Seat No.: __________ **Enrolment No.____________**

GUJARAT TECHNOLOGICAL UNIVERSITY

MBA Semester –IV Examination Dec. - 2011

Subject code: 840201 **Date: 14/12/2011**

Subject Name: Corporate Restructuring (CR)

Time: 02.30 pm – 05.30 pm **Total Marks: 70**

Instructions:

1. **Attempt all questions.**
2. **Make suitable assumptions wherever necessary.**
3. **Figures to the right indicate full marks.**

Q. 1 a. i. Explain term ‘ Corporate Restructuring ‘ in detail and indicate four activities not considered as corporate restructuring . (4)

ii . Discuss in brief three cases of acquisitions in Indian context which were used as strategy of growth . (3)

b. A Ltd is keen on reporting earnings per share of Rs.2.50 after acquiring B Ltd . The following financial data are given :

	A Ltd	B Ltd
EPS	Rs.2.00	Rs.2.00
Market Price per share	Rs.20.00	Rs.12.00
Price- earnings ratio	10	6
Number of shares	150,000	100,000

There is no synergy gain from the merger .

Required : i. What exchange ratio will raise the post merger earnings per share of the A Ltd to Rs.2.50 ?

ii. How many shares of A Ltd will be issued to shareholders of B Ltd .

(7)

Q. 2 a. i. Define ‘Joint Venture ‘ and briefly explain characteristics of a joint venture . (4)

ii . Write a short note on three popular joint ventures in India . (3)

Q.2. b,. P , Q & R are three firms operating in the cement industry similar in most aspects . The management of Firm Z which is also in the cement industry is not sure about the value of its company . Firm ‘ Z ‘ has 200 lakh as revenues , 120 lakh as book value of equity and 15 lakh as net income . which are comparable to ‘ Z ‘ . The study reveals the following :

	P	Q	R

Market Value/ Revenue	1.2	1.0	0.8
Market Value / Book Value	1.3	1.2	2.0
Market Value / Net Income	20	15	25

Determine the value of 'Z' using the Comparable Company Approach . (7)

OR

Q.2. b. Write short notes on (i) Asset based valuation (ii) capitalization of earnings (iii) cash flow based valuation approaches citing suitable examples . (7)

Q.3 . a. Explain in detail due diligence in case of Intellectual Property focusing on i) formalities (ii) independent investigation methods and (iii) challenges of valuing IP Assets . (7)

b. Discuss in detail about various sources of funds for domestic acquisitions citing at least one Indian corporate examples in each of sources . (7)

OR

Q.3.a . In 1995 , Ranbaxy entered the US market by buying Ohm Labs . In 2004 , Ranbaxy Laboratories acquired RPG Aventis from Aventis Pharma . It was the largest overseas acquisition by Indian drug company . France is considered the fifth largest generic market in the world after US , Japan , Germany and UK . Ranbaxy reportedly paid Aventis $84 million , which was nearly 1.4 times Aventi's 2003 sales for a 100% stake . Interestingly , though US is the largest generics market in the world , more overseas acquisitions have happened in Europe . In 1999 , Ranbaxy bought out Bayer's generics business . Basics GmbH and Procter & Gamble's hypertension drug , Veratide , for $5 million . Ranbaxy has entered into an agreement with Novavax Inc, a specialty biopharmaceutical company , to evaluate a transdermal product which has been formulated with Novavax's proprietary micellar nanoparticle (MNP) technology .Novavax's micellar nanoparticle technology involves the use of patented oil and water nanoemulations that allow the topical delivery of drugs . The company sells , markets and distributes a line of women's health prescription pharmaceuticals through its speciality sales force who target obstetricians and gynecologists through out United States . Ranbaxy has entered into a collaboration with GlaxoSmithKline for global alliance in the area of drug discovery and development . and in the areas of infection , inflammation and diabetes . Ranbaxy partnered with GSK at a much earlier stage . Some skill set and technologies required in the early stage of drug discovery , like identifying new targets – proteins and enzymes in the body that play a role in a disease – are not early available in India in India So , GlaxoSmithKline scientists will provide Ranbaxy with targets or leads , that can act on them . On their part , Ranbaxy scientists , using their chemistry skills , will attempt to shape the lead into a drug that can work on the target , through process known as lead optimization . If it is finally launched , GSK will have exclusive rights to sell it in significant markets like the US , Europe and Japan , while , in India , it will co-matket the drug with Ranbaxy . Ranbaxy and Dr.Reddy's Lab have licensed promising new drugs from their labs to transnational firms like Schwarz Pharma and Novartis . Ranbaxy has also entered into an agreement with MMV , Geneva , for development of an anti-malarial drug .

