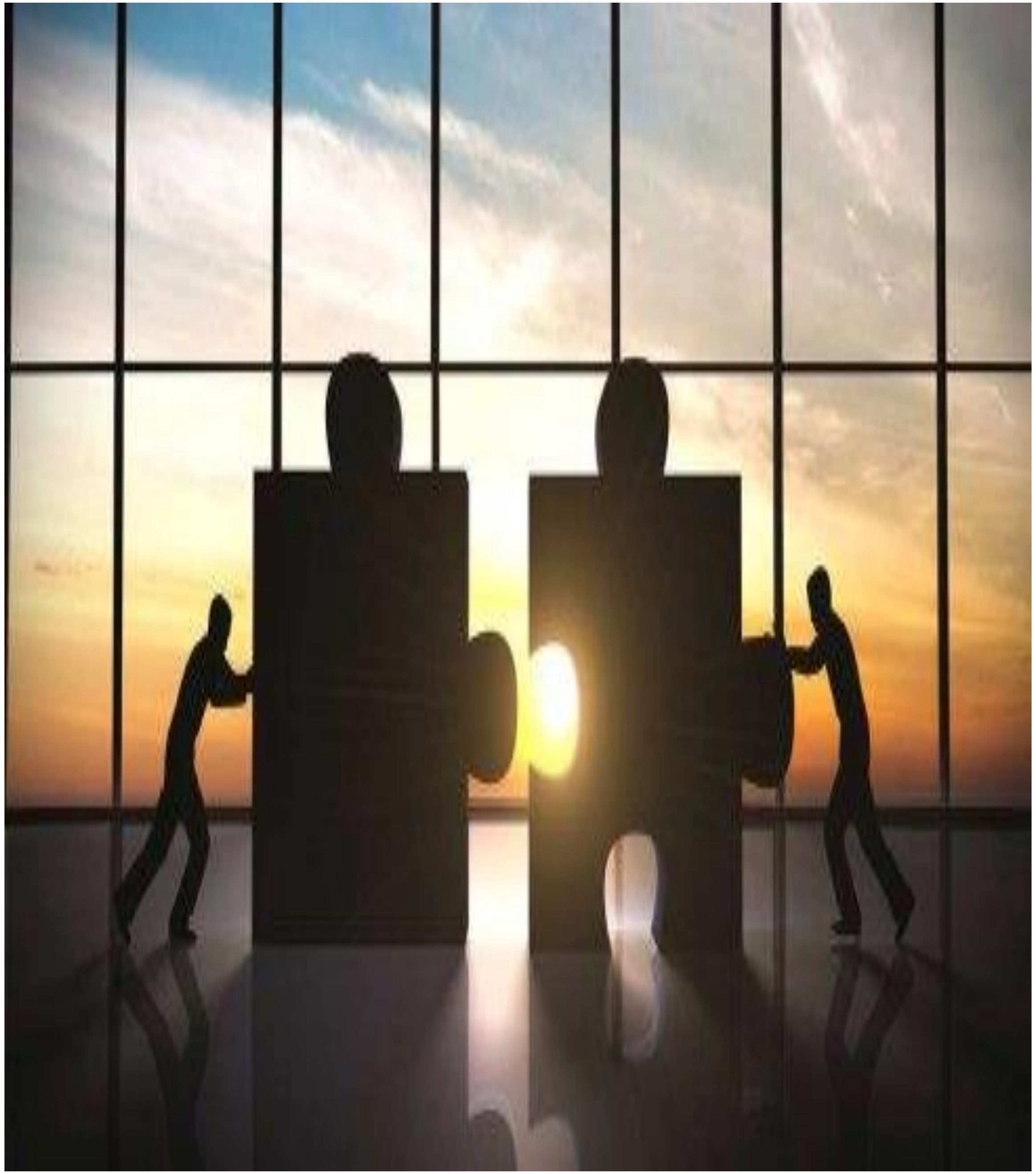

CORPORATE RESTRUCTURING

HYDERABAD

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Corporate restructuring

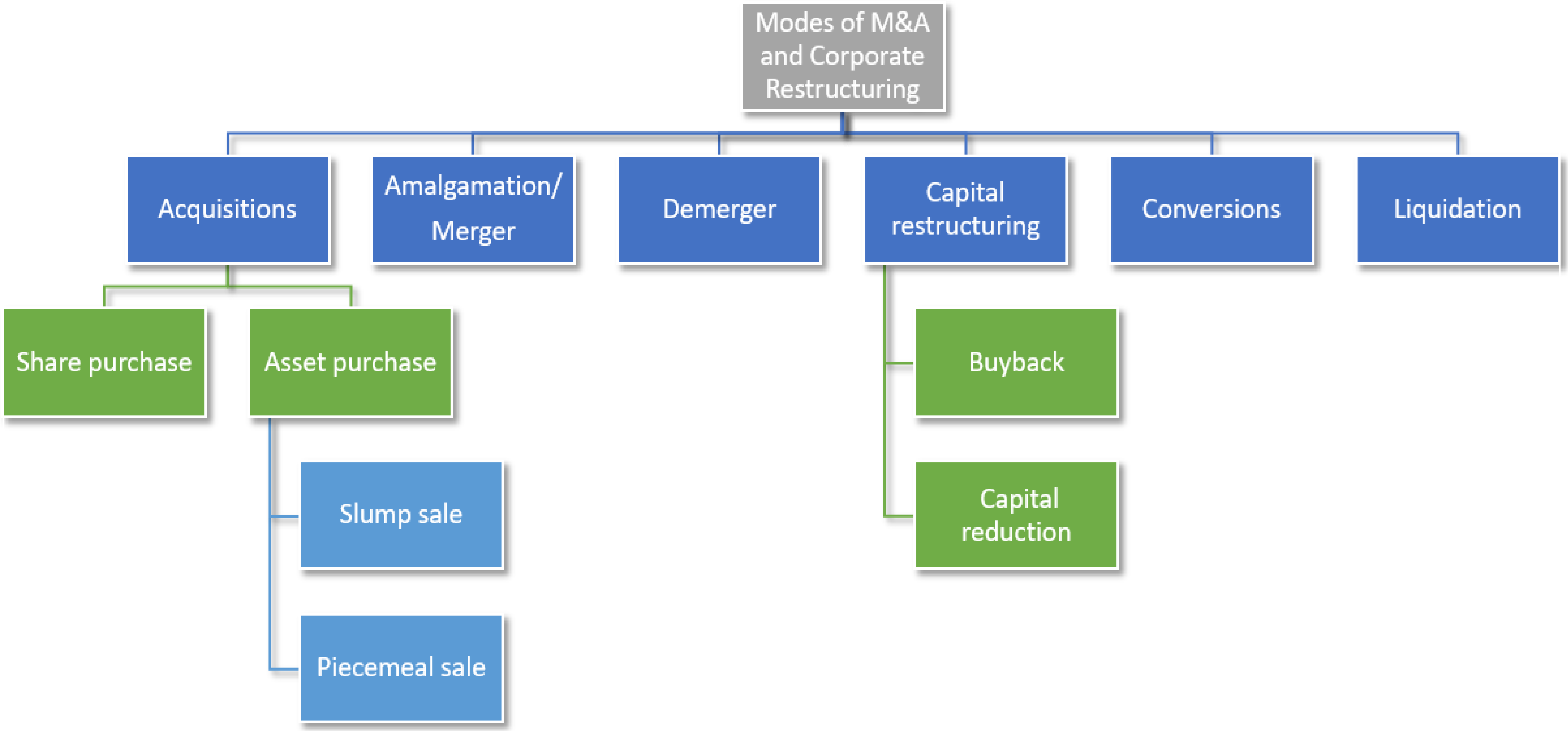
Internal corporate restructuring:

- Consolidation of shares
- Reduction of share capital
- Buy-back of shares
- Conversion of entity

External corporate restructuring:

- Merger
- Demerger
- Slump sale
- Sale of business entity

Corporate restructuring



Advantages of corporate restructuring

- **Improved Efficiency:** By reorganizing internal operations and structure, a company can streamline its processes and eliminate redundancies, resulting in improved efficiency.
- **Better Resource Allocation**: Internal corporate restructuring can help a company identify areas where it can allocate its resources more effectively, such as investing in new technologies or markets.
- **Improved Financial Performance:** Internal corporate restructuring can lead to improved financial performance by reducing costs, increasing productivity, and improving profitability.
- **Better Decision Making:** By reorganizing its structure and operations, a company can improve communication and decision-making processes, leading to more effective decision making.
- **Increased Flexibility**: Internal corporate restructuring can make a company more adaptable and responsive to changes in the business environment, enabling it to respond quickly to new opportunities or challenges.
- **Improved Employee Morale:** A well-planned internal corporate restructuring can lead to increased employee morale by providing clarity on roles and responsibilities, career development opportunities, and a more efficient work environment
- **Increased Shareholder Value:** By improving financial performance, corporate restructuring can lead to an increase in shareholder value, which can attract more investors and improve a company's reputation in the market.

