Chapter Tests of SFM of
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Solution of Test of M & A

Q 1

(a) Case A:

New shares issued = 80,000 X 1.25 = 1,00,000
Post-merger shares = 1,00,000 + 1,00,000 = 2,00,000
Post-merger Earnings = 10,00,000 + 8,00,000 + 2,50,000 = Rs.20,50,000
Post-merger EPS = 20,50,000 / 2,00,000 = Rs.10.25
Pre-merger PE ratio of Purchasing Firm = 120 / 10 = 12 times
Pre-merger PE ratio of Selling Firm = 80 / 10 = 8 times
Post-merger MPS = 10.25 X 12 = Rs.123

Post-merger MV, (2,00,000 X 123) = (1,00,000 X 100) + (80,000 X 80) + Synergy
Synergy = Rs.62,00,000

Case B:

Pre-merger MPS of Purchasing Firm = 5 X 15 = Rs.75
Pre-merger MPS of Selling Firm = 6 X 20 = Rs.120
Post-merger MPS = 6 X 15 = Rs.90

Expected increase in Earnings = 20,70,000 – 6,00,000 – 9,00,000 = Rs.5,70,000
Post-merger EPS, 6 = 20,70,000 / Post-merger Shares
Post-merger Shares = 20,70,000 / 6 = 3,45,000
New shares issued = 3,45,000 – 1,20,000 = 2,25,000
Share Exchange Ratio = 2,25,000 / 1,50,000 = 1.5

Post-merger MV, (3,45,000 X 90) = (1,20,000 X 75) + (1,50,000 X 120) + Synergy
Synergy = Rs.40,50,000

(b) Determination of Current Cost of Equity of B Ltd:
Ke = 1 (1.07) / 15 + .07 = 14.13%

Determination of Revised MPS of B Ltd:
Revised MPS = 1.08 / 14.13 % - 8% = Rs.17.62

Determination of Synergy:
Increase in Market Value of B Ltd. = (17.62 – 15) X 20 lakh shares = Rs.52.4 lakhs

Determination of Post Merger Market Value:
(60 X 48) + (20 X 15) + 52.4 = Rs.3,232.4 lakhs

New shares issued = 20 X 1/ 3 = 6.67 lakhs
Post merger shares = 60 + 6.67 = 66.67 lakhs

$$\text{Cost of Merger} = \frac{6.67}{66.67} \times 3{,}232.4 - 300 = \text{Rs.}23.39 \text{ lakhs}$$

Q 2

(a) Gross NPA is negative base, while CAR, MPS and BVPS are positive base.

Gross NPA:	5 / 40:	0.125
CAR:	5 / 16:	0.3125
MPS:	12 / 96:	0.125
BVPS:	12 / 120:	0.1

Note: BVPS of Weak Bank: [150 + 80 – 50 / 15] = Rs.12
BVPS of Strong Bank: [500 + 5,500 / 50] = Rs.120

Agreed Swap Ratio = .125 (.3) + .3125 (.28) + .125 (.32) + .1 (.1) = 0.175

(b) New shares issued = 15 X 0.175 = 2.625 lakhs

(c) Purchase Consideration = 2.625 lakh shares @ Rs. 10 (at par)
= Rs.26.25 lakhs

Determination of Goodwill:

Cash in Hand & with RBI	400
Balance with Other Banks	-
Investments	1,100
Advances	3,500
Other Assets	70
Total Assets	5,070
Less:	
Deposits	4,000
Other Liabilities	890
Net Assets taken over	180
Less: Purchase Consideration	26.25
Capital Reserve	153.75

Balance Sheet (Rs. in Lakhs)

Particulars	**Rs.**
Paid up Share Capital (500 + 26.25)	526.25
Reserves & Surplus	5,500
Capital Reserve	153.75
Deposits	48,000
Other Liabilities	3,390
Total Liabilities	**57,570**
Cash in Hand & with RBI	2,900
Balance with Other Banks	2,000
Investments	20,100
Advances	30,500
Other Assets	2,070
Total Assets	**57,570**

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(d) CAR = Total Capital / Risk Weighted Assets X 100

		Weak Bank	Strong Bank	Merged Bank
i)	Total Capital	180*	6,000	6,180
ii)	Risk Weighted Assets	3,600	37,500	41,100
iii)	CAR	5%	16%	15.04%

* After deducting Preliminary expenses

Gross NPA (%) = Gross NPA (Rs.) / Total Advances X 100

		Weak Bank	Strong Bank	Merged Bank
i)	Gross NPA	1,400	1,350	2,750
ii)	Advances	3,500	27,000	30,500
iii)	Gross NPA (%)	40%	5%	9.02%

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