In order to increase its size and consolidate its market position, Ranbaxy acquired GSK (Italy) , Terapia (Romania) and Ethimid (Belgium) . Belgium based Ethimed's business is focused on Benelux . . Terapia has 157 marketing authorizations and strong broad-based product portfolio .. About 70% of its products are focused on the central nervous system , muscular-skeletal diseases , and 30 % are focused on cardio-vascular system . The acquisition of Terapia was significant for Ranbaxy as 30 % of its product were registered in 15 countries in Europe and CIS (Commonwealth of Independent States) including Russia , Ukraine and Poland were important markets . Ranbaxy aims to have a strong manufacturing presence in Romania , once the country enters the European Union. Ranbaxy Ltd has a licensing agreement with Netherlands based Euro drug Lab for its asthma product ' Doxophyline ' .

The circle became complete in 2008 . In the third week of June 2008 , Japan's third largest drug maker , Daiichi – Sankyo , agreed to buy out 50.1 % share of Ranbaxy in all cash deal , valuing India's largest drug maker at $48.5 billion , or over five times its 2007 revenues . It became the largest deal recorded in Indian pharmaceutical industry . The deal added about $1.6 billion to Dalchi's $8.2 billion topline and gave the Japanese major a foothold in over 60 markets . The deal worth $44.6 billion was concluded at Rs.737 a share , which was at 31% premium to the ruling market price . The combined entity will be bigger than Teva , the world's largest generics company at $9.4 billion . But , the combined firm will still be smaller than Novartis Group which owns Sandoz , the second largest generics player . The acquisition saw the combination of generics powerhouse with Japanese powerhouse with Japanese innovator company , that deals in premium-priced patented medicine .

Questions :

1. Identify key drivers , target companies and countries of all seven foreign acquisitions by Ranbaxy .
2. Write a note on collaborative tie-ups that Ranbaxy developed with GlaxoSmithKline .
3. What were gains made promoters of Ranbaxy through the deal of its acquisition by Dalchi ? Explain
4. Based on your learnings from this case , how do you justify M&A as a corporate strategy for growth ? Explain . (14)

.Q.4 a. What do you understand by 'Demerger ' ? Explain tax implications of demerger and various kinds of demergers with suitable examples . (7)

b. i) What are powers of the High Court with reference to reconstruction (including demerger) and amalgamations under Section 394 of Companies Act ? (4)

ii) Distinguish between effective date and appointed date with reference to mergers / demergers with examples ? (3)

OR

Q.4a. i. Explain in detail of different types of mergers with suitable examples . (4)

ii. Differentiate between hostile and friendly acquisitions . (3)

b. Explain in detail of general conditions and obligations of companies opting for buy-back under ' SEBI buy-back regulations ' . (7)

Q. 5 a. . Suz Ltd is a firm engaged in textile industry . The firm desires to limit its leverage to 30% of the total capital . The marginal tax rate is 40 % and beta is 1.5 . The corporate bond rate is 8% and interest on ten year G-Sec is at 5% .

The expected annual return on stocks is 10 % . Annual future cash flow is expected to remain at Rs.4 million indefinitely .

Estimate the cost of capital and the value of a firm whose capital structure consists only of common equity and debt . (7)

b. Define 'ESOPs ' . Explain in detail of various types of ESOPs and uses of ESOPs . (7)

OR

Q.5. a. The free cash flow of a firm is projected to grow at a compound annual average rate of 35% for the next 5 years . Growth is then expected to slow down to a normal 5 % annual growth rate . The current year's cash flow to the firm is Rs.4 lakh . The firm's cost of capital is during high growth period is 18% and 12 % beyond the fifth year , as growth stabilises .

Compute the value of the firm . (7)

b. What are the characteristics of LBOs and factors responsible for popularity of LBOs ? Explain in brief of elements of LBOs . (7)

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