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A STUDY OF CORPORATE RESTRUCTURING THROUGH DEMERGER; WITH REFERENCE TO SELECTED INDIAN COMPANIES

A dramatic change in the corporate arena is noticed during the last two decades due to the new economic policy of 1991 that could not be thought of in the earlier decades. Liberalization initiated in the late 90s coupled with globalization put the corporate India before an unprecedented challenge exposing them to severe domestic and global competition. Greater competition, freer imports, lack of economies of scale, over-creation of capacities, unwanted diversifications, funds constraints, and cost and time over-runs have become some of the new-found areas of concern. Companies are engaging in various efforts to consolidate themselves in areas of their core competence and divest those businesses where they do not have any competitive advantage (Vedpurishwar, 2001).

Table: Indian Companies Demerger Impact

Company	Market Capitalization	PE Ratio
Vedanta Limited	1,32,462	7.13
Piramal Enterprises	58,841	50.42
Dhampur Sugar Mills	2,709	12.54
Welspun Corp Limited	4,965	8.27
ICICI Bank Ltd.	5,59,078	24.07
ICICI Lombard General Insurance Co. Ltd.	66,992	53.11
Jubilant Pharmova Ltd	8,386	10.14
Jubilant Ingrevia Ltd	9,494	20.53
Future Retail Limited	2,567	-

Consequently, as an option, corporate restructuring through both mergers & acquisitions and demergers are emerging as the key corporate activities. The changes in government regulations made restructuring activity an even more viable business strategy. Moreover, the recessionary trends resulting in falling demand insisted the firms to restructure aiming to achieve economies of scale and to make them befitting for the competitive environment so that they can drag the air in their favour in this increasingly changing corporate scenario. The spate of restructuring activities, highly dominated by mergers and takeovers, was powered more after 1994 when the necessity of formulating a new takeover code was felt by the regulatory authorities (Mantravadi and Reddy, 2007). The fever mounted up after the SEBI (Substantial Acquisitions of Shares and Takeovers) Regulations and the New Companies Act, 1997 came to exist resulting more than thousand companies being taken over for different purposes that include consolidation, change in control of management, and substantial acquisition. The number of open offers grew from two in 1994 to ninety eight in 2001-02 (www.equitymaster.com). Bulks of M&As deals have been on cash basis. According to the Securities and Exchange Board (SEBI) working paper titled “Impact of Takeover Code Regulations on Corporate Sector in India - A Critical Appraisal”, the major users of the acquisition mechanisms were Indian companies, which accounted for 85 per cent of the total takeovers. Presently, the corporate India is passing through a transitioning phase where restructuring has become a major theme wearing a different hue that is completely different from the earlier decades.

During the licensing era, several companies had indulged in unrelated diversifications depending on the availability of licenses. Takeover bids, mergers and acquisitions were not rare. The takeovers of this period were resorted to build industrial empires creating a conglomerate of diverse business into one group. The companies thrived in spite of their inefficiencies because the total industry capacity was restricted due to licensing. Over a period of time, the companies became conglomerates with a sub-optimal portfolio of assorted businesses (Sarangapani and Mamatha, 2008). Despite the unfavourable economic environment, the corporate sector has witnessed incidents of takeover bids from time to time. Since 1986 onwards, both friendly takeover bids on negotiated basis and hostile bids through hectic buying of equity shares of select companies from the market have been reported frequently. Both non-resident Indians and Indian firms attempted raid on domestic corporate undertakings.

The Murugappa Group, the Chhabria Group, the RPG Group and the Swaraj Paul and Sethia Group were the popular names who sought to build industrial empires. The major takeovers during this period were Ashok Leyland and Ennore Foundries by Hinduja's, Shaw Wallace, Dunlop India and Falcon Tyres by the Chhabria Group, Ceat Tyres, Herdilla Chemicals and Polychem by the Goenkas and Consolidated Coffee by Tata Tea, Allwyn Nissan by Mahindra and Mahindra, and Shalimar Paints by the Jindal Group. HCL Ltd was formed merging Hindustan Computers, Hindustan Reprographics, Hindustan Telecommunications and Indian Computer Software Co. and the Oberoi Group has taken over Pleasant Hotels of the Rane Group. Board for Industrial and Financial Reconstruction also arranged actively takeover of sick undertakings like Hyderabad Allwyn Ltd by Voltas Ltd, Miami Pharma Ltd by Lakme.

Since entry barriers are low in the new economy, the rate of creation of new companies is extremely high and so are the chances of M&As. Since most Internet start-ups are small, unilocational outfits, staffed by fewer people compared to brick and mortar behemoths, the actual process of integration is less burdensome and less painful. In Indian context, the motive behind the merger and acquisition activity was to widen the portfolio of product and services, to enhance geographical coverage, and to reduce marketing cost and gestation period (Krishna, 1998). Consolidation of market position as sought by French firm Lafarge acquiring the cement unit of Tisco and by Gujarat Ambuja acquiring DLF Cement and half of Tata's share in ACC also worked as a driving force behind the merger movements in India. But takeover game in India is not spread evenly over the industries. According to the number of companies acquired finance and information technology industries scored high while the electronic and electrical industries are at the top in terms of amount spent followed by metals, cement and construction (Vedpurishwar, 2001). The Indian banking sector, with too many loss-making units, could have possibly benefited from mergers, but M&As have failed to perform. Restructuring by companies is observed through merger in areas of their core competence and by way of contracting size through demerger where they do not have any competitive advantage (Mulherin and Boone, 2002).

It became easier to acquire companies than set up additional capacities. The bidding war for licenses for the fourth cellular company to operate in each of India's 21 telecom zones shook up the country's fledgling cellular market. This forced some smaller groups to sell out because their pockets were not deep enough to bid for more licenses or to pump in funds to grow their business (Jagannathan et al., 2002). The larger ones consolidated their market share through buyouts. In case of global mergers of multinational companies, their Indian setups merge by default. Though the merger then was a part of global strategy rather than local market compulsions, it had effects on the Indian market too. The same was happened when ANZ Gindlays Bank and Standard Chartered Bank merged leading to large-scale business and manpower restructuring in their respective Indian outfits or the HP-Compaq merger which is expected to shake up the computer hardware market in India.

The Indian enterprise is currently restructuring itself broadly on these lines. There are open offers, buybacks, sale of plants or brands, change in equity, mergers, reverse mergers, etc. However, the firm-level positive results from M&A deals are yet to be strongly recognized. A recent KPMG study found that only 30 per cent of cases of M&As in India created shareholders' value. In 39 per cent of such deals, there was no discernible difference, while in 31 per cent of cases, the shareholder value was diluted. The finding, though shocking to most, stems from imperfections, which exist in most economies and more distinctly in India.

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