Advantages of corporate restructuring…

- **Improved Strategic Position:** Corporate restructuring can help a company adapt to changes in the business environment and improve its strategic position by refocusing its operations, entering new markets, or developing new products or services.
- **Enhanced Competitiveness**: Restructuring can help a company become more competitive by positioning itself to take advantage of new market opportunities and adapting to changes in the business environment.
- **Increased Efficiency:** By reorganizing operations and eliminating redundancies, corporate restructuring can improve efficiency and reduce costs.
- **Better Resource Allocation**: Corporate restructuring can help a company identify areas where it can allocate its resources more effectively, such as investing in new technologies or markets.
- **Improved Access to Capital:** Corporate restructuring can improve a company's access to capital by reducing its debt burden, improving its credit rating, and making it more attractive to lenders and investors.

Challenges

- **Legal and Regulatory Framework**: The legal and regulatory framework in India can be complex and time-consuming, making it difficult to carry out corporate restructuring smoothly.
- **Resistance to Change**: Employees and other stakeholders may resist changes to the company's structure, operations, or culture, making it difficult to implement restructuring initiatives.
- **Limited Availability of Skilled Professionals:** The availability of skilled professionals, such as lawyers, accountants, and consultants, who are well-versed in corporate restructuring, is limited in India.
- **Financial Constraints:** Corporate restructuring can be expensive, and companies in India may face financial constraints that make it difficult to fund restructuring initiatives.
- **Lack of Institutional Support:** There is a lack of institutional support in India for corporate restructuring, such as specialized agencies or government policies that support companies undergoing restructuring.
- **Cultural Factors:** India has a diverse and complex cultural landscape, and this can make it difficult to implement corporate restructuring initiatives that are sensitive to the unique needs of different regions and communities.
- **Economic Uncertainty:** Economic uncertainty can make it difficult for companies to plan and implement restructuring initiatives, as they may not be able to accurately forecast future revenues and expenses.

Tax implications

- **Capital Gains Tax**: If a company transfers assets or shares as part of a restructuring, it may be subject to capital gains tax on any profit earned from the transfer.
- **Stamp Duty:** Certain types of corporate restructuring, such as mergers and amalgamations, may be subject to stamp duty under state laws.
- **Taxation of Dividends:** If a company pays dividends as part of a restructuring, the dividends may be subject to dividend distribution tax.
- **Minimum Alternate Tax (MAT):** Companies that claim tax exemptions or deductions under the Income Tax Act may still be subject to MAT on their book profits.
- **Carry Forward and Set Off of Losses:** Companies that undergo restructuring may lose the ability to carry forward or set off accumulated losses against future profits.
- **Transfer Pricing**: If a company transfers assets or shares as part of a restructuring, it may be subject to transfer pricing rules that require the transfer to be conducted at arm's length.
- **Withholding Tax:** If a company makes payments to non-resident entities as part of a restructuring, it may be subject to withholding tax.

Consolidation of shares

Consolidation of shares, also known as reverse stock split, is a process where a company reduces the number of outstanding shares by combining multiple shares into one share.

This process is usually undertaken by companies to increase the value of their shares and make them more attractive to investors.

- **Tata Consultancy Services (TCS)**: In 2018, TCS consolidated its shares by combining every one share held by investors into one share. This move reduced the number of outstanding shares from over 3.6 billion to 3.6 million, resulting in an increase in the share price.
- **Indian Bank:** In 2020, Indian Bank consolidated its shares by merging 10 shares into one share. This move reduced the number of outstanding shares from over 866 million to 86.6 million, resulting in an increase in the share price.
- **Max India:** In 2019, Max India consolidated its shares by merging 5 shares into one share. This move reduced the number of outstanding shares from over 88 million to 17.6 million, resulting in an increase in the share price.
- **Reliance Industries:** In 2008, Reliance Industries consolidated its shares by merging every 5 shares into one share. This move reduced the number of outstanding shares from over 2.6 billion to 526 million, resulting in an increase in the share price.

