

JAIPURIA INSTITUTE OF MANAGEMENT, NOIDA
POST GRADUATE DIPLOMA IN MANAGEMENT
5th Trimester (Batch 2017-19)
END TERM EXAMINATIONS

Course Name	Corporate Restructuring	Course Code	FIN 502
Max. Time	2 hours	Max. Marks	40

Instructions: ATTEMPT ALL QUESTIONS.

1. 'HUL buys GSK Consumer in mega deal!!'. The recent deal is considered by analysts, a win-win for both the parties. Giving suitable details of the deal (Financing, consideration, motive, market reaction, synergies etc). Evaluate the potential gains for both the companies. (7)

2. Romer Company will acquire all of the outstanding stock of Dayton Company through an exchange of stock. Romer is offering \$ 65.00 per share for Dayton. Financial information for the two companies is as follows: (2*4=8)

	<u>Romer</u>	<u>Dayton</u>
Net Income	\$ 50,000	\$ 10,000
Shares Outstanding	5,000	2,000
Earnings per Share	\$ 10.00	\$ 5.00
Market Price of Stock	\$ 150.00	
P / E Ratio	15	

- (1) Calculate shares to be issued by Romer
- (2) Calculate Combined EPS
- (3) Calculate P / E Ratio Paid
- (4) Evaluate if there is an EPS dilution

3. Analyze situations for recommending divestiture over equity carve out for a firm. (3)

4. Compare modes of financing for domestic acquisition and cross border acquisition. (7)

5. Food & Tobacco, Inc (FAT) operates in two lines of business: Food with an estimated value of \$10 billion and Tobacco with an estimated value of \$15 billion.

Line of business	Average levered Beta	Average D/E ratio
Food Industry	0.92	25%
Tobacco Industry	1.17	50%

Currently the firm has a D/E ratio of 1. Tax rate for the firm is 40%. Assume the current risk free rate is 6% and the market risk premium is 5.5%. (5*3=15)

5.1 Estimate the cost of equity.

5.2 Assuming that the company divests its Food division for \$10 billion and uses the proceeds to repay debt.

a. Estimate the **new beta** for the company be?

b. Estimate and analyze the **new beta** if the company retains the cash and invests the proceeds in government securities instead of repaying debt?