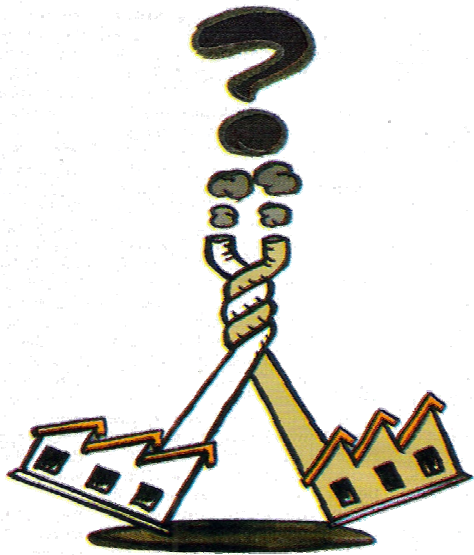


# CORPORATE RESTRUCTURING

## *Regulatory framework for Listed Companies & Strategies*

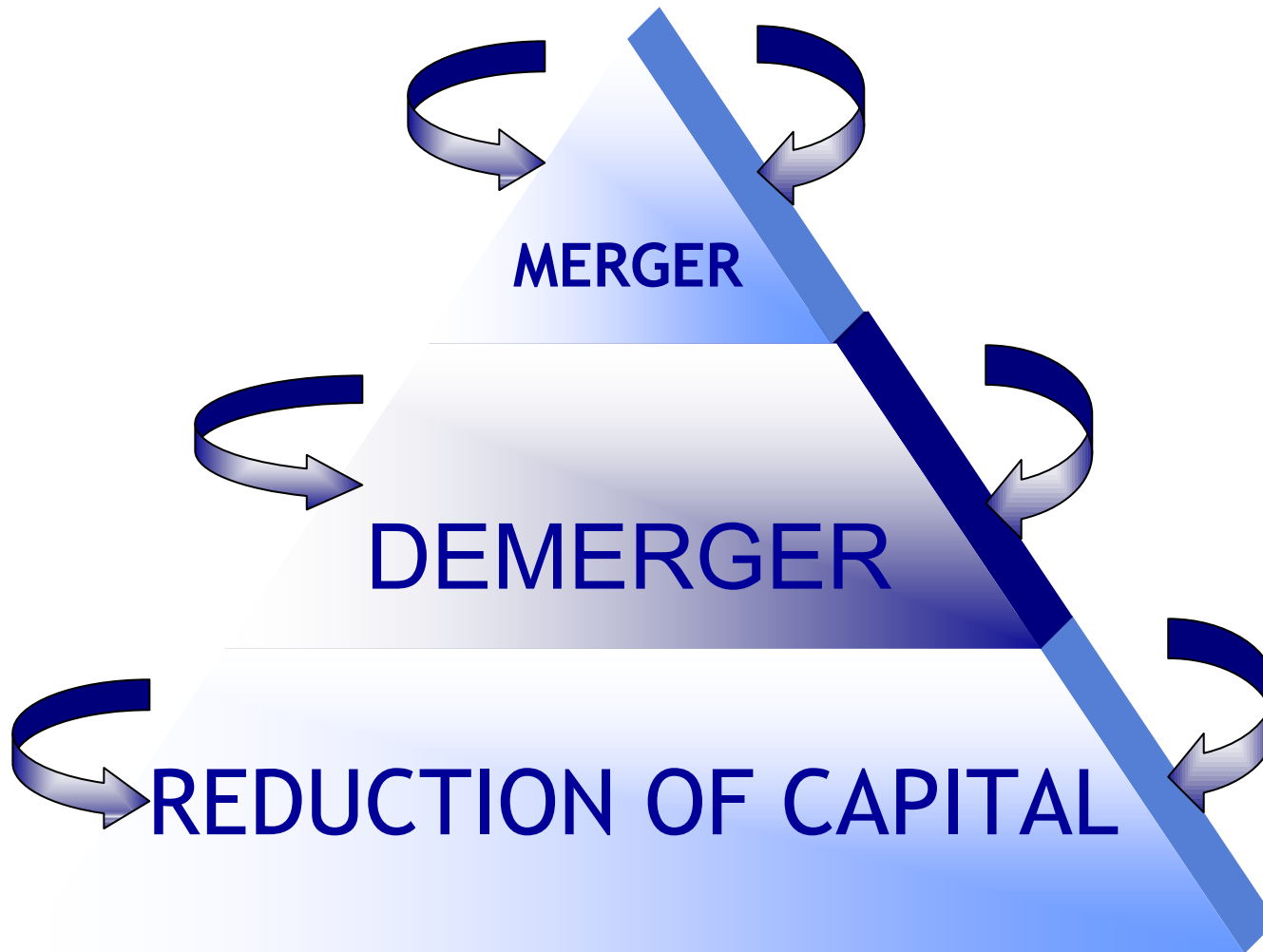


Dated: 11.11.2006

**Pavan Kumar Vijay,MD**

 **Corporate Professionals**  
WHERE EXCELLENCE IS LAW

# TYPES OF RESTRUCTURING



## Meaning of Merger

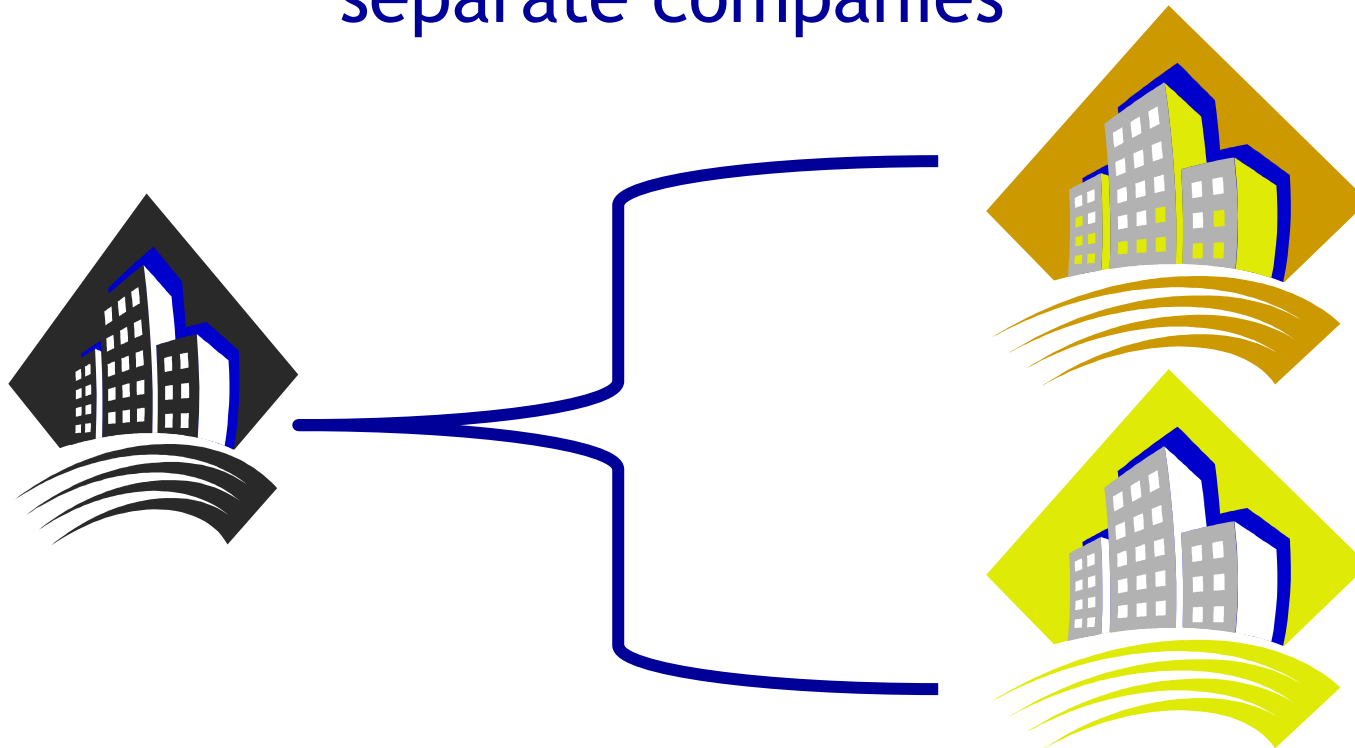
“Combining of two or more commercial organizations into one in order to increase efficiency and sometimes to avoid competition”.

# MERGER



# Meaning of Demerger

“Division of a Company with two or more identifiable business units into two or more separate companies ”



## FEW VARIETY OF MERGERS

- ⊕ Unlisted with Listed
- ⊕ Listed with Unlisted
- ⊕ Merger of Subsidiary with Holding Company
- ⊕ Merger with Group Company
- ⊕ Healthy Company with Weak Company
- ⊕ Merger through BIFR



# STOCK EXCHANGE'S ROLE

## REQUIREMENTS



Listing Agreement Compliances



Stock Exchange Internal Norms



Compliance of Securities laws



Compliance of Companies Act

## PERSPECTIVE



Observations

# Stock Exchange's Norms



Presently, Stock Exchange(s) are laying various other norms before giving approval to the Companies

for

‘Merger’, ‘Demerger’ ‘Reduction of Capital’

# MINIMUM CAPITAL REQUIREMENTS

1. Issued & paid up Equity Capital - Rs 10 crores

(if there is a change in management/control)

OR

Issued & paid up Equity Capital - Rs 3 crores

(If there is no change in management/control)

AND

2. Minimum Net Worth - 20 crores

(Post amalgamation)

## CONTINUOUS LISTING NORMS

(Transferee Co is Listed Co. & Transferor Co is Unlisted Co.)

