Time for reorg: India Inc rides merger-demerger wave

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Corporate India is busy restructuring — through mergers, demergers and splits. That seems to be the new normal as CXOs and boards brainstorm on how to create assets and value. The pitch rose significantly during the third quarter of this financial year (FY24), translating into $32.9-billion worth of such deals — the highest quarterly total since the HDFC Bank-HDFC merger announced in FY22 Q2.

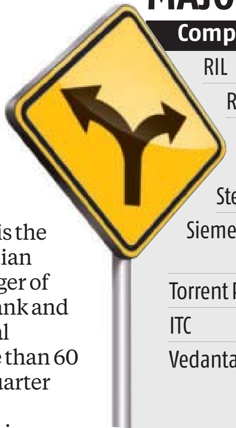
Deals create shareholder value and give synergy benefits, executives explained. Supratim Dutta, executive director and chief financial officer of ITC Ltd, said the group's hotel business had matured and scaled up over the years and was now poised to chart its own growth path.

In August, a scheme of demerger was approved amongst ITC, ITC Hotels and their shareholders as well as creditors. ITC Hotels had merged with ITC Ltd in 2004 to consolidate the group's hotels business and scale it up.

Besides ITC, energy to telecom conglomerate Reliance Industries was among the major groups opting for a restructuring recently. RIL's $18.4-billion split of its financial services arm, Jio Financial Services, is the largest deal involving an Indian company this year. The merger of IDFC Ltd and IDFC FIRST Bank and the demerger of Jio Financial Services accounted for more than 60 per cent of the September quarter deal value of $32.9 billion.

Of the largest five deals this year, five were announced since July, according to Refinitiv, a global provider of data. Vedanta Ltd became the latest corporate giant to join the restructuring bandwagon when it said last month it would split five key businesses and list them separately. Analysts said the reorganisation was necessitated by the massive debt of the promoter entity, Vedanta Resources Ltd (VRL), which has received a huge dividend from its Indian subsidiary in the last two years to repay part of its debt.

MAJOR DEMERGERS IN 2023



Company	New company	Demerging division
RIL	Jio Financial Services	Financial services business
Raymond	Raymond Consumer Care	Lifestyle business
Sanofi India	Sanofi Consumer Healthcare India	Consumer healthcare business
Sterlite Tech	STL Networks	Global services business
Siemens	Siemens Large Drives India	Low voltage & geared motors biz
Torrent Power	Torrent Green Energy	Renewable power
ITC	ITC Hotels	Hotels business
Vedanta	Vedanta Aluminium, Vedanta Power,Vedanta Base Metals, Vedanta Oil &Gas, Vedanta Steel & Ferrous	Oil & gas, merchant power, aluminium, base metals

Note: Demerger processes are at different levels

Source: Capitaline; compiled by *BS* Research Bureau

"As Indian conglomerates expand, they venture into diverse businesses. With some divisions now sizable, demerging them creates value for both the company and shareholders," said Abhilash Pagaria, head of Nuvama alternative and quantitative research. In this market frenzy, seizing the opportunity ensures optimal valuation for these entities, making it a strategic move for growth, Pagaria pointed out.

According to ITC's Dutta, with the demerger, the new entity would operate with an optimal capital structure and with the ability to fund its own growth requirement as well as the flexibility to attract the right set of investors. The arrangement is also aimed at unlocking value for ITC shareholders, whilst reinforcing the group's sharper capital allocation strategy, he said.

Tata Steel, which is merging seven group companies with itself, has said the amalgamation will integrate the steel value chain and ensure a common face to market. It will allow the business to provide a bouquet approach to customers in terms of offerings of value added products. Its board had approved the schemes for amalgamation in September 2022.

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Of all the recent merger and demerger deals, Vedanta is attracting attention more than others. Vedanta chairman Anil Agarwal has said the demerger of his group's Indian unit will unlock value and create potential for faster growth in each vertical. Analysts are not so convinced that a reorganisation will resolve the debt issue. ''We remain concerned that the precarious debt situation at Vedanta Resources is still unaddressed,'' said analysts with CreditSights. ''While we acknowledge the company's efforts to create more shareholder value, we see cash leakage via dividend upstreaming largely unchanged and still a prominent issue in the new corporate structure,''

The recently reported observation of Amit Tandon, managing director and founder of proxy advisory firm Institutional Investor Advisory Services India, that Vedanta restructuring reminds him of rearranging of the deck chairs on the Titanic, may be telling but no one reason explains why mergers and demergers are increasingly driving corporate India's strategies..