

33rd Regional Conference of WIRC

Recent Trends in Business Re-structuring - Case Studies

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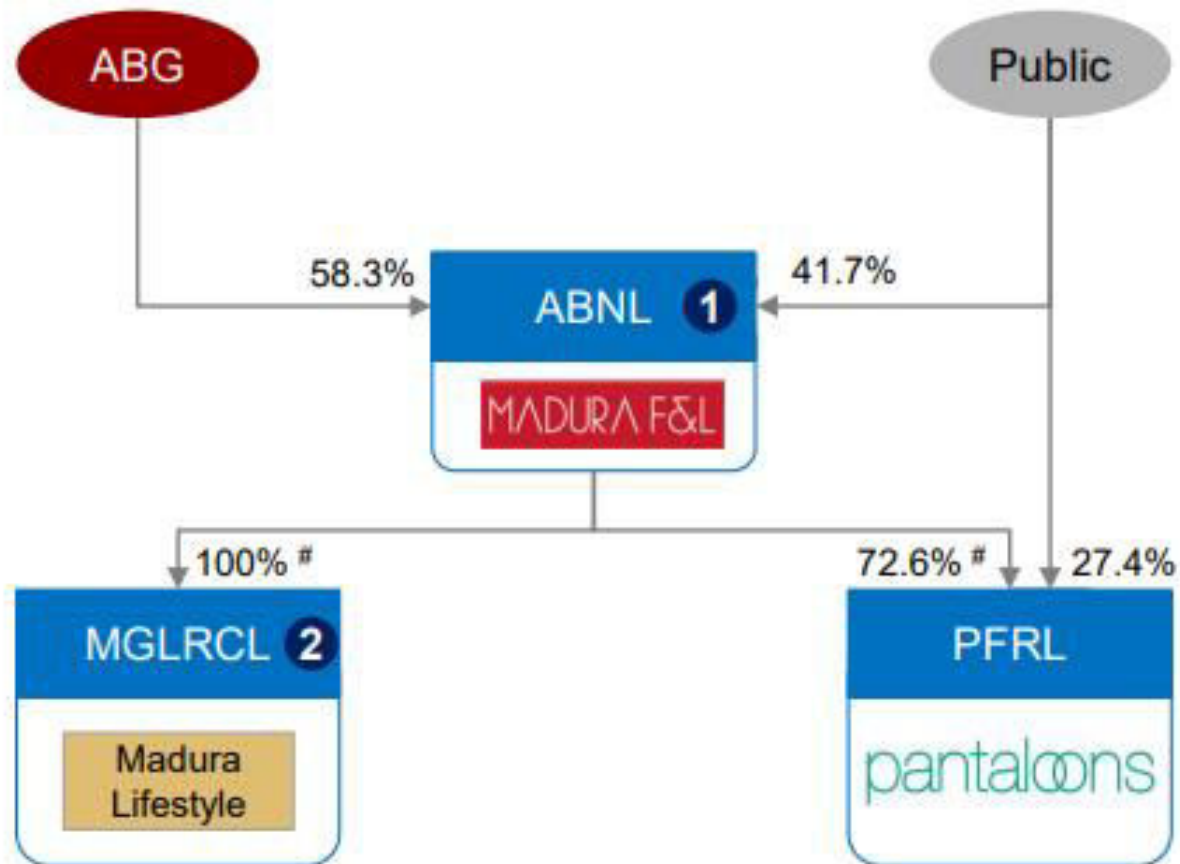
Business Re-structuring - Why ?

- Splitting Business
 - Focus
 - Listing
 - Family Partition
- Combining Business
 - Tax
 - Financial Flexibility & Strength
- Promoter shareholding - simplifying
- Debt Re-structuring
- IBC related
- Acquisition