- ✓ **Non- Promoter Holding - 25% of Post -merger Capital**
  - \* (The entire holding of the shareholders of the transferor company be excluded)
- ✓ **If Non- Promoter Holding - Falls below 25% of Post merger capital, then the Promoters have to dilute excess portion.**

\*BSE Stipulations

# LOCK IN REQUIRMENTS

(In case of merger of unlisted company)

At the discretion of the stock Exchange

Generally

“25% of the newly issued capital pursuant to the scheme of amalgamation should be kept under lock in for 3 yrs from the date of listing”

“The lock in period is varied by the stock exchange on case to case basis”

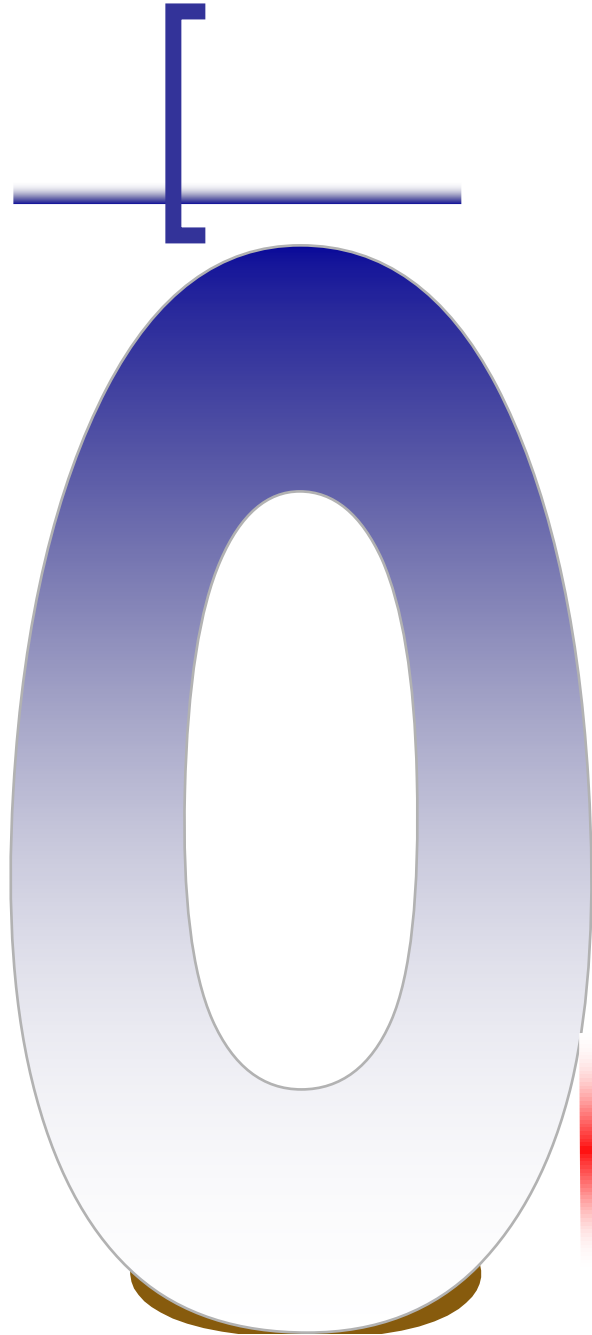


\*BSE Stipulations

## Compliance of Other Laws

**“The Stock Exchange(s) alongside considers the compliance of Securities laws, regulations, rules etc. applicable on the Company and Companies Act also”**





- Valuations Analysis
- No undue benefit to Promoters / Particular group
- Investors interest not to be affected
- Back door Entry for listing
- Change in Management/Control

