



DMM-5540

**M. B. A. (Full-Time) (Sem. IV) (CBCS) & M. B. A.
(Sem. VI) (CBS & New Course) Examination
March / April – 2016
OF&A - 402 & 601 : Corporate Restructuring**

Time : Hours]

[Total Marks :

Instructions : (1)

नीचे दर्शायेव निशानीवाणी विगतो उत्तरवही पर अवश्य कपनी. Fillup strictly the details of signs on your answer book.	Seat No. :
Name of the Examination :	<input type="text"/>
<input type="text" value="M.B.A. (Full-Time) (Sem. IV) (CBCS) & M.B.A. (Sem. VI) (CBS & New Course)"/>	<input type="text"/>
Name of the Subject :	<input type="text"/>
<input type="text" value="OF&A - 402 & 601 : Corporate Restructuring"/>	<input type="text"/>
Subject Code No. : <input type="text" value="5"/> <input type="text" value="5"/> <input type="text" value="4"/> <input type="text" value="0"/>	<input type="text"/>
Section No. (1, 2,.....): <input type="text" value="Nil"/>	<input type="text"/>
	Student's Signature

- (2) Q. 7 is compulsory. Answer any 4 from Q. 1 to 6.
- (3) Q. 7 carries 22/28 marks. All other questions carry 12/18 marks each.
- (4) Elucidate your answer with appropriate examples.

Q1. Why did Corporate Restructuring activities gather pace in India after the Economic Reforms of 1991? What were the challenges that India faced?

Q2. Explain the following with Examples:

- a. Financial Conglomerate
- b. Concentric Acquisition
- c. Product Extension Merger

Q3. Dell Computers went private in the year 2014. Read the following excerpts of Michael Dell's interview and explain the benefits of Going Private according to him. What is the rationale behind a Going Private Deal. What are the changes that would be reflected on the Company's Debt Equity Ratio?

a. **How did the idea of privatisation take shape?**

An executive from Silver Lake approached me and said "hey, I think you should consider taking the company private". It was not the first time I had thought about that idea. But I listened carefully, asked a bunch of questions. Later, I asked an executive from another private equity firm if they thought it would be possible to take Dell private and he said "yes, and in fact we would like to talk to you about it". I said "well, I better stop and call my lawyer, because this is a very complicated thing and has to be controlled by the independent board". Then very quickly I informed the board of my interest and asked them for permission to explore this.

b. What was the logic behind taking Dell private?

Privatisation will allow us to be bold, we can think about our business in a different way, we can build this 100% on our customers, and we can do this long term. That is pretty different from a public company. It has unleashed an enormous amount of excitement with our teams and partners as well. Customer interest has been strong and we have had great growth in our business since announcing the completion of the privatisation. We are doing everything we said we would do so that is good for the long term. Emerging markets are a big priority because that is where the next billion users will come from.

c. What about the huge debt on the balance sheet on account of privatisation and the accompanying risks?

You know, I generally believe that we did not really take on any new risks. Our capital structure is better as a private company than what it was as a public company. It costs us less. We spent between \$1.7 billion and \$2 billion a year with share repurchases, dividends and interest as a public company. We spend quite a bit less as a private company. We are aggressively paying down our debts so our capital structure is preferred. We have flexibility and the interest rate environment is very favourable.

We can invest for the long term, which is a real privilege that most companies do not have. Our competitors are all beholden to the short term demands from shareholders. Listen in on the conference calls of our competitors and you hear shareholders ask "what about earnings this quarter?". I did that for 25 years. All done with that, thank you very much. I will pay not to have to do that. Privatisation just gives us an enormous amount of freedom to execute in the way we believe is the right way and that is for me incredibly energizing. **There seems to be a trend towards going private or staying private for longer**

When I spent time with other entrepreneurs, the feeling was 'go public'. Now you have 'stay private longer', because then you can invest, innovate. The minute you go public, you have this incredible pressure to increase earnings every single quarter, quarter after quarter. I am not saying that is all bad. There are companies that are perfectly good for it, but it has a real downside as well.

Q4. Write short notes on any two:

- a. Balanced Scorecard
- b. Exchange Offers
- c. ESOPs as a financial strategy

Q5. AB Ltd. wishes to acquire CD Ltd. on the basis of an exchange ratio of 0.8. Other relevant financial data is as follows:

Particulars	AB Ltd.	CD Ltd.
Profit after Tax (PAT)	100,000	20,000
Equity shares outstanding	50,000	20,000
Earnings per share (EPS)	2	1
Market Price per share	20	8

- i) Determine the number of shares required to be issued by AB Ltd. for acquisition of CD Ltd.
- ii) What would be the exchange ratio if it is based on the market prices of shares of AB Ltd. and CD Ltd?
- iii) What is the current price-earnings ratio of the two companies?
- iv) Assuming the earnings of each firm remains the same, what is the EPS after the acquisition?
- v) What is the equivalent EPS of CD Ltd?

