

29 APR 2025

## NATIONAL LAW UNIVERSITY, JODHPUR

End Term Examination April-May 2025

Semester: U.G. VIII<sup>th</sup> Semester

Subject: Mergers &amp; Acquisitions (Business Honours)

Time: Three Hours

Marks: 100

## Instructions:

- (1) The question paper contains six (06) questions out of which the student must attempt any five (05). Question no. 3 is Compulsory.
- (2) No materials, aids and instruments are permitted, in this examination.
- (3) Students must start each answer by clearly identifying to which question they are responding.
- (4) All questions carry equal marks

Q. 1) "The Courts must not sit in appeal over the commercial wisdom of the shareholders in a corporate reconstruction exercise". Examine the statement with the help of decided case laws. (Marks: 20)

Q. 2) "X" a public limited company has its shares listed on BSE and NSE in India. As on 31<sup>st</sup> March, 2024, promoters held 35% equity in "X" out of its total equity of 100 shares. However, due to conversion of FCCBs into equity shares, on 30 September 2024, the total share capital of "X" and shareholding of promoters increased. The pattern of increase is as follows:

Date	Share capital of "X"	Promoter's shares (in numbers)
31 March 2020	1000	350
16 April 2020	1000	360
01 June 2020	1100	360
22 June 2020	1100	380
05 July 2020	1200	380
16 July 2020	1200	400

On the basis of above data calculate whether the promoters have breached the "creeping threshold" limit and therefore cannot make any further acquisition of shares in "X" without making a public announcement of Mandatory open Offer under the SEBI SAST.

(Takeover) code, 2011? If not, then how many shares can promoters still acquire in "X" in the current financial year without triggering the mandatory open offer?

(Marks: 20)

- Q. 3) Arvind Ltd is a company incorporated under Companies Act 2013 having its registered office in Ahmedabad, Gujrat (India). The equity shares of Arvind Ltd are listed on BSE and NSE. Aura Securities Pvt. Ltd. ("Aura") is a part of promoter and promoter group of Arvind and disclosed as such under the SEBI ICDR, 2018. It holds 35.93% of equity shares in Arvind. The shareholding pattern of Aura (as on 01/04/2024) is as follows:

**Table 1**

Name of Shareholder	No. of shares	Shareholding (%)
Sanjay Family Trust (SFT)	99,996	99.996
Mrs. J. Lalbhai (wife of Mr. Sanjay Lalbhai)	1	0.001
Mr. K. Lalbhai (son of Mr. Sanjay Lalbhai)	1	0.001
Mr. P. Lalbhai (son of Mr. Sanjay Lalbhai)	1	0.001
Aura Business Ventures LLP	1	0.001

(Total outstanding shares of Aura was 1,00,000 shares as on 1/04/2024)

Sanjay Family Trust ('SFT') is a private discretionary trust settled by Late Mr. S. Lalbhai on 30 July 1999 for the benefit for his family members. SFT holds 99.99% equity capital of Aura. The trustees of SFT are: 1) Mr. Sanjay Lalbhai; and 2) Mrs. J. Lalbhai.

Moreover, Aura Weaving Private Limited ('Aura Weaving') and Shruti Trade Link Private Limited ('Shruti') are the wholly owned subsidiaries of Aura.

On 2 February 2025, two transactions are proposed:

- A. *Firstly*, on 3 March 2025 Aura would transfer its entire equity shareholding in Aura Weaving and Shruti to SFT, Mrs. J. Lalbhai, Mr. K. Lalbhai, Mr. P. Lalbhai and Aura Business Ventures LLP in the following manner which would result in the equity shareholding pattern of *Aura Weaving* and *Shruti* as under —

**Table 2**

Name of Shareholder	No. of shares	Shareholding (%)
Sanjay Family Trust (SFT)	9996	99.96

Mrs. J. Lalbhai	1	0.01
Mr. K. Lalbhai	1	0.01
Mr. P. Lalbhai	1	0.01
Aura Business Ventures LLP	1	0.01

(Total outstanding shares of Aura was 10,000 shares as on 1/04/2024 )

After the proposed transfer, Aura, Aura Weaving and Shruti will have similar equity shareholding pattern as shown above in *Table 2*.

B. Thereafter, on 31 March 2025 Aura also proposes to transfer its 35.93% equity shareholding / voting rights in Arvind to Aura Weaving and Shruti as under:

- a) 17.96% to Aura Weaving; and
- b) 17.96% to Shruti.

In view of the above proposed transactions, examine the application of SFBI SAST Regulations, 2011 with help of decided case laws

(Marks: 20)

Q. 4) Critically examine the evolving judicial approach towards examination of 'public interest' in schemes of reconstruction under Companies Act, with specific reference to landmark judgements of *Mafatlal Industries*, *Wiki Kids* and *63 moon technologies*.

(Marks: 20)

Q. 5) X Pvt Ltd is incorporated under the Companies Act 1956 and is a leading manufacturer of wall clocks in India. The company is controlled by family members of Mr A Khanna. Following is the shareholding pattern of X Pvt Ltd (as on 01 April 2023):

	Shareholder	Total no of shares
1.	Mr. A Khanna	1000
2.	Mrs. B Khanna (wife of Mr. A)	500
3.	Z Pvt Ltd	1000
4.	Khanna Trust (a Trust managed and controlled by Khannas)	1000
5.	Mr. D Khanna (brother of Mr. A Khanna)	500
6.	T Pvt Ltd	500

7.	Ms. R Khanna (sister of Mr. A Khanna)	500
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[The face value of one share is Rs 1 and each share entitles 1 vote to the holder thereof.]

Since January 2022, profits of X have fallen tremendously and the company has reported losses over four consecutive quarters. The total debt on X has reached Rs 500 Crore. There are rumours that Mr. A Khanna is in talks with the closest rival, S Pvt Ltd, for a possible merger. Mounting debts, recurring losses and the inability to pay dividends to its shareholders and interest to creditors have further fuelled the speculation. The present crisis in X has presented a golden opportunity to Z Pvt Ltd and T Pvt Ltd, who have long harboured ambitions to further consolidate their control over it.

The creditors, driven by a genuine fear of default of debt by X, have decided to explore statutory remedies under Insolvency and Bankruptcy Code 2016. Khannas fear that such a move can lead to further erosion of company's value in the market and further diminish its chances of a revival. Hence, Mr A Khanna has led the talks of compromise with creditors and drafted a scheme of compromise under which the company has proposed conversion of Rs 15 Crore debt into equity under companies Act 2013.

However, T Pvt Ltd has opposed the scheme arguing that conversion of debt into equity shares will affect the functioning of the company and, in particular, weaken the position of minority shareholders in X. T Pvt Ltd and Z Pvt Ltd have filed a representation before the Regional Director, MCA claiming that the scheme in its present form is prejudicial to the public interest.

On 10<sup>th</sup> January 2024, Mr. A Khanna filed an application under section 230 of Companies Act 2013 before NCLT Delhi to explore a possible compromise with creditors. The Khannas (Mr A, Ms. B, Mr. D, Ms R and Khanna Trust) have also prayed for dispensation of meeting of shareholders and creditors claiming that the scheme has approval of majority of shareholders and creditors. Z and T have objected to the dispensation of meeting as well as the scheme of compromise.

Discuss the major legal issues involved in the problem and render advice to the X and Z/T based on your understanding of relevant law and with the help of decided case laws.

(Marks: 20)

Q.6) Write short note on the following:

(a) Implications of devising a numerical threshold for Right to Object to a scheme of arrangement

(b) Arcelor-Mittal Takeover and application of defences

(Marks: 10\*02 = 20)