**BSERVATIONS**

# MERGER THROUGH BIFR

**AN EFFECTIVE  
WAY  
TO  
REVIVE  
YOUR  
SICK COMPANY**



# MERGER THROUGH BIFR - “The Exempted Law”

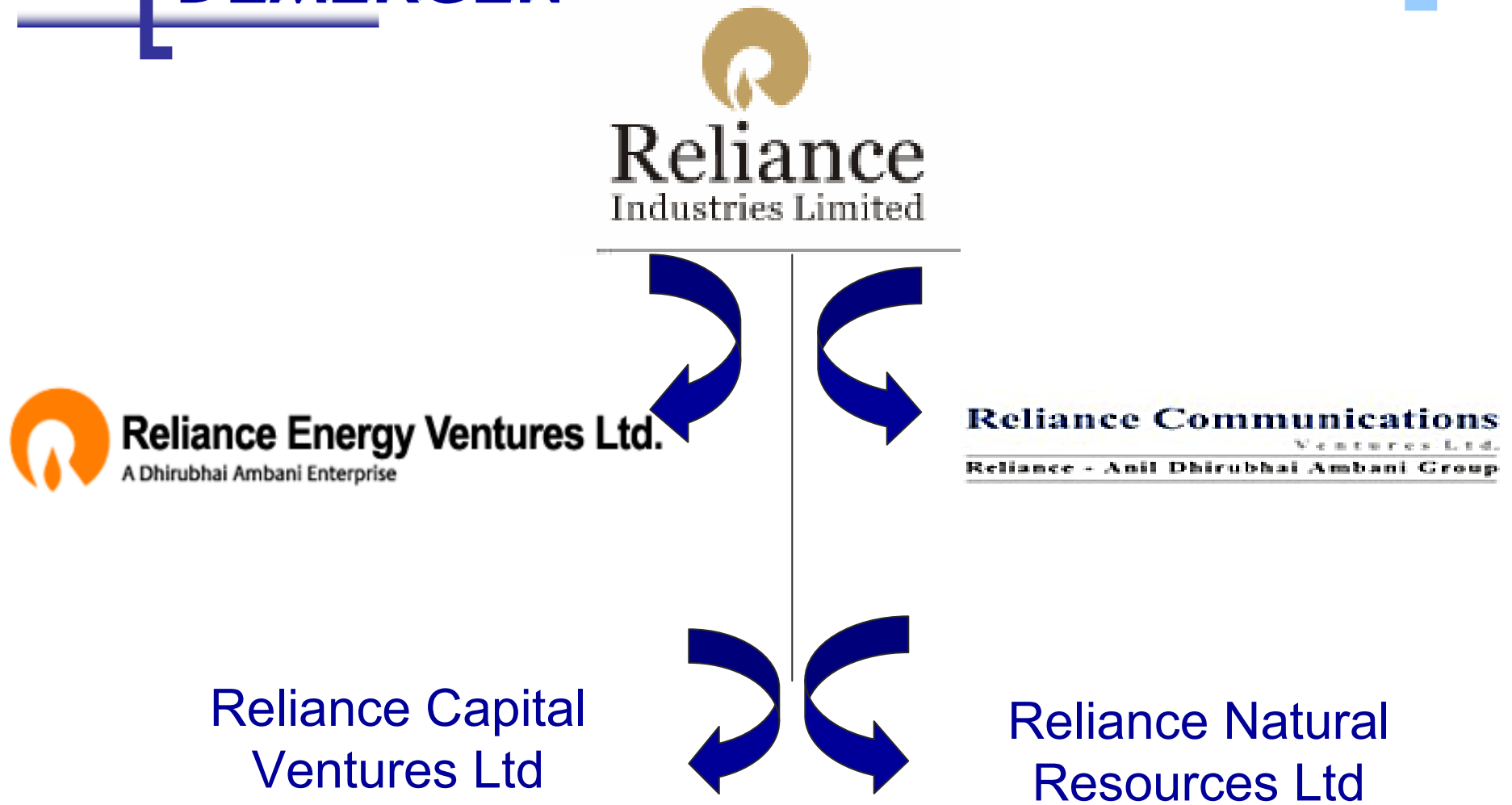
**Exemption from applicability of :**



**Clause 40A of Listing Agreement**

**Takeover Code**

# DEMERGER



## TYPES OF DEMERGER



- ✓ Listed Company demerging into two companies (both could be listed).
- ✓ Listed Company is demerged into two companies and another unlisted entity is merging with the one of the demerged entity.
- ✓ Distribution of shareholding in a Wholly owned Subsidiary among shareholders

# CONDITION FOR LISTING

(Rule 19 (2) (b) of SCR Rules)



1. It shall offer at least 25 % of each class to the public through Advertisement & Shares applied in pursuance of such offer were allotted.

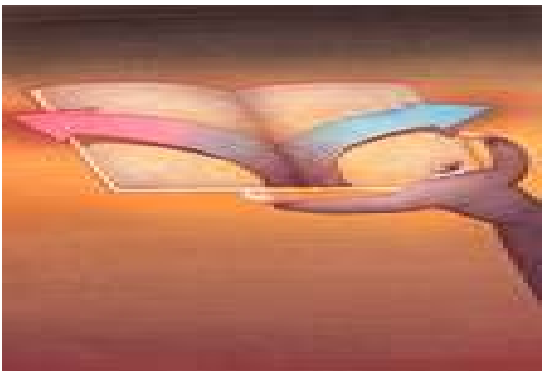
Or

1. At least 10 per cent of securities issued by a company was offered to the public through advertisement & following conditions were fulfilled:
  - (a) minimum 20 lakh securities was offered to the public;
  - (b) the size of the offer to the public  $\leq$  Rs. 100 crores; and
  - (c) the issue was made only through book building with allocation of 60 % of the issue size to QIBs.