- vi) Ascertain the gain to shareholders of both the companies (a) at an exchange ratio at 0.8 and (b) at an exchange ratio based on market price.

Q6. Two firms A & B are identical in all respects except that B has Rs. 500,000 debt outstanding at a 6 per cent rate of interest. The values of the firms:

Particulars	A	B
Net Operating income	150,000	150,000
Cost of Debt	-	30000
Net Income	150,000	120,000
Equity Capitalisation Rate	0.10	0.15
Market Value of Equity	15,00,000	800,000
Market Value of Debt	-	500000
Total Value of firm	15,00,000	13,00,000
Overall capitalization rate	0.10	0.1154

Assume that an investor owns 10 per cent of A's shares. How can the investor obtain same return at a lower cost?

Q7. Read the following case and

1. Analyse the environmental factors which lead to the downfall of Scooters India Ltd.
2. Do you detect any agency problems in this case? Elaborate.
3. Discuss the Strategic Position of SIL and comment on what its restructuring strategy should be.

Every so often the specter of privatisation looms over state-owned Scooters India Ltd (SIL), the once maker of iconic brands such as Vijai Super and Lambretta, only to fade as local politicians eyeing vote banks talk the government out of it. Revival plans are quickly made under political pressure and the factories are cranked up again. The company makes slim profits for a few quarters once debt is written off and capital is infused. Soon it begins to sputter and the wait for yet another dole from taxpayers' money begins.

ET reported in December that the government is yet again thinking of selling Scooters India. "We were at the forefront of opposing privatisation. But after seeing several revival attempts biting the dust, we are disillusioned now," says KK Pandey General Secretary of Scooters India Employees Union. SIL has about 450 permanent employees and another 700 contract workers. "If the government assures us that our dues are cleared and 30% pay revision is approved, we are willing for privatisation. After many years of struggle we feel that it is the best way forward now," Pandey says. He says that Rs 202 crore doled out by the United Progressive Alliance (UPA) government in January 2013 — the package included a Rs 112 crore debt writeoff — to revive the company had not done anything good and the situation largely remains the same.

The company has since made wafer-thin profits; Rs 34 lakh in September quarter and Rs 57 lakh in the last quarter of 2015. In comparison, SIL's competitor of pre-liberalisation days, Bajaj Auto, reported a profit of over Rs 900 crore in the December quarter of 2015. SIL was started in 1972, when the Indian government acquired the Milan plant of Italian automaker Innocenti (later acquired by Fiat), as well as the rights to make Lambretta scooters. SIL later introduced its own line called Vijai Super. When India won the Cricket World Cup in 1983, the government gave each member of the winning team a Vijai Super scooter.

The glory days of waiting lists for Vijai Super and making Lambretta for the export market are long gone. SIL hasn't managed to keep up with advances in the industry. It now makes Vikram, a three-wheeler that plies mostly in small towns. The company makes about 40-50 Vikrams a day though its capacity is double that. That is because it cannot make timely payment to vendors and is always short of parts and fitments. The first time SIL got a breather was in September 1996, when it had ran up a total debt of Rs 635 crore.

At the time, the government wrote off Rs 430 crore of loans. Six years later, it slipped back into losses and, in 2009 was declared sick by the Board for Industrial and Financial

Reconstruction (BIFR). Two years later, the UPA government finalised a privatisation plan. Auto biggies like Mahindra, Atul Auto and Lohia Auto had shown interest in taking over. But state elections were approaching and Rita Bahuguna Joshi, the sitting local Congress legislator then, was preparing to contest from Lucknow. Joshi told SIL's employees who were opposing privatisation that she would not let the selloff happen. In June 2011 she led a delegation of employees to the then Prime Minister Manmohan Singh. The privatisation plan was soon dropped.

Joshi, whose father HN Bahuguna was once chief minister of Uttar Pradesh, went on to win the Lucknow Cantt assembly seat in 2012. She assured her supporters that he would get a revival package for SIL, which had been in the BIFR sick bay since 2009. On the last day of January 2013, SIL got the Rs 202 crore package despite experts and union ministers advising against wasting public money on a bad asset.

Joshi could not be reached for comment. "We have seen the fate of several revival packages, which are only booster shots for a few months," says OP Pandey, general secretary of Scooters India Staff Association. His union also now favours privatisation provided their salary revision and dues are cleared. Pandey says the management is least interested in the company's survival.

Employees say having a part-time chief has compounded the problem. "An IAS officer with little experience in the auto sector, RK Singh was appointed for six months as a part-time CMD in May 2013. But three years on he still continues," says OP Pandey.