Consolidation of shares - Process

- Conduct a Board Meeting.
- Convene a General Meeting.
- File an Application with the National Company Law Tribunal (NCLT): The company must file an application with the NCLT for the consolidation of shares. The application must include the special resolution passed by the shareholders, the notice of the general meeting, and a copy of the Board resolution approving the proposal for consolidation of shares.
- Obtain Approval from the NCLT: The NCLT will examine the application and if satisfied, it will approve the consolidation of shares. The order passed by the NCLT must be filed with the Registrar of Companies within 30 days of its receipt.
- Issue a Public Notice: The company must issue a public notice in the newspapers, stating the details of the consolidation of shares and its effects.
- Amend the Memorandum and Articles of Association: The company must amend its Memorandum and Articles of Association to reflect the consolidation of shares.
- Implement the Consolidation of Shares: The company must implement the consolidation of shares by issuing new consolidated shares to the shareholders in proportion to their existing shareholding.
- Intimate the Changes to the Stock Exchanges: The company must intimate the changes in its share capital to the stock exchanges where its shares are listed.

Reduction of Share Capital

Reduction of share capital is a process where a company reduces the total amount of its share capital by cancelling or extinguishing any unpaid share capital or by reducing the nominal value of its shares.

This process is usually undertaken by companies to improve their financial health and capital structure.

- **Tata Motors:** In 2017, Tata Motors reduced its share capital by canceling a part of its share capital that was not fully paid up. The company extinguished 83 million partly paid-up shares, which led to a reduction in its share capital.
- **Hindustan Unilever**: In 2018, Hindustan Unilever reduced its share capital by canceling 210 million shares of Rs 1 each, which were held as treasury shares. This move resulted in a reduction of the company's share capital.
- **Tata Steel:** In 2019, Tata Steel reduced its share capital by reducing the face value of its shares from Rs 10 to Rs 5 per share. This move led to a reduction in the company's share capital.
- **Tech Mahindra**: In 2020, Tech Mahindra reduced its share capital by canceling 9.4 million shares, which were not fully paid up. This move resulted in a reduction of the company's share capital.

Buy back of shares

A share buyback, also known as a share repurchase, is a process in which a company buys back its own shares from the market. This process is usually undertaken by companies to improve their financial performance, increase the value of their shares, and reduce the number of outstanding shares. Here are some examples of share buybacks in India:

1. Tata Consultancy Services (TCS): In 2018, TCS bought back 7.61 crore shares, worth Rs 16,000 crore, from the market. This move was aimed at improving the financial performance of the company and increasing the value of its shares.
2. Infosys: In 2019, Infosys bought back 11.05 crore shares, worth Rs 8,260 crore, from the market. This move was aimed at improving the return on equity for the shareholders and reducing the number of outstanding shares.
3. Wipro: In 2019, Wipro bought back 32.3 crore shares, worth Rs 10,500 crore, from the market. This move was aimed at improving the financial performance of the company and increasing the value of its shares.
4. HDFC Bank: In 2020, HDFC Bank bought back 6.97 crore shares, worth Rs 17,000 crore, from the market. This move was aimed at improving the return on equity for the shareholders and reducing the number of outstanding shares.

Overall, share buybacks are a common practice among Indian companies to improve their financial performance and increase the value of their shares. It is usually undertaken in compliance with the provisions of the Companies Act, 2013, and other applicable laws and regulations.

Buy back of shares

- Obtain Board Approval: The Board of Directors of the company must approve the proposal for buyback of shares and pass a resolution authorizing the same.
- Pass a Special Resolution: The company must pass a special resolution through a general meeting of shareholders approving the buyback of shares. The notice of the general meeting must be sent to all shareholders at least 21 days before the meeting.
- File a Declaration of Solvency: The company must file a declaration of solvency with the Registrar of Companies stating that it is solvent and will be able to pay its debts after the buyback of shares.
- Make Public Announcement: The company must make a public announcement in the newspapers about the buyback of shares, stating the number of shares to be bought back, the price at which the shares will be bought back, the period of the buyback, and the maximum amount that will be spent on the buyback.
- Open a Separate Bank Account: The company must open a separate bank account and deposit the funds required for the buyback in that account.
- Purchase the Shares: The company must purchase the shares through a tender offer or through the stock exchange within the time period specified in the public announcement.
- File Return of Buyback: The company must file a return of buyback with the Registrar of Companies within 30 days of the completion of the buyback process.
- Cancel the Shares: The company must cancel the shares that have been bought back within 7 days of the filing of the return of buyback.
- Intimate the Changes to the Stock Exchanges: The company must intimate the changes in its share capital to the stock exchanges where its shares are listed.