# LISTING UNDER CL. 8.3.5.1 OF SEBI (DIP) GUIDELINES

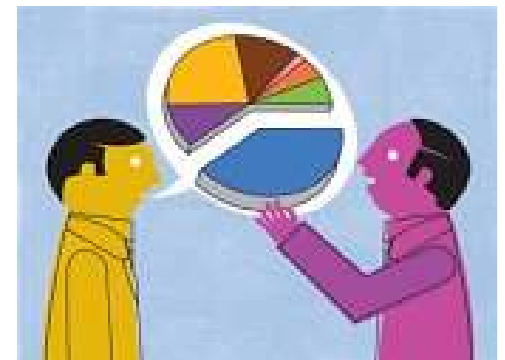
## EXEMPTION FROM CONDITION OF RULE 19 (2) (b)

- Listed Company merging with Unlisted Company.
- Demerger of a Listed Company, the Resultant Company to get the benefit of listing.



## CONDITIONS FOR AVAILING EXEMPTION

- ⊕ The shares should be allotted in pursuance of the order of High Court. .
- ⊕ At least 25% of the paid-up share capital, post scheme, of the unlisted transferee-company seeking listing comprises shares allotted to the public holders of shares in the listed transferor-Company.





- ⊕ Promoters' shares shall be locked-in to the extent of 20% of the post merger paid-up capital of the unlisted company, for a period of 3 years from the date of listing of the shares of the unlisted company.
- ⊕ The balance of the entire pre-merger capital of the unlisted company shall also be locked-in for a period of 3 years from the date of listing of the shares of the unlisted company.