Case Study - Splitting Business - Focus

Aditya Birla Fashion

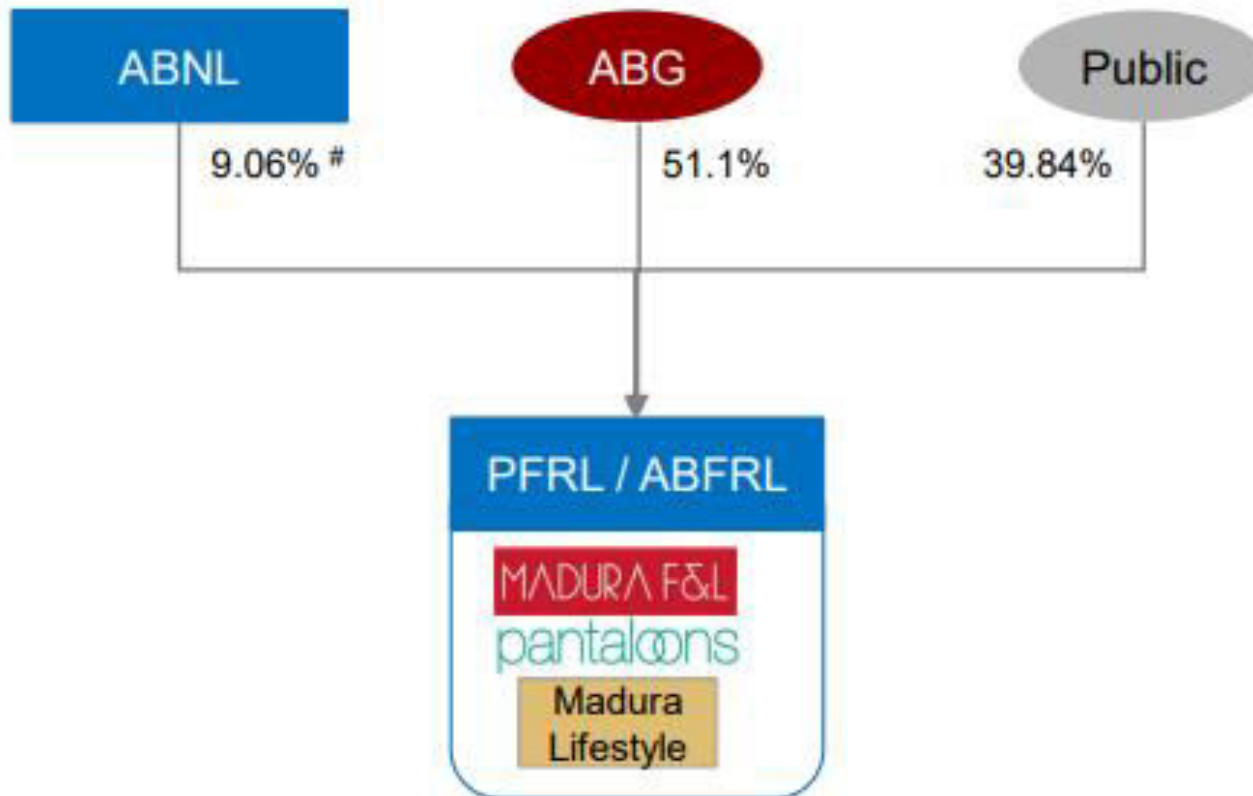
Pre Transaction Structure



Transaction

- Demerger of Madura Fashion division from ABNL into PFRL
- Demerger of Madura Lifestyle division from MGLRCL into PFRL
- Scheme becomes effective and PFRL renamed as ABFRL
- ABFRL ceased to be subsidiary of ABNL
- Swap Ratio
 - 26 equity shares of PFRL for every 5 equity shares of ABNL
 - 7 equity shares of PFRL for every 500 equity shares of MGLRCL
 - 1 equity share of PFRL for all o/s preference shares of MGLRCL (one crore preference shares of Rs. 10 each)

