to Equity* | **$97.50** | **$32.00** | $129.50 | $155.50 |
| *Growth rate for first 5 years* | **15%** | **20%** | 16.24% | **16.24%** |
| *Growth rate after five years* | **6%** | **7%** | 6.29% | **6.29%** |
| *Beta* | **1.10** | **1.25** | 1.14 | 1.14 |
| *Req. rate of return* | 12.00% | 15.00% | 13.00% | 13.00% |
| *Risk free Rate* | **6.00%** | | | |

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:

a) NPV of Bidder company, target company, combined company without synergy and with synergy for the forecast and terminal period.

b) Gains from Synergy, maximum bid for target company and % premium over market price. **(Marks: 7+3)**

**Question 4:** Determine swap ratio of M Limited with the acquisition of N Limited.

**(CLO – 3, RBT – V)**

| | M Ltd | N Ltd |
|---|---|---|
| PAT | 80 Lacs | 24 Lacs |
| No. of Equity Shares | 16 Lacs | 4 Lacs |
| Market Value per share | 200 | 160 |

Estimate:

a) Exchange Ratio on the basis of Market Price and Combined EPS of M Limited after merger.

b) If N limited 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?

c) Choose between market price method and earnings per share method for determination of ideal swap ratio in option (c) above.

**(Marks: 3+5+2)**

**Question 5:** Classify various valuation methods based on asset valuation and relative valuation for M&A process in corporate restructuring. **(CLO – 2, RBT – IV)**

**(Marks: 3+2)**