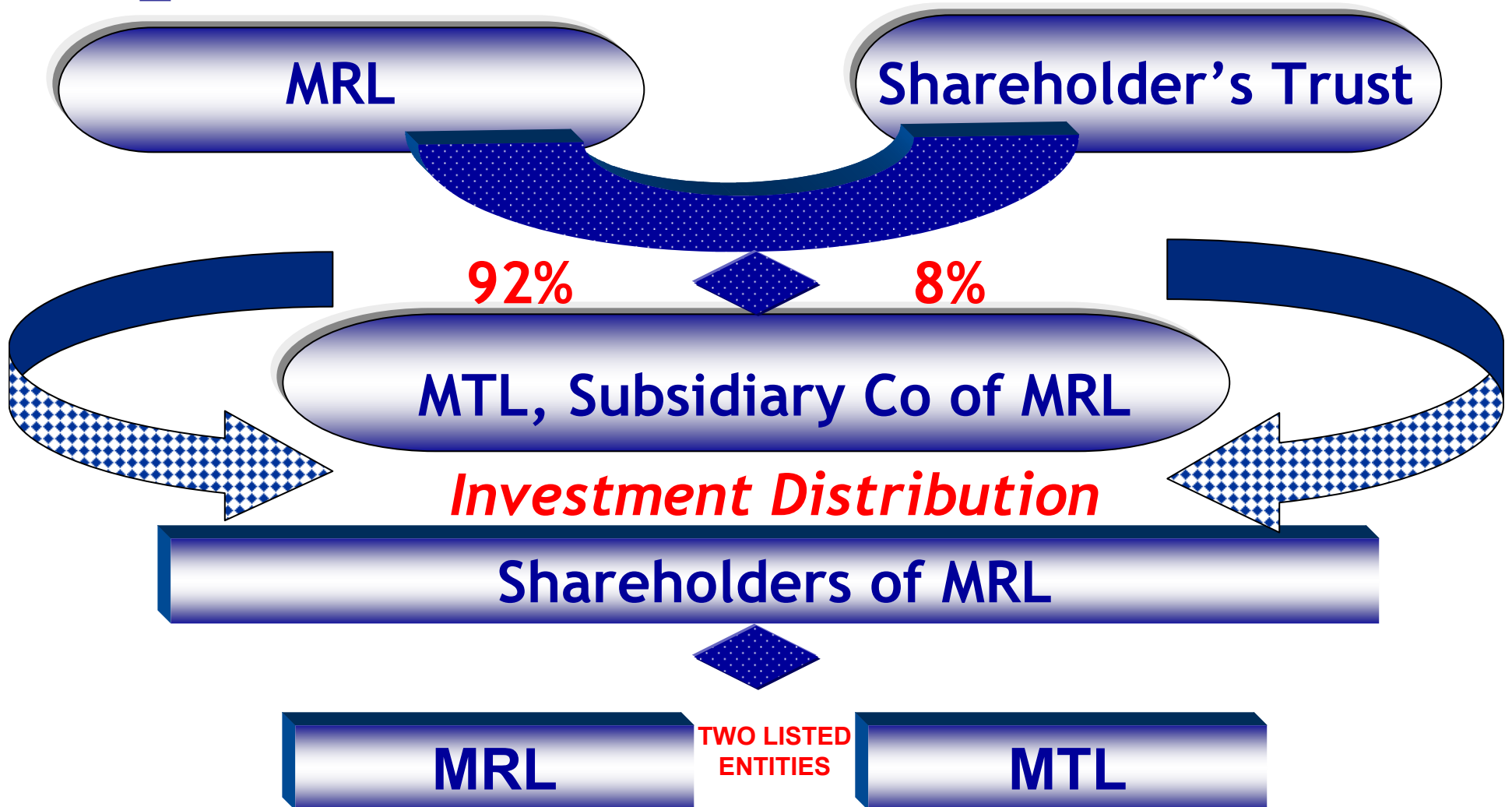
# Case Studies

## **Scheme of Arrangement of Morarjee Realty Ltd. (MRL)**

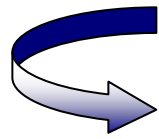
### **FACTS**

- i. MRL was engaged in two separate business:**
  - Real Estate Development**
  - Manufacturing of various kind of fibers & fabrics**
- ii. The two businesses were quit distinct - it was desired to segregate the two.**
- iii. The company was having a subsidiary - Morarjee Textiles limited (MTL)**

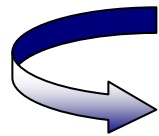
Salient Features of the Scheme



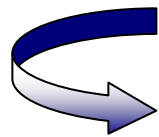
# Benefits achieved.....



No tax implication in the hands of the companies involved or the shareholders.



Shareholders get shares in two listed entities.



It also helped MTL to wipe out past losses, making the balance sheet clean and attractive. No loss of carry forward of past losses.



# Financial Benefits to Shareholder

| Particulars  |             | Amount (Rs.)<br>(Pre-arrangement<br>scenario) | Amount (Rs.)<br>(post<br>arrangement<br>scenario) |
|--|-------------|---|---|
| Value of the shares held by a shareholder as on record date (5 <sup>th</sup> Jan,2004) (A) | 100 shares  | @55<br>5500                                   |   |
| Shares in MRL  | 100 shares  | @125<br>12500                                 | @694<br>69400                                     |
| Shares in MTL  | 51.5 shares | @80<br>4,120                                  | @100<br>5,150                                     |
| Total (B)  |             | 16,620  | 74550   |
| Net benefit (B-A)  |             | 11,120  | 69,050  |

# Reliance Industries Limited

- A Unique Scheme of Arrangement-



**FACTS**

## PRE -ARRANGEMENT SCENARIO

Reliance Industries Limited was engaged in various businesses:

- (i) Coal based power business;
- (ii) Gas based power business;
- (iii) Financial services business;
- (iv) Tele-Communication business

## RIL... demerger

The family arrangement aims at

- ✓ Segregation between the two Ambani Brothers
- ✓ Provision for Specified Investors was made:
  - Holdings of RIL and other companies in the control of Mr. Mukesh Ambani were transferred to a wholly owned subsidiary, Reliance Industrial Investments and Holdings Limited (RIIHL) along with a Private Trust (Petroleum Trust).
  - RIIHL and Petroleum Trust were described as “Specified Investors” which renounced their rights in the scheme itself.

## RIL... demerger

- ✓ As a result of demerger the shareholders of RIL other than “Specified Investors” got 1 share each in the following 4 resulting companies for each share held in RIL as on the record date:
  - Reliance Energy Venture Ltd. (REVL)
  - Reliance Communication Venture Ltd. (RCOVL)
  - Reliance Capital Venture Ltd. (RCVL)
  - Reliance Natural Resources Limited (RNRL)
- ✓ The shares of all these resulting companies got listed on the stock exchanges under the provisions of Cl 8.5.3.1 of the SEBI (DIP) Guidelines.

# Benefits achieved



| Particulars   | Shares     | Amount (Rs.)<br>24th March 2006 | Amount (Rs.)<br>10th Nov 2006 |
|---|------------|---------------------------------|-------------------------------|
| Value of the shares held by a shareholder as on record date (25 <sup>th</sup> Jan,2006) (A) | 100 shares | @928<br>92800                   |                               |
| Shares in RIL   | 100        | (@708) 70800                    | (@1286.25) 128625             |
| Shares in REVL  | 100        | (@38) 3800                      | (@32.80) 3280*                |
| Shares in RCOVL   | 100        | (@290) 29000                    | (@391.30) 39130               |
| Shares in RCVL  | 100        | (@24) 2400                      | (@20.35) 2035*                |
| Shares in RNRL  | 100        | (@23) 2300                      | (@23.70) 2370                 |
| <b>Total</b>  |            | <b>108300</b>                   | <b>175430</b>                 |
| <b>Net benefit</b>  |            | <b>15500</b>                    | <b>67130</b>                  |

\*Last traded price. Due to next restructuring the scrip is suspended.

# [ REDUCTION OF CAPITAL ]



# Types of Reduction of Capital



Writing off Losses & Fictitious Assets

Correction of Over- Capitalization

Distinguishment of the Liability in respect of unpaid portion of face value.

Distribution of accumulated profits by Payment to shareholders a part of share capital.

# Reduction of Capital- A Strategic Step

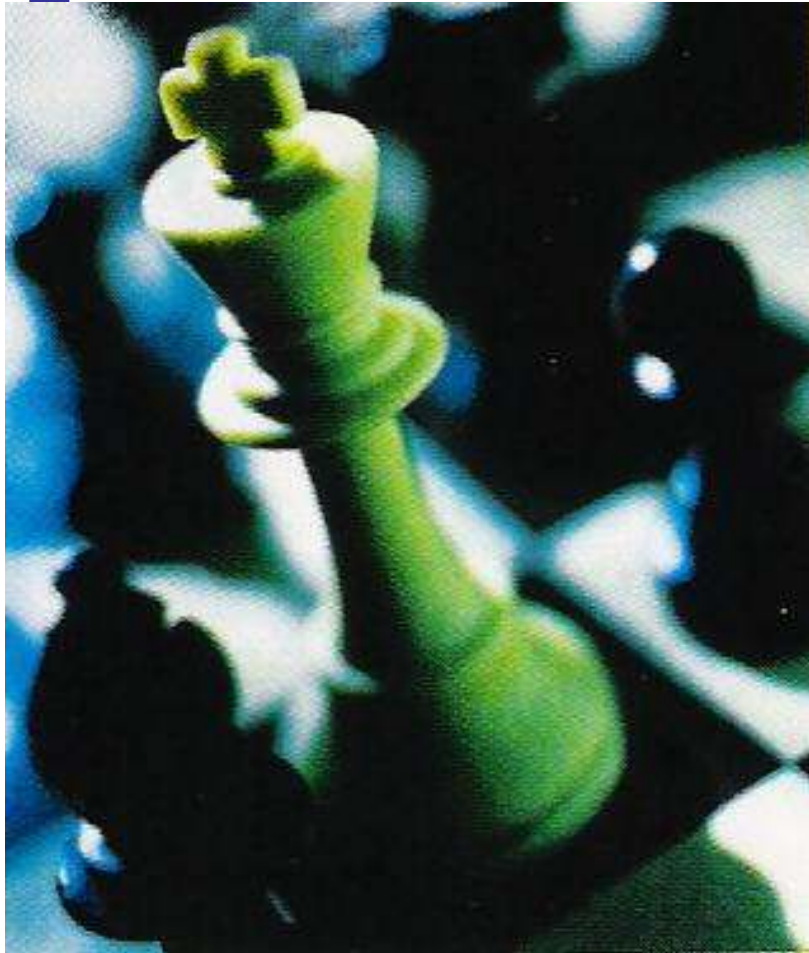
To Clean-up the Balance Sheet

To rationalize the capital base

Revival of Sick Company



# RESTRUCTURING STRATEGIES



What's  
Your  
Move??

# FEW STRATEGIC MOVES



Strategy I

**LISTING**

(Without  
offer to  
Public)

Strategy II

**RAISING  
PROMOTERS'  
HOLDING**

(Beyond 55%)



## FEW STRATEGIC MOVES..contd

### Strategy III

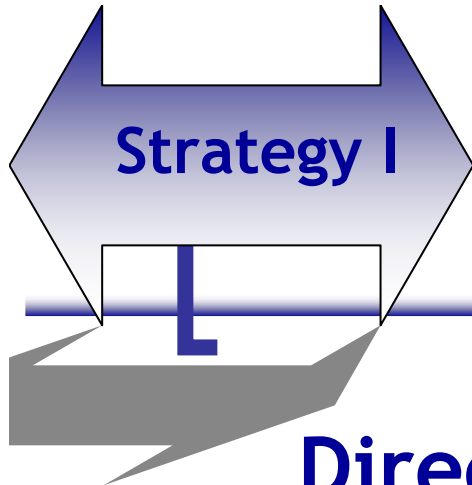
## ACQUISITION OF LISTED CO.

*(Exemption from  
Takeover Code)*

### Strategy IV

## INCREASING THE RESOURCES

*(Without raising  
Capital)*



## LISTING



**Direct listing is costly & complicated**  
**But Listing of Company provides for.....**

- ✓ **Unlocking value of business**
  - ✓ **Brings liquidity**
- ✓ **Attract investors for further growth**





