

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA– SEMESTER –IV-EXAMINATION – WINTER-2023

Subject Code:1549503**Date: 02-12-2023****Subject Name: Corporate Restructuring and Valuation****Time:02:30 PM TO 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.
4. Use of simple calculators and non-programmable scientific calculators are permitted.

Q. 1 Explain the terms:**14**

- a. People Pill
- b. Liquidation Value
- c. Joint Venture
- d. Equity Carve out
- e. Demerger
- f. Intangible asset
- g. P/E Ratio

Q. 2 (a) What is corporate restructuring? Explain various forms of corporate restructuring. 07**Q.2 (b) What is Share Buyback? Explain in detail the conditions regarding the buyback of shares under the Companies Act. 07**

OR

Q. 2 (b) Explain the difficulties companies faces in cross border acquisitions. 07**Q. 3 (a) Why is business valuation exercise undertaken by corporate finance managers and investors? 07**

Q. 3 (b) PQZ Ltd. has reported a profit of Rs. 65 lakhs, after paying taxes @ 35%. The current year's income includes: (i) extraordinary income of Rs. 10 lakh (ii) extraordinary loss of Rs. 3 lakhs. Apart from existing operations, which are normal in nature and revenue and cost estimates in respect of the new product are as follows:

Sales	– Rs 60 lakhs
Material cost	– Rs 15 lakhs
Labour cost (additional)	- Rs. 10 lakhs
Allocated fixed costs	- Rs. 5 lakhs
Allocated fixed costs	- Rs. 8 lakhs

From the given information, compute the value of the business, given that capitalization rate applicable to such business in the market is 15%. **07**

OR

Q. 3 (a) What is valuation? Explain in brief the various approaches of valuation.**07**

Q. 3 (b) The Big Shark Ltd. wants to acquire the Small Fish Ltd. The balance sheet of Small Fish Ltd. as on 31st March (current year) has the following assets and liabilities:

Rs. In lakhs			
Liabilities	Amount	Assets	Amount
Equity share capital (4 lakh shares of Rs. 100 each)	400	Cash	10
Retained earnings	100	Debtors	65
10.5% Debentures	200	Inventories	135
Creditors and other liabilities	160	Plant and Equipment	650
	860		860

Additional Information:

1. The shareholders of Small Fish Ltd. will get 1.5 shares in Big Shark Ltd. for every 2 shares, the shares of Big Shark Ltd. would be issued at its current market price of Rs. 180 per share. The debenture holders will get 11% debentures of the same amount. The external liabilities are expected to be settled at Rs. 150 lakhs. Dissolution expenses of Rs. 15 lakhs are to be met by the acquiring company.

2. The following are projected incremental cashflows (FCFF) expected from acquisition for 6 years

(Rs. Lakh)	
Year end 1	150
2	200
3	260
4	300
5	220
6	120

3. The free cash flow of Small Fish Ltd. is expected to decline by 3% per annum after 6 years.

4. Given the risk complexion of Small Fish Ltd. cost of capital relevant for Small Fish Ltd. cash flows has been decided at 13%.

5. There is unrecorded liability of Rs. 20 lakhs.

Advise the company regarding financial feasibility of the acquisition.

07

Q. 4 (a) Write a note on fair value Method.

07

Q. 4 (b) What are the reasons to conduct intangible valuation? Also, explain in brief valuation of Goodwill.

07

OR

Q. 4 (a) What are the five conditions that have to be satisfied for an amalgamation to qualify as 'amalgamation by way of merger'?

07

Q. 4 (b) Write a short note on AS 14.

07

Q. 5 Case Study

It was 2014 when Indian e-commerce market was pegged at over \$2.5 billion and was expected to grow to a whopping \$20 billion in the next five years. Fashion is going to dominate this market and there is enough space and scope for both Myntra and Flipkart to grow in this industry. So why not do that and stay independent? What's next for Mukesh Bansal? What exactly triggered this deal and compelled Mukesh Bansal to say yes to this acquisition? Was it Amazon's steep growth in Indian market?

Sachin Bansal, Co-founder and CEO of Flipkart, regarding the deal said, "We should be growing in every category, and fashion is definitely the category of the future. Myntra is not only the leader in this category but it also has good rapport with lifestyle brands. We have known Mukesh since 2007 and we learnt our first supply-chain lessons from Myntra. We have a lot of respect for each other, and we eventually found a common ground. We have been exploring multiple ways to strengthen our presence in the fashion domain and this acquisition seemed the best way to do that." He further added, "Myntra has a strong team and excellent domain knowledge. There's much to learn from them."

Mukesh Bansal, Founder of Myntra, regarding the deal has said, "We started with personalization of merchandise and then pivoted to fashion. In the last seven years, we have taken the online fashion retail to a different level. We are not only the leaders in this segment, but have built a very unique differentiation. We are among the top sites in terms of online traffic, and are focused a lot on building deep relations with the brand we work with. We have even made some brands household names. Overall, we have enjoyed this ride and wanted to take fashion to an altogether different level. In the last few months, we've had a number of meetings to see how we can do this together. We wanted to exploit our mutual synergies (like the technology at Flipkart and market leadership of Myntra) in order to accelerate our growth."

Both Mukesh and Sachin declined to share the details of the deal structure. But Sachin clearly mentioned that it was 100% acquisition and Mukesh expressed his satisfaction over the fair valuation of Myntra. Given the fact that Myntra is already valued at over \$300 million, the actual number probably is in that range. Mukesh will be joining the Flipkart board and will head their fashion business. It was also made clear that post the deal both Flipkart fashion business and Myntra will keep on operating as separate entities (and different websites/portals).

- a) Which are the synergies you expect from the Flipkart-Myntra Deal? **07**
- b) How do you foresee the continued separate operation of Flipkart fashion business and Myntra impacting their market presence and competition in the Indian e-commerce landscape? **07**

OR

- a) Both founders, Mukesh Bansal and Sachin Bansal, highlighted the importance of mutual synergies between Flipkart's technology and Myntra's market leadership. Can you elaborate on how these synergies were identified and how they were expected to accelerate the growth of both companies? **07**
- b) In spite of being so successful on its own do you think Myntra has done right thing on being acquired by Flipkart? Justify your answer. **07**
