Corporate Restructuring

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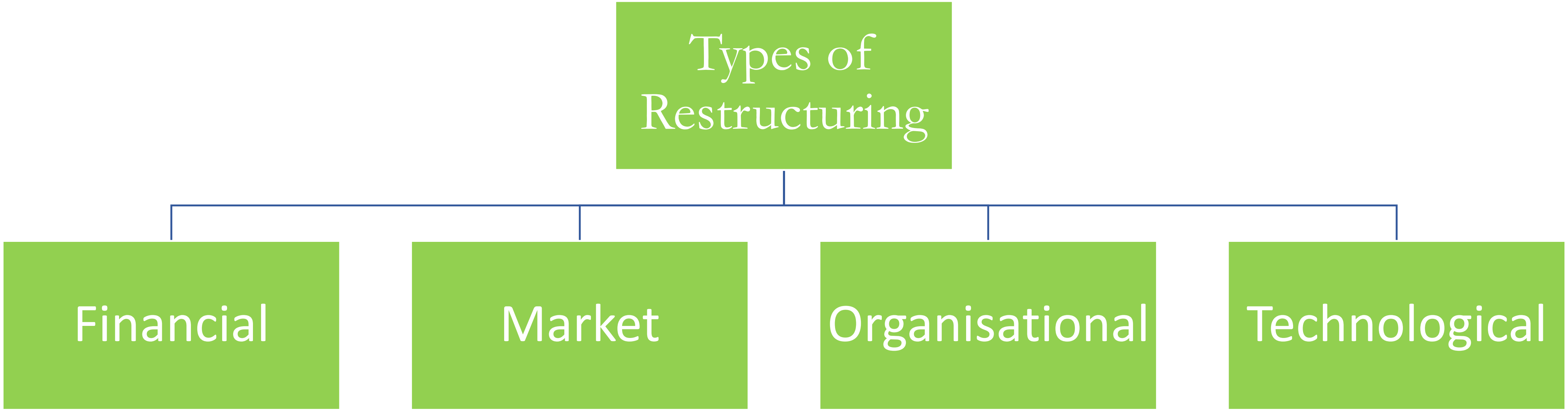
Corporate Restructuring

- Corporate restructuring is the process of significantly changing a company's business model, management team or financial structure to address challenges and increase shareholder value. Corporate restructuring is an inorganic growth strategy.
- The business environment is rapidly changing with respect to technology, competition, products, people, geographical area, markets, customers. It is not enough if companies keep pace with these changes but are expected to beat competition and innovate in order to continuously maximize shareholder value. Inorganic growth strategies like mergers, acquisitions, takeovers and spinoffs are regarded as important engines that help companies to enter new markets, expand customer base, cut competition, consolidate and grow in size quickly, employ new technology with respect to products, people and processes. Thus, the inorganic growth strategies are regarded as fast track corporate restructuring strategies for growth

Need for Corporate Restructuring

- To enhance shareholders value
- Deploying surplus cash from one business to finance profitable growth in another
- Exploiting inter-dependence among present or prospective businesses
- Risk reduction
- Development of core-competencies
- To obtain tax advantages by merging a loss-making company with a profit-making company
- Revolution in information technology has made it necessary for companies to adopt new changes for improving corporate performances.
- To become globally competitive
- To increase the market share.
- Competitive business necessitated to have sharp focus on core business activities, to gain synergy benefits, to minimize the operating costs, to maximize efficiency in operation and to tap the managerial skill to the best advantage of the firm.
- By diversification of business activities, the minimization of business risk is possible and it enables the firm to achieve at least the minimum targeted rate of return

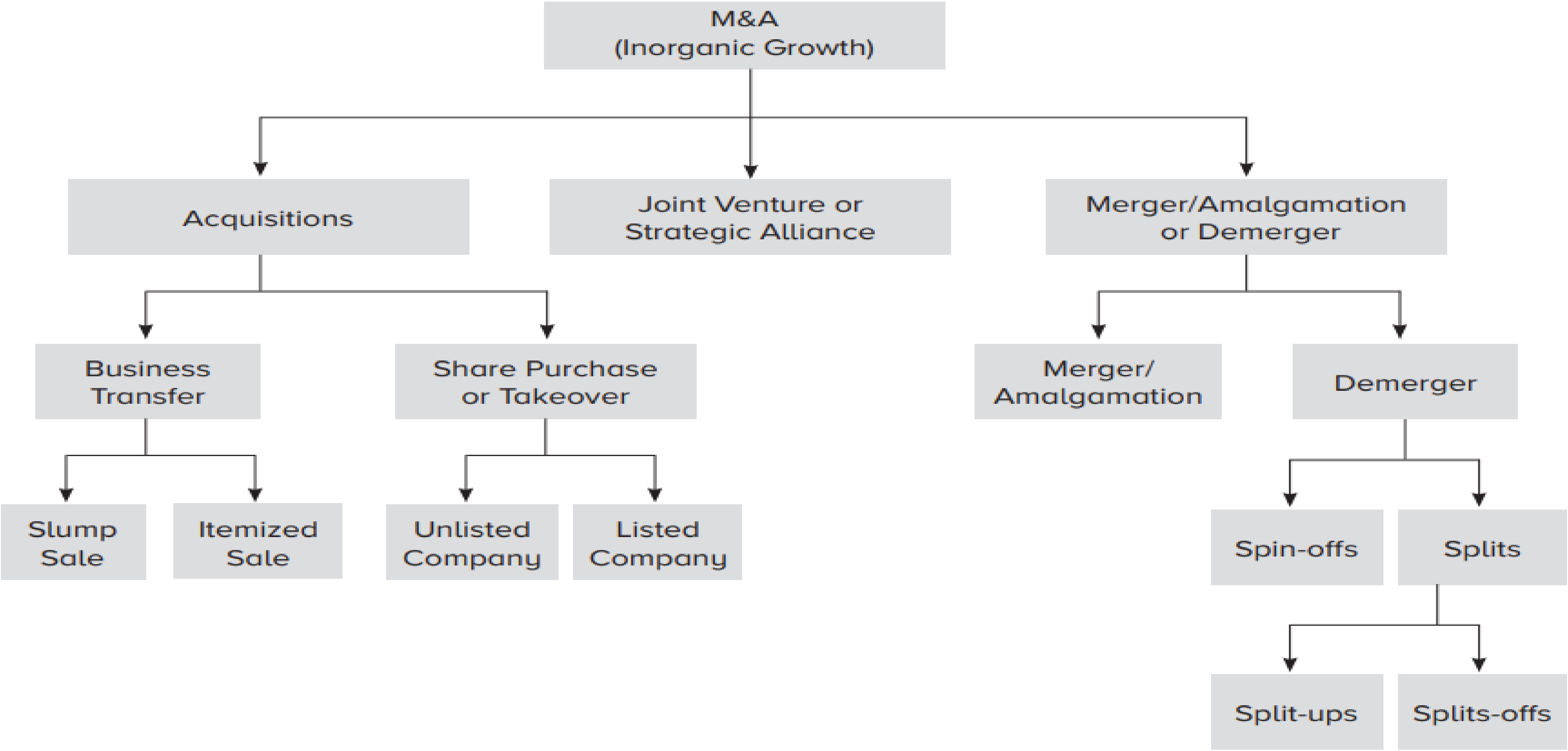
Types of Restructuring



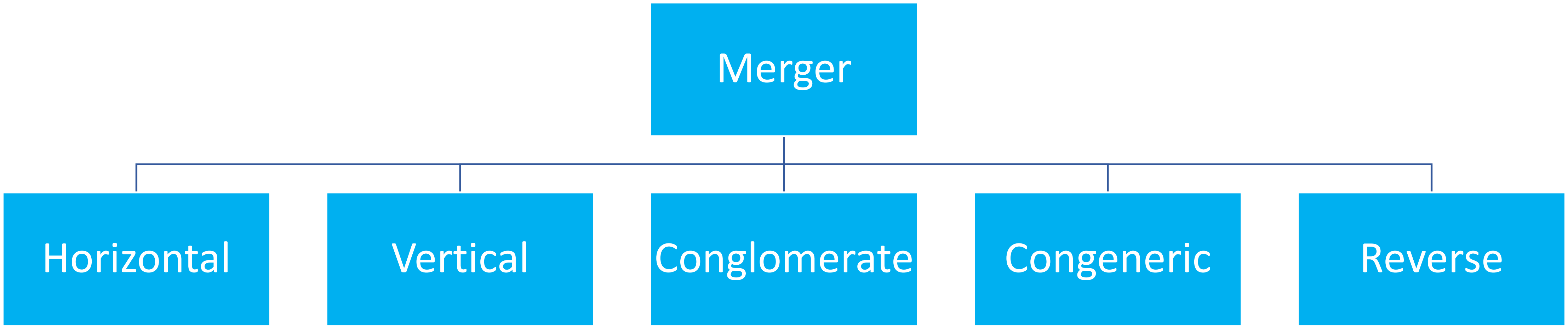
Legal Framework of Corporate Restructuring

- Chapter XV of The Companies Act, 2013 (the Act) The Companies (Compromises, Arrangements and Amalgamations) Rules, 2016
- Chapter IV of the Companies Act, 2013 the Companies (Share Capital and Debentures) Rules, 2014 - Buy Back of shares/ purchase of own securities
- The National Company Law Tribunal (Procedure for reduction of share capital of Company) Rules, 2016 -Reduction of share capital
- The Companies (Compromises, Arrangements, and Amalgamations) Rules, 2016
- Income Tax Act, 1961
- Accounting Standards
- Foreign Exchange Management Act, 1999
- Competition Act, 2002
- Indian Stamp Act,
- Insolvency and Bankruptcy Code, 2016
- Rules & Regulations thereon Intellectual Property Rights.