Post Transaction Structure



Including indirect holding

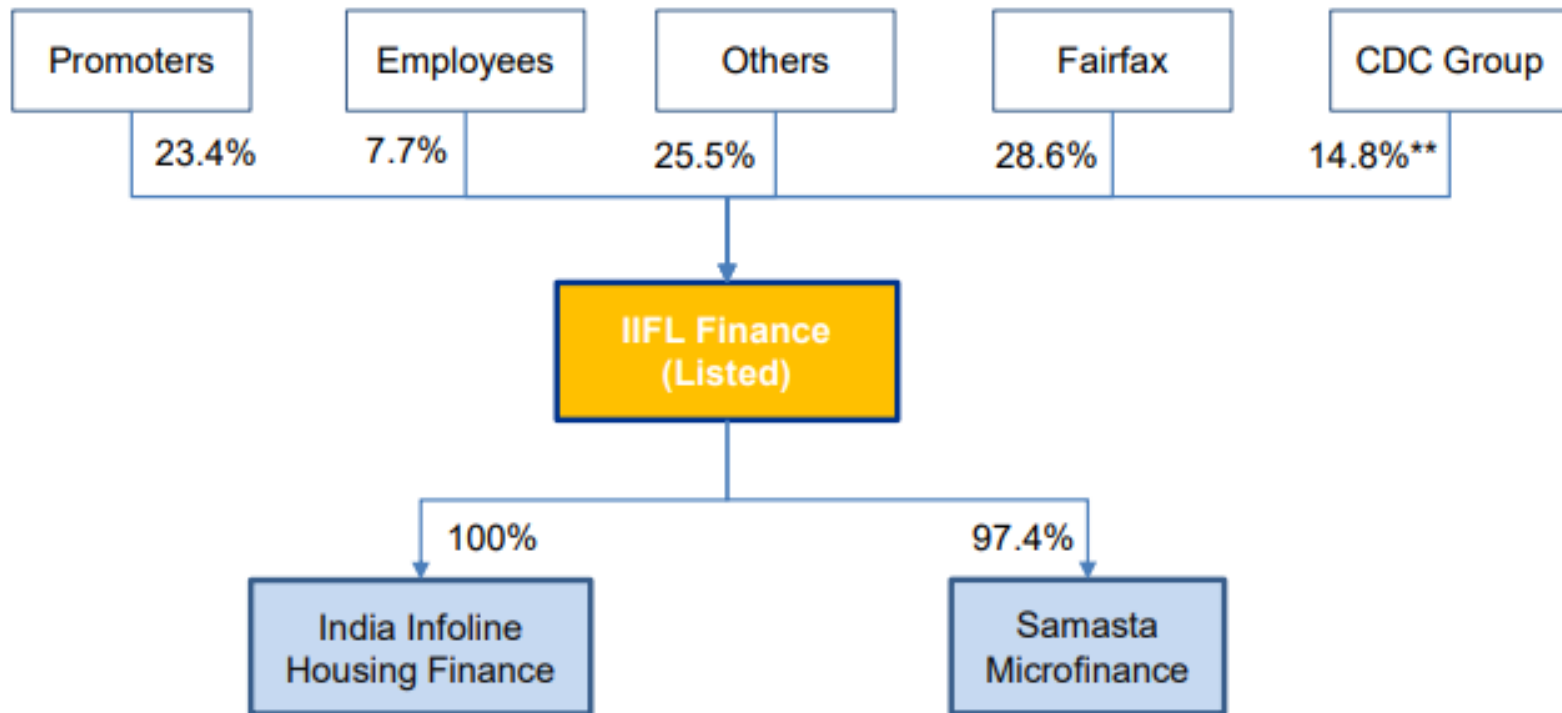
Case Study - Splitting Business - Focus & Listing

IIFL

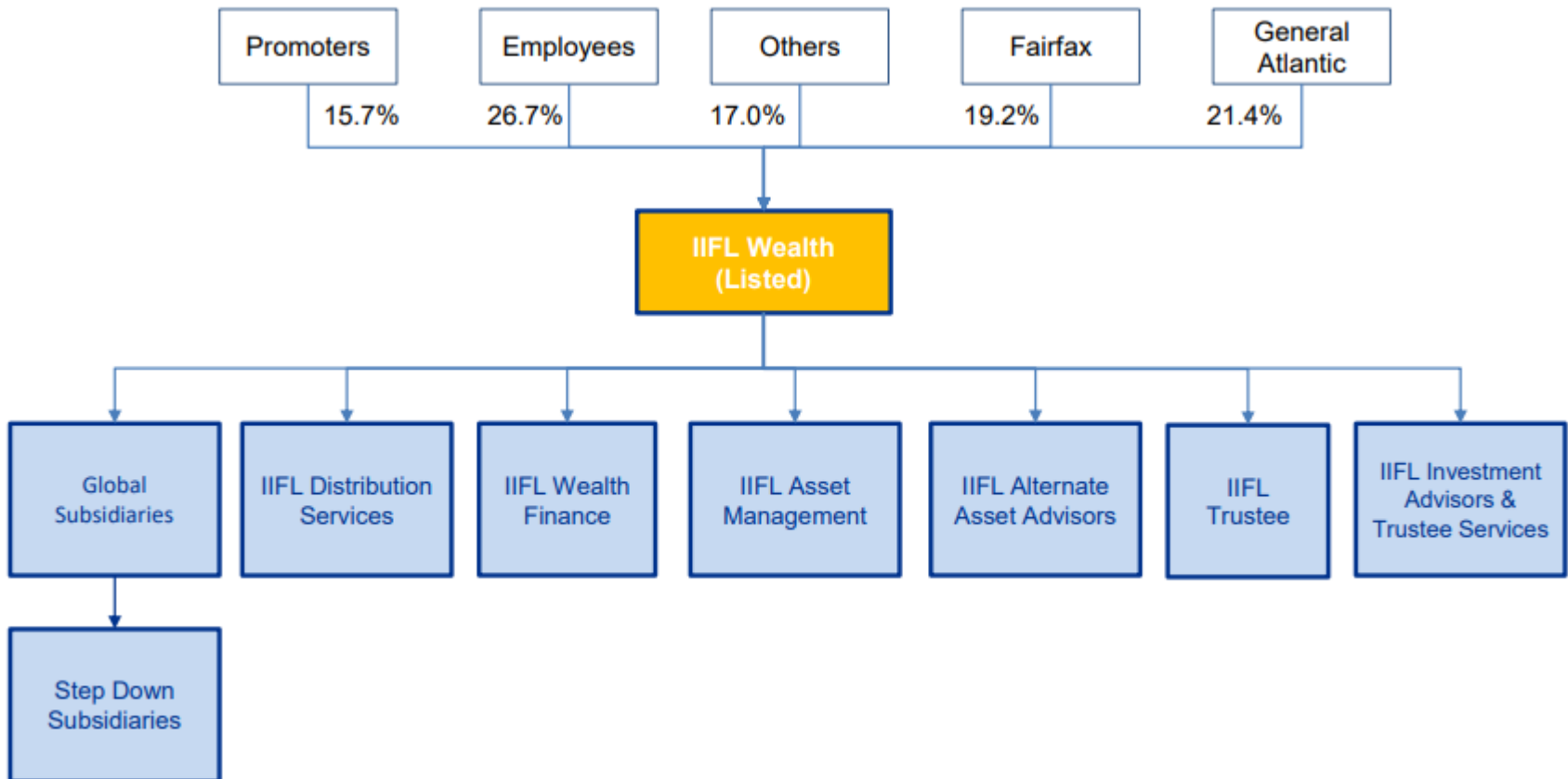
Transaction

- Step – 1 – Merger of WOS IIFL Media Research into IIFL Holdings Ltd. (IHL)
- Step 2 – De-merger of Security Business Undertaking from IHL into IIFL Securities
- Step 3 - De-merger of Wealth Business Undertaking from IHL into IIFL Wealth
- Step 4 - Merger of IIFL Finance into IHL
- Step 5 – Slump sale of broking & depository participant business from IIFL Wealth to IFFL distribution
 - Step 1 – Appointed Date – April 1, 2017
 - Step 2 to Step 5 – Appointed Date – April 1, 2018

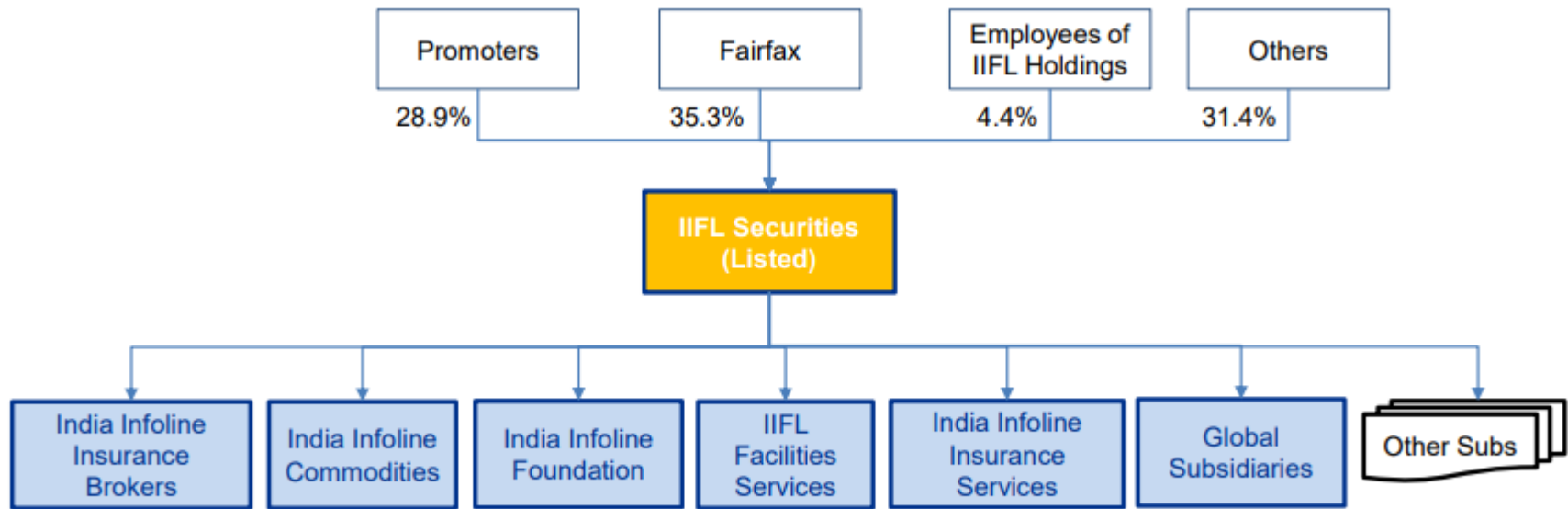
Post Transaction Structure



Post Transaction Structure



Post Transaction Structure



Case Study - Splitting Business - Focus & Listing

HSIL

Pre Transaction Structure

- Hindustan Sanitary ware & Industries Limited – listed company –
 - Retail Undertaking
 - Consumer Products **Distribution and Marketing** Undertaking
 - Consumer Products **Manufacturing** Undertaking
 - Building Products **Distribution and Marketing** Undertaking
 - Building Products **Manufacturing** Undertaking
 - Packing Products Manufacturing Undertaking
 - Power Undertaking
 - Other Investments
- Hindware Home Retails Pvt. Ltd. & Somany Home Innovation Ltd.
– WOS of HSIL Limited
- Brilloca Ltd. – WOS Somany Home Innovation Ltd.

Transaction

- Demerger from HSIL –
 - Retail Undertaking & Consumer Products Distribution and Marketing Undertaking into Somany Home Innovation Ltd.
 - Building Products Distribution and Marketing Undertaking into Brillaco Ltd.
- Shares will be issued by Somany Home Innovation Ltd. – ratio 1:1
 - Brillaco Ltd. will not issue any shares pursuant to de-merger (Thus Somany & Brillaco were jointly treated as resulting company)

Post Transaction Structure

- HSIL– de-merged company
 - Consumer Products Manufacturing Undertaking
 - Building Products Manufacturing Undertaking
 - Packing Products Manufacturing Undertaking
 - Power Undertaking
 - Other Investments

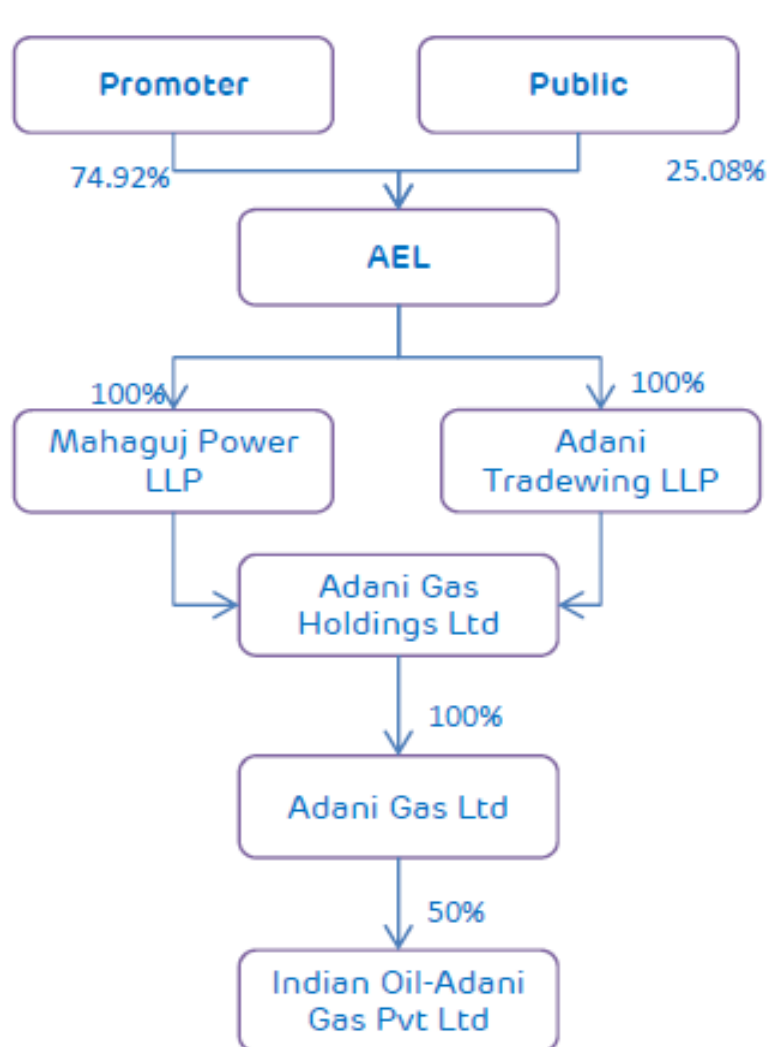
- Somany Home Innovation Ltd. – separate listed company
 - Retail Undertaking
 - Consumer Products Distribution and Marketing Undertaking

- Brilloca Ltd. – WOS Somany Home Innovation Ltd.
 - Building Products Distribution and Marketing Undertaking

Case Study - Splitting Business Listing

Adani

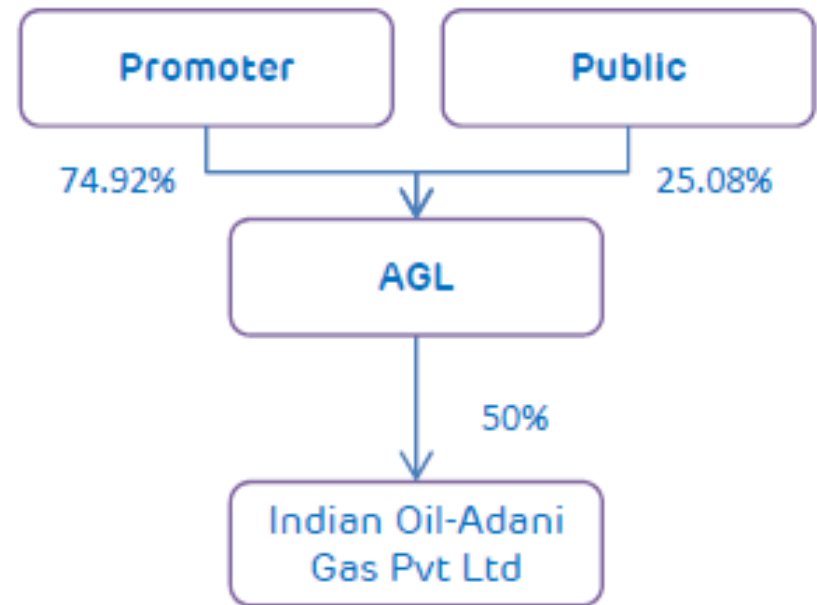
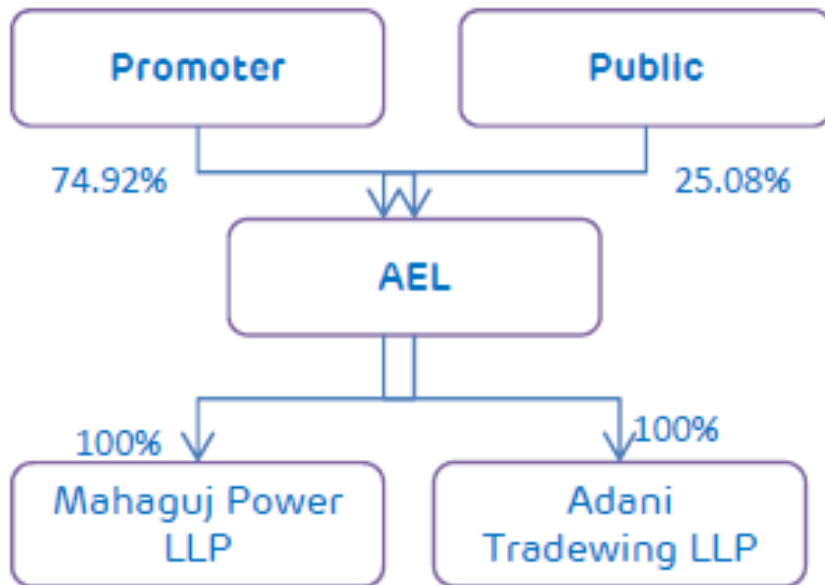
Pre Transaction Structure



Transaction

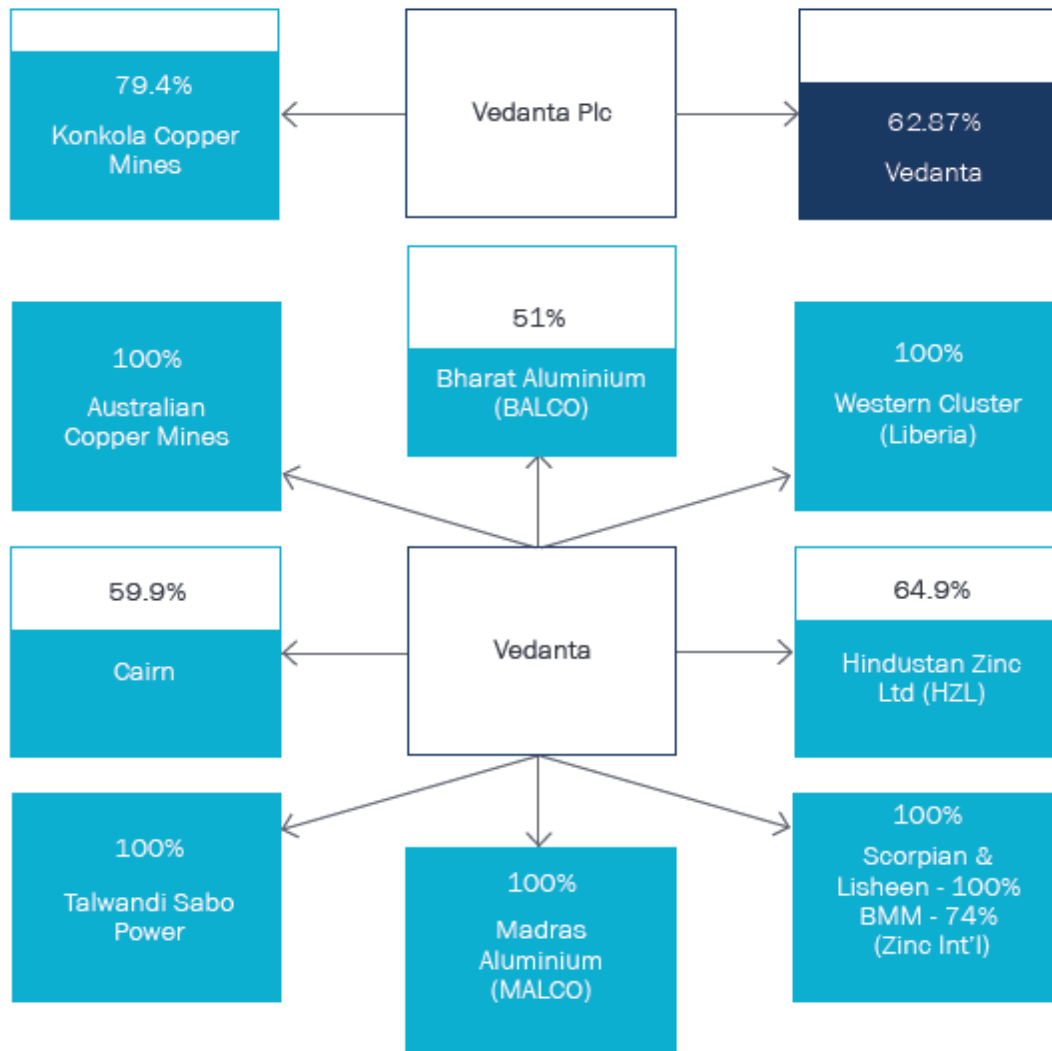
- Adani Gas Holding Limited (“AGHL”) to merge into Adani Gas Limited (“AGL”)
 - Consideration – allotment of preference shares + Equity to ultimate holding company (AEL)
- Adani Enterprises (“AEL”) to de-merge its Gas Sourcing and Distribution Business into AGL
 - Includes Equity of AGL itself.
- AGL to issue fresh shares to share holders of AEL and to be listed on BSE and NSE post completion of requisite approvals
- AEL shareholders will receive 1 equity share of AGL (Face Value of Re 1) for every 1 equity share held in AEL

Post Transaction Structure

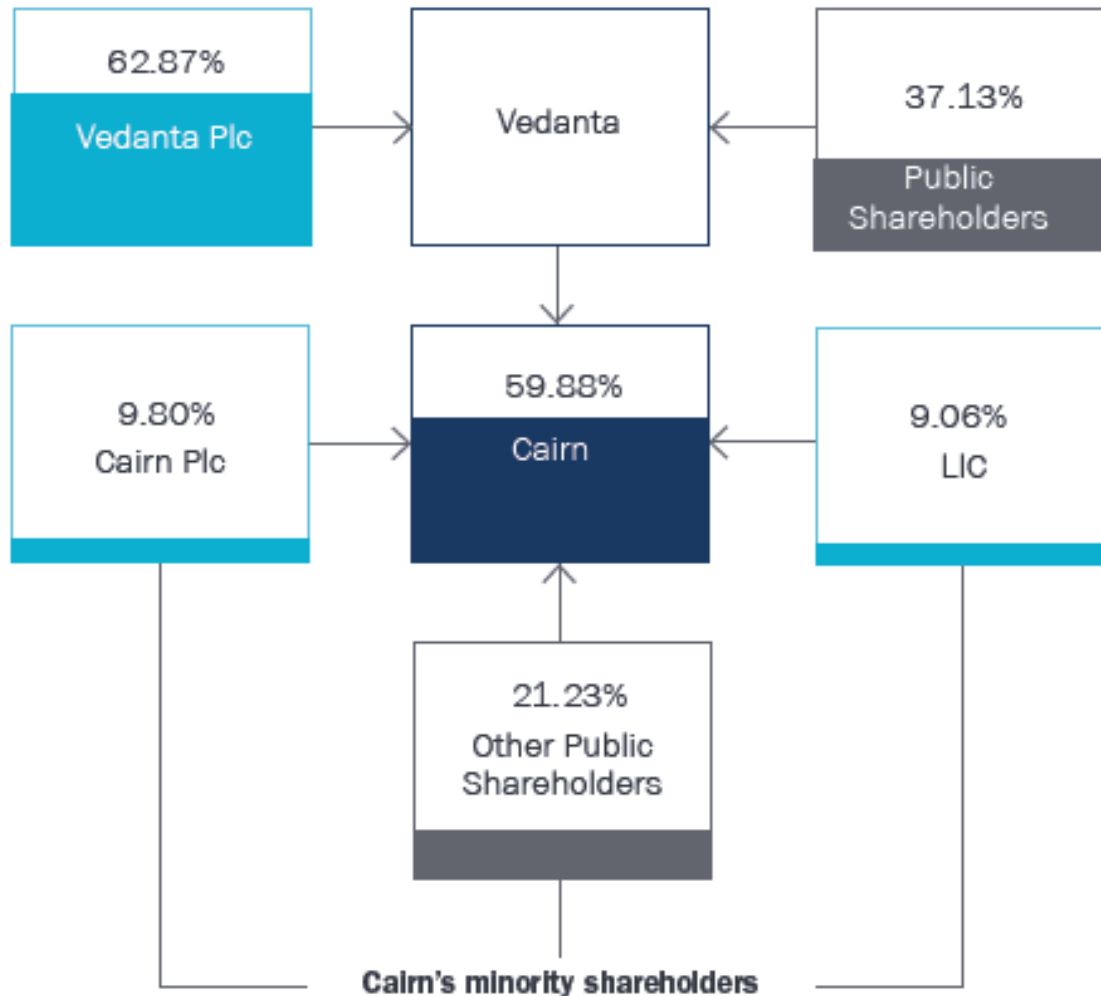


Case Study - Combining Business Cairn - Vedanta Merger

