335

Roll No..........................

Time allowed : 3 hours | *Maximum marks : 100*

Total number of questions : 8 | *Total number of printed pages : 8*

NOTE : *1. Answer SIX questions including Question No.1 which is compulsory.*

2. All references to sections relate to the Companies Act, 1956 unless stated otherwise.

1. Read the following case and answer the questions given at the end :

Mittal Steel, owned by L N Mittal & family, has its headquarters in London and Rotterdam. It has plants in 14 countries spread across Europe, Asia, North America and Africa. Its first acquisition took place in 1989.

Arcelor was founded in 2002 by merger of Abred of Luxembourg, Arcelia of Spain and Usinor of France. Its turnover is valued at ¤ 33 billion. Its plants, joint ventures and subsidiaries are spread across 60 countries.

In the year 2006, Mittal Steel made an offer to acquire Arcelor. Its original offer to Arcelor was for ¤17.5 billion. In May it increased the offer to ¤ 24 billion and the final offer was ¤ 26.9 billion. Mittal's final offer was accepted. Mittal paid ¤ 40.37 a share for Arcelor nearly double the price, it was trading before the first bid was made.

When Mittal made first bid, Arcelor rejected it with vengeance. It recommended to shareholders not to sell shares to Mittal as the two companies did not share the same strategic vision, business model and values.

A couple of European governments did not like the idea of an Indian taking over an European company. The French foreign minister felt it would affect 28,000 jobs and that the bid was ill-prepared and hostile. However, Mittal Steel said jobs would be safeguarded. Arcelor took the matter to regulators to thwart the takeover. But the regulators did not find any anti-trust provisions being violated and asked Arcelor not to issue shares to anyone without investors' explicit consent.

To begin with Arcelor refused to meet Mittal until a string of demands were met and simultaneously orchestrated a ¤13 billion deal with Severstal of Russia to keep Mittal away.

As shareholders wrath grew over the Severstal agreement and pressures from other quarters increased, Arcelor accepted Mittal's final bid. Arcelor had to pay ¤130 million as a fine to Servestal for breaching the contract.

Ultimately, L N Mittal succeeded in acquiring Arcelor. The combined capacity of Arcelor Mittal is 109.7 million tonnes.

Questions :

(i) Was this takeover 'hostile' or 'friendly' ? Distinguish between hostile takeover and friendly takeover.

(3 marks)

(ii) Why did the executives of Arcelor defend Mittal's bid to takeover ?

(3 marks)

(iii) What normally happens once a hostile takeover is completed ?

(3 marks)

(iv) Do you think that the executives of Arcelor created defences against the Mittal keeping the best interest of stockholders in mind ?

(3 marks)

(v) Anti-takeover strategies can be of two types, *viz.* preventive and reactive. Explain them.

(4 marks)

(vi) Evaluate defense strategies adopted by target firms to hostile takeover.

(4 marks)

2. Attempt *any four* of the following citing relevant legal provisions and case law, if any :

(i) If the transferor company and the transferee company have their registered offices in the same State, can the two companies ordinarily file a joint-application for the approval of scheme of amalgamation before the Bench of High Court ?

(4 marks)

(ii) Whether the sanction to scheme of amalgamation can be withheld on the plea that the transferor company, before resorting to sections 391-394, has not amended the objects clause of its memorandum of association under section 17 to incorporate the power to amalgamate with another company ?

(4 marks)

(iii) Can the Board for Industrial and Financial Reconstruction (BIFR) direct the State government to pay the dues of a company, the shares of which were owned by the government directly or indirectly ?

(4 marks)

(iv) In terms of regulation 10 of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 1997, no acquirer shall acquire 15% or more shares in a company unless it makes a public announcement to acquire shares of a target company. What does the word 'unless' mandate ?

(4 marks)

(v) On account of merger of the authorised share capital of the transferor company, the authorised share capital of the transferee company is increased. Is the transferee company required to pay the fee for increase in authorised capital ?

(4 marks)

3. During the year 2006, Corporation Bank, Oriental Bank of Commerce and Indian Bank have decided to form a strategic business alliance. The Boards of the three nationalised banks informed the Bombay Stock Exchange on 14th September, 2006, that the proposed 'strategic business alliance' of these three PSU banks is only a 'technical alliance' and will not involve inter-bank transfer of staff. The bank employees unions have also been kept informed of the proposed alliance to share information.

