

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

Subject Code:4549222

Date: 04-12-2023

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. Crown Jewel
- b. Amalgamation
- c. Reverse Merger
- d. Dawn Raid
- e. Demerger
- f. Goodwill
- g. Diversification

Q. 2 (a) What is corporate restructuring? Explain various forms of corporate restructuring. 07

Q.2 (b) Explain due diligence in detail. 07

OR

Q. 2 (b) Discuss & Differentiate LBO and MBO. What are the reasons for LBO not being so popular? 07

Q. 3 (a) Define the following: operating free cash flow (FCF) and NOPLAT. 07

Q. 3 (b) The following is the condensed income statement of a company.

Particulars	Amount (Rs. In lakh)
Sales	500
Less: Operating costs	300
Less: Interests costs	12
Earnings before tax	188
Less: tax @ 40%	75.2
Earnings after tax	112.8

The firms existing capital consists of Rs. 150 lakh equity funds having 15% cost and of 100 lakh, 12% Debts. Determine the economic value added during the year. 07

OR

Q. 3 (a) Explain the concepts (i) book value (ii) market value

07

Q. 3 (b) The Chinni Ltd. wants to acquire Minni Ltd. by exchanging its 1.6 shares for every share of Minni Ltd. It anticipates to maintain the existing P/E ratio subsequent to the merger also. The relevant financial data are furnished below:

	Chinni Ltd.	Minni Ltd.
Earnings after taxes (Rs.)	15,00,000	4,50,000
Number of outstanding equity shares (N)	3,00,000	75,000
Market price per share (Rs.)	35	40

1. Calculate the exchange ratio based on market prices
2. What is pre-merger EPS and the P/E ratio for each company?
3. What was the P/E ratio used in acquiring Minni Ltd.?
4. What is EPS of Chinni Ltd. after the acquisition?

What is the expected market price per share of the merged company?

07

Q. 4 (a) What are the major weaknesses of P/E ratio as a technique of share valuation? In spite of such limitations, why is it so popular?

07

Q. 4 (b) Write a short note on valuation of (i) Brands (ii) 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) What are the bases on which the exchange ratio is commonly determined in practice? Critically evaluate them.

07

Q. 5 Case Study

The merger between Daimler-Benz and Chrysler Corp was billed as a merger of equals and a marriage made in heaven -- the perfect model for the future of auto manufacturing worldwide.

The merger between the German automaker company Daimler and the American one, Chrysler was confirmed in 1998 when each company's board of shareholders gave the green light to the merger. Both companies created a totally new one named DaimlerChrysler, managed by two CEOs Jurgen Schrempp (Daimler) and Robert Eaton (Chrysler), with two headquarters: one in Stuttgart and another one in Detroit, converged with the main objective of being present in both American and European markets, the world's biggest markets. Some of the other reasons are lower costs and higher productivity, exchange of technology, minimum overlaps in markets and customers. The new company would worth US\$130 million and would have more than 420,000 employees across the World.

Merger problems began to rise in a post-merger stage when work groups were established to control and monitoring each phase. Although these groups only increased tensions between the two parties because of the cultural differences inherent in an international transaction.

The belief from Detroit that DaimlerChrysler was running mainly by Germany, and therefore, it was more an acquisition than a merger, aggravated the problems between the parties. Chrysler shareholders sued the new company because it was not a fusion between equals, and a clear indication of this was when they decided to have a single CEO and a single headquarter in Germany.

The idea seemed good. Daimler needed to grow and Chrysler needed a partner abroad, because its exports were minimal. The two companies worked in different segments and were complementary. What no one calculated was the culture shock.

Daimler's panzer style-top planning, hierarchy, preponderance of engineering and finance, did not match the Chrysler's cowboy style, this is fast ideas, collegiate agreements, and commercial-sector preponderance. There are certain differences in communication styles between these two cultures. Germans need facts, history and lot of information and extensive analysis; Americans are factual too but tend to include personal opinions and be more persuasive. Americans are more optimistic in general, while Germans style is more dramatic, they tend to make more emphasis in medium or worst scenarios. Germans are more formal in the communication, surnames and full titles are expected while Americans are more informal and go for first names from the beginning. American are more relaxed in their speech, may insert slangs, use jokes to break the ice, something that is seen by Germans like too much relaxation, instead, they expect serious and formal answers. But it is important to remark that culture differences also where spread not only in communicational styles but also across procedural and structural differences.

Two years later, the share price of the DaimlerChrysler Company had fallen by 50%, so the value of the company also declined in those two years. In 2007 the deal was called off and Daimler had to sell Chrysler for only US\$5 billion.

- a) What specific challenges arose from the cultural differences in communication styles between Germans and Americans, including differences in formality, use of personal opinions, and expectations regarding titles and names? **07**
- b) What were the initial motivations and strategic objectives behind the merger of Daimler-Benz and Chrysler Corp in 1998? How did the companies envision leveraging each other's strengths and achieving synergy in the global automotive market? **07**

OR

- a) How did the mismatch in management styles, characterized by Daimler's structured and hierarchical approach versus Chrysler's more informal and fast-paced style, affect the overall performance and cohesion of the merged company? **07**
- b) Give your opinion on the reason for failure of the Daimler Chrysler deal. **07**