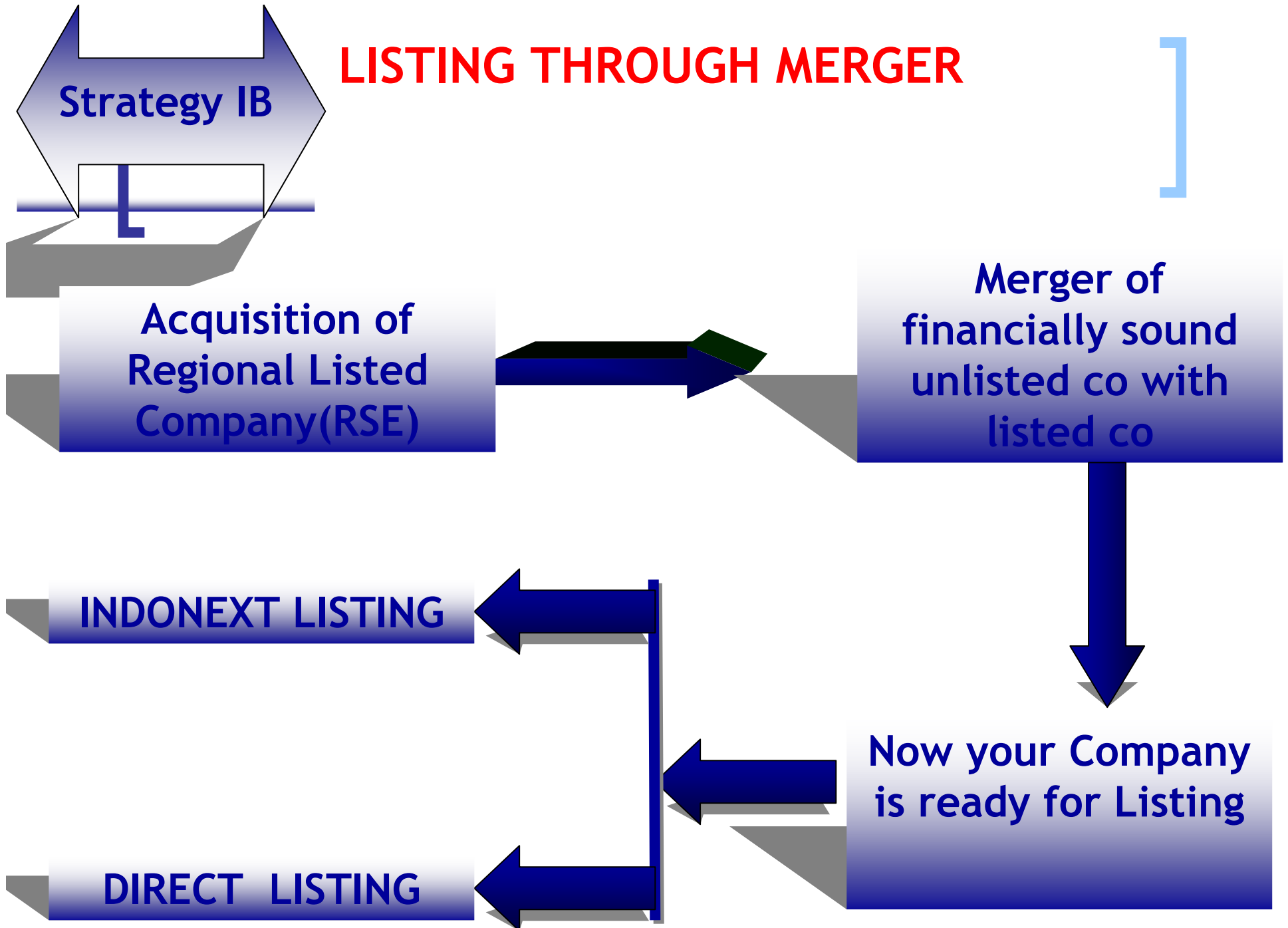
## LISTING THROUGH MERGER



- ✓ Small/loss making listed companies are selected by unlisted strong companies
- ✓ Unlisted company is merged with listed company with maximum possible shares to promoters of unlisted Company
- ✓ Promoters of Unlisted Company get shares in a listed entity



# LISTING THROUGH MERGER





## RAISING PROMOTERS' HOLDING



Revised provisions of SEBI Takeover Code does not allow promoters to acquire even a single share beyond 55%

### Specific exemption to Merger/Demerger

- ✓ An Unlisted company is created by Promoters
- ✓ This entity is merged with listed company
- ✓ Promoters' holding is raised up to 75%





## ACQUISITION OF LISTED COMPANY ]

SEBI Takeover Code does not allow acquisition of shares of a listed company beyond 15% or Change in Control by any outsider without a PA

### Specific exemption to Merger/Demerger

- ✓ An Unlisted company is created by Acquirer
- ✓ This company is merged with listed company
- ✓ Acquirers' holding may go up to 75% of increased capital base
- ✓ The Management may also change.





## INCREASING THE RESOURCES



Basic purpose of merger is to Synergy of Resources, but the it also increases the capital base

High capital base make servicing of capital difficult

- ✓ Proposed transferee company acquires shares in transferor company
  - ✓ Companies are merged
  - ✓ Crossholdings get cancelled



- ✓ Resources got clubbed, capital base remain low. Effectively , increases EPS.

# **To sum up.....**

- ✓ **Restructuring offers tremendous opportunities for companies to grow & add value to the shareholders**
- ✓ **It unlocks the true potential of the company**
- ✓ **It is a Strategy for Growth & Expansion**
- ✓ **It also helps in Cleaning up & create Synergy of Resources**

[

Thanks a lot...

]

Pavan Kumar Vijay



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WHERE EXCELLENCE IS LAW