In the light of above, answer the following questions :

(a) What do you understand by the term 'strategic business alliance' ?

(2 marks)

(b) Why alliances are becoming popular ?

(3 marks)

(c) What are the important criteria in the selection of alliance partners ?

(3 marks)

(d) How does an alliance lead to synergy ?

(4 marks)

(e) Why did the three PSU banks, in your opinion, formed a strategic business alliance instead of amalgamation/ merger ?

(4 marks)

4. (a) Glowmore Ltd., a listed company of which you are the Company Secretary, is planning a demerger. You are required to prepare a check-list to be followed by company in process of demerger.

(10 marks)

(b) Distinguish between *any two* of the following :

(i) 'Corporate level strategy' and 'business unit strategy'.

(ii) 'Management buy-out' and 'management buy-in'.

(iii) 'Mandatory bid' and 'Competitive bid'.

(3 marks each)

5. (a) "Valuation of company's shares is a highly technical and complex matter." Discuss this statement in the light of various methods of share valuation.

(8 marks)

(b) What is meant by 'operating agency' ? Briefly explain its functions.

(8 marks)

6. (a) X Ltd. is considering the proposal to acquire Y Ltd. and the financial information is given below :

	X Ltd.	*Y Ltd.*
No. of equity shares	10,00,000	6,00,000
Market price per share *(Rs.)*	30	18
Market capitalisation *(Rs.)*	3,00,00,000	1,08,00,000

X Ltd. intends to pay Rs.1,40,00,000 in cash for Y Ltd. If Y Ltd's market price reflects only its value as a separate entity, calculate the cost of merger when merger is financed by cash.

(6 marks)

(b) Adroit Ltd. is run and managed by an effective team that insists on reinvesting 60% of its earnings in projects that provide a return on equity (ROE) of 10% despite the fact that the firm's capitalisation rate (k) is 15%. The firm's current year's earnings is Rs.10 per share.

(i) At what price will the share of Adroit Ltd. sell?

(3 marks)

(ii) What is the present value of growth opportunities?

(3 marks)

(iii) Why would such a firm be a takeover target ?

(4 marks)

7. The IDBI Bank Ltd. (IDBI) has finally walked away with United Western Bank (UWB), the Satara-based private sector bank. There were 17 commercial banks including public sector banks, private sector banks and foreign banks, who had bid for UWB. There was also one restructuring proposal from UWB, which envisaged the help of the Maharashtra Government in association with SICOM, HDFC and its subsidiaries and associates and IDFC. These investors together had offered to pump in around Rs.350 crore into the bank.

IDBI has offered Rs.28 per share to all UWB shareholders. The major institutional shareholders in UWB is SICOM, which holds around 10%. IDBI's offer of Rs.28 per share was marginally lower than SICOM's acquisition price. The IDBI's offer price works out to 1.8 times of the book value. This is higher than the average of 1.25 times for public sector banks' but lower than the average of three for the top 4 new private sector banks :

	IDBI	*UWB*
No. of branches	195	230
Deposits *(Rs. in crores)*	26,000	6,480
Advances *(Rs. in crores)*	52,518	4,006
NPAs *(in %)*	1.01	5.66

It is a win-win situation for IDBI, as they will be able to acquire a branch network of around 230 and around 3,000 employees of UWB. The employee acquisition, according to analysts, is equally important for IDBI as it has a high attrition rate and this acquisition will give it access to around 3,000 professional bankers at one go.

In the light of above details and other factors, answer the following questions :

(i) What is the meaning of 'amalgamation' according to Accounting Standard 14 ?

(3 marks)

(ii) Why were there so many suitors despite UWB being in a poor health ?

(3 marks)

(iii) Can IDBI Bank handle post-merger cultural issues ?

(3 marks)

(iv) How does this merger fits into IDBI Bank's strategic management ?

(3 marks)

(v) Classify the 'merger'. In which category would you like to put UWB's merger with IDBI Bank ?

(4 marks)

8. Write notes on *any four* of the following :

(i) Restructuring

(ii) Retrenchment as turnaround strategy

(iii) Reverse mergers

(iv) Rehabilitation and revival fund

(v) Spin off.

(4 marks each)

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