Tools for Corporate Restructuring



Merger


Merger
Horizontal
Vertical
Conglomerate
Congeneric
Reverse

Acquisition

- Acquisition occurs when one entity takes ownership of another entity's stock, equity interests or assets.
- It is the purchase by one company of controlling interest in the share capital of another existing company.
- Even after the takeover, although there is a change in the management of both the firms, companies retain their separate legal identity.
- The companies remain independent and separate; there is only a change in control of the companies. When an acquisition is 'forced' or 'unwilling', it is called a takeover

Amalgamation

- Amalgamation is defined as the combination of one or more companies into a new entity.
- It includes:
- (i) Two or more companies join to form a new company.
- (ii) Absorption or blending of one by the other

Examples of Mergers and Acquisitions

- Tata Group/Air India
- Adani Group/Ambuja Cement
- Zomato – Blinkit Merger
- Zomato Acquisition of Uber Eats
- Vodafone India and Idea Cellular
- Flipkart and eBay
- Jio Cinema and Hotstar

Demerger

- Divestiture
- Spin-offs
- Splits/divisions
- Equity carveouts

Slump Sales

- It helps the business to improve its poor performance.
- It helps to strengthen financial position of the company.
- It eliminates the negative synergy and facilitates strategic investment.
- It helps to seek tax and regulatory advantage associated with it.

Joint Venture

- Equity-based joint ventures
- Non-equity joint ventures
- **Examples**
  - Vistara airlines is an Indian Joint Venture with a foreign company. Vistara is the brand name of Tata SIA Airlines Ltd, a JV between India's corporate giant Tata Sons and Singapore Airlines (SIA).
  - Tata Starbucks Pvt. Ltd is a joint venture of Tata with Starbucks Corporation, USA which runs a chain of Starbucks brand coffee shops across India.

Reverse Merger

- To carry forward tax losses of the smaller firm, this allows the combined entity to pay lower taxes. Tax savings under Income Tax Act, 1961
- Economies of scale of production
- Marketing network
- To protect the trademark rights, licence agreements, assets of small/loss making company.
- In 2023, the reverse merger of HDFC with its subsidiary HDFC Bank, resulting in a combined business worth over 41 lakh crore

Financial Restructuring

- Debt Restructuring
- Equity Restructuring
- Alteration of share capital
  - Reduction of share capital
    - extinguish or reduce the liability on any of its shares in respect of the share capital not paid-up;
    - either with or without extinguishing or reducing liability on any of its shares;
    - cancel any paid-up share capital which is lost or is unrepresented by available assets;
    - pay off any paid-up share capital which is in excess of the wants of the company
  - Buy-back of shares.
    - Tender Offer
    - Open Market Purchase

Takeover

- To effect savings in overheads and other working expenses on the strength of combined resources;
- To achieve product development through acquiring firms with compatible products and technological/ manufacturing competence, which can be sold to the acquirer's existing marketing areas, dealers and end users;
- To diversify through acquiring companies with new product lines as well as new market areas, as one of the entry strategies to reduce some of the risks inherent in stepping out of the acquirer's historical core competence;
- To improve productivity and profitability by joint efforts of technical and other personnel of both companies as a consequence of unified control;
- To create shareholder value and wealth by optimum utilisation of the resources of both companies; To achieve economies of scale by mass production at economical costs;
- To secure substantial facilities as available to a large company compared to smaller companies for raising additional capital, increasing market potential, expanding consumer base, buying raw materials at economical rates and for having own combined and improved research and development activities for continuous improvement of the products, so as to ensure a permanent market share in the industry;
- To achieve market development by acquiring one or more companies in new geographical territories or segments, in which the activities of acquirer are absent or do not have a strong presence

Kinds of Takeover

- Friendly Takeover
- Hostile Takeover
- Bailout Takeover

Perquisite for M&I

- Due Diligence
- Business Valuation
- Planning Exit
- Structuring Business Deal
- Stage of Integration:

Due Diligence

- Legal Due Diligence
- Tax Due Diligence
- IP Due Diligence
- Operational Due Diligence
- Commercial Due Diligence:
- Information Technology (IT) Due Diligence
- HR Due Diligence

Due Diligence Checklist

- Financial Aspects
- Debtor’s Aspects
- Creditor’s Aspects
- Material Control Aspect
- Human Aspect
- Regulatory Aspects

Case Studies

- HDFC & HDFC Bank
- Demerger of Reliance Industries Ltd.
- Demerger of ITC's Hotel Buisness
- Air India Merger
- Joint Venture Between Tata Sons and Singapore Airlines to Form Vistara
- Jet Airways and Sahara Airlines
- Kingfisher Airlines – Air Deccan
- SpiceJet and Go First