

School of Finance and Commerce

Commerce
ETE - May 2023

Time : 3 Hours

Marks : 50

Sem VI - BBAF3023/BOFM6040

Corporate Restructuring

Your answer should be specific to the question asked. Draw neat labeled diagrams wherever necessary

1. Recite the meaning of acquisition with an example. K2 CO1 (2)
2. Summarize the meaning of merger with an example. K2 CO2 (2)
3. Articulate the concept of replacement cost. K3 CO3 (2)
4. Use gross profit ratio to show post merger financial performance of company. K3 CO4 (2)
5. HCL Technologies' software products divided into separate company called HCL Technologies Products and Platforms (HCL P&P) in 2015. Identify the type of Corporate restructuring. K4 CO5 (2)
6. Articulate the synergy theory of merger. K3 CO1 (5)
7. Discover the differences between horizontal and vertical merger with examples. K3 CO2 (5)
8. United Spirits, a leading alcoholic beverages company in India, announced a demerger in 2015, where it spun off its popular brands into a separate company called United Spirits Limited. K5 CO5 (6)
 - a: What was the purpose of United Spirits' demerger?
 - b: What were the benefits of the demerger for United Spirits?
 - c: What were the benefits of the demerger for the new company, United Spirits Limited?
9. "NPV will vary if there is change in the underlying variables." Critically analyze sensitivity analysis to explain the above statement. K4 CO3 (8)
10. The SEBI Takeover Code, 2011 is a set of regulations that governs the acquisition of shares and control of listed companies in India. Justify the statement. K4 CO4 (8)
11. Hero Honda, a joint venture between Hero Group of India and Honda of Japan, was one of the most successful motorcycle manufacturers in India. However, in 2010, the joint venture ended after nearly 26 years of successful operations. The failure of the joint venture was a surprise to many in the industry, and it had a significant impact on both companies.

Reasons for the Failure:

The failure of the Hero Honda joint venture can be attributed to several factors, including:

Differences in Vision and Strategy: Over time, Hero Group and Honda had different visions and strategies for the company. While Hero Group wanted to focus on the domestic market, Honda wanted to expand globally. The differences in vision and strategy created friction between the two partners, and it became increasingly difficult to reconcile their differences.

Equity Ownership: Another major issue that led to the failure of the joint venture was the equity ownership structure. Hero Group held a majority stake of 52% in the company, while Honda had a minority stake of 26%. This created an imbalance in the decision-making process, with Hero Group having a greater say in the company's operations.

Technology Transfer: The technology transfer agreement between Hero Group and Honda was only valid for 10 years. After the agreement expired, Hero Group was expected to develop its own technology to produce motorcycles. However, the company was unable to do so, which led to a decline in product quality and market share.

Branding and Marketing: Hero Honda was one of the most successful motorcycle brands in India. However, over time, the branding and marketing strategies of the company became outdated. The company failed to keep up with the changing trends in the market, which led to a decline in brand image and customer loyalty.

Impact of the Failure:

The failure of the Hero Honda joint venture had a significant impact on both companies. Hero Group lost access to Honda's technology and expertise, which led to a decline in product quality and market share. On the other hand, Honda lost its foothold in the lucrative Indian motorcycle market.

Lessons Learned:

The failure of the Hero Honda joint venture provides several lessons for companies entering into joint ventures, including:

Align Vision and Strategy: It is crucial for the partners to have a shared vision and strategy for the joint venture. Differences in vision and strategy can lead to friction and ultimately, failure.

Equity Ownership: The partners should have an equal say in the decision-making process. An imbalance in equity ownership can lead to one partner dominating the decision-making process, which can create issues down the line.

Technology Transfer: Technology transfer agreements should be long-term and should provide for continued access to technology and expertise.

Branding and Marketing: Companies should keep up with changing trends in the market and continually invest in branding and marketing strategies to remain competitive.

Conclusion:

The failure of the Hero Honda joint venture was a surprise to many in the industry. However, the lessons learned from the failure can help companies entering into joint ventures to avoid similar mistakes and increase the chances of success.

 1. Who were the partners in the Hero Honda joint venture?
 2. What were the reasons for the failure of the joint venture?
 3. What was the impact of the failure on both companies?
 4. What lessons can be learned from the failure of the joint venture? K5 CO5 (8)