Merger

- In India, a merger is a type of corporate restructuring that involves the combination of two or more companies into a single entity. The companies involved in a merger typically pool their resources and operations to create a more efficient and competitive business.

- Here are some examples of notable mergers in India:
- Vodafone India and Idea Cellular: In 2018, Vodafone India and Idea Cellular completed a merger to create the largest telecom operator in India. The merger was valued at $23 billion.
- Hindustan Unilever and GlaxoSmithKline Consumer Healthcare: In 2019, Hindustan Unilever announced the acquisition of GlaxoSmithKline Consumer Healthcare's Indian business in a merger worth $3.8 billion.
- HDFC Bank and Centurion Bank of Punjab: In 2008, HDFC Bank acquired Centurion Bank of Punjab in a merger valued at $2.4 billion. The merger helped HDFC Bank expand its footprint in India.
- Kotak Mahindra Bank and ING Vysya Bank: In 2015, Kotak Mahindra Bank acquired ING Vysya Bank in a merger valued at $2.4 billion. The merger helped Kotak Mahindra Bank expand its reach in southern India.
- Reliance Industries and Network18: In 2014, Reliance Industries announced the acquisition of Network18, a media and entertainment company, in a merger worth $680 million.
- These mergers have helped the companies involved to consolidate their positions in their respective industries, expand their reach, and improve their competitiveness.

Demerger

- In India, a demerger is a type of corporate restructuring that involves the separation of one or more businesses from a larger company. Demergers are typically undertaken to create separate, independent companies that can operate more efficiently and effectively on their own.
- Here are some examples of notable demergers in India:

1. Reliance Industries and Reliance Communications: In 2005, Reliance Industries demerged its telecom business into a separate company called Reliance Communications. The demerger helped both companies focus on their respective businesses and improve their operational efficiency.
2. Tata Group and Tata Chemicals: In 2017, Tata Group demerged its fertilizer business into a separate company called Tata Chemicals. The demerger allowed Tata Chemicals to focus on its core business of chemicals and improve its profitability.
3. Aditya Birla Group and Grasim Industries: In 2016, Aditya Birla Group demerged its cement business into a separate company called Grasim Industries. The demerger helped Grasim Industries expand its presence in the cement industry and improve its profitability.
4. Larsen & Toubro and L&T Technology Services: In 2016, Larsen & Toubro demerged its technology services business into a separate company called L&T Technology Services. The demerger allowed L&T Technology Services to focus on its core business of technology services and improve its operational efficiency.
5. Wipro and Wipro Enterprises: In 2013, Wipro demerged its consumer care and lighting business into a separate company called Wipro Enterprises. The demerger allowed Wipro Enterprises to focus on its core business and improve its profitability.

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Slump Sale

- In India, a slump sale is a type of business transfer in which an entire business undertaking or a part of a business is transferred from one entity to another for a lump sum consideration, without assigning individual values to the assets and liabilities being transferred. In other words, the assets and liabilities of the business are sold as a whole, rather than as individual assets.

- Under a slump sale, the buyer acquires the entire business as a going concern, along with its assets, liabilities, rights, and obligations. The buyer steps into the shoes of the seller and continues to operate the business as it was being operated before the transfer.

- Slump sales are often used by companies that want to divest a non-core business or to streamline their operations by selling off a part of their business. Slump sales are also commonly used in the case of mergers and acquisitions, where the buyer wants to acquire a target company's entire business rather than individual assets.

Slump Sale

- In 2018, Larsen & Toubro Ltd. (L&T) sold its electrical and automation business to Schneider Electric through a slump sale for $2.1 billion. The transaction allowed L&T to focus on its core businesses of engineering, construction, and infrastructure.
- In 2019, Eros International Media Ltd. sold its entire music business to Sony Music India through a slump sale for an undisclosed amount. The transaction allowed Eros International to divest a non-core business and focus on its core business of film production and distribution.
- In 2016, HCL Technologies sold its enterprise application services business to IBM through a slump sale for $1.8 billion. The transaction allowed HCL to focus on its core businesses of IT services and software.
- In 2018, Siemens AG sold its healthcare business in India to Siemens Healthcare Private Limited through a slump sale for an undisclosed amount. The transaction allowed Siemens AG to streamline its global healthcare business and focus on its core businesses of energy and infrastructure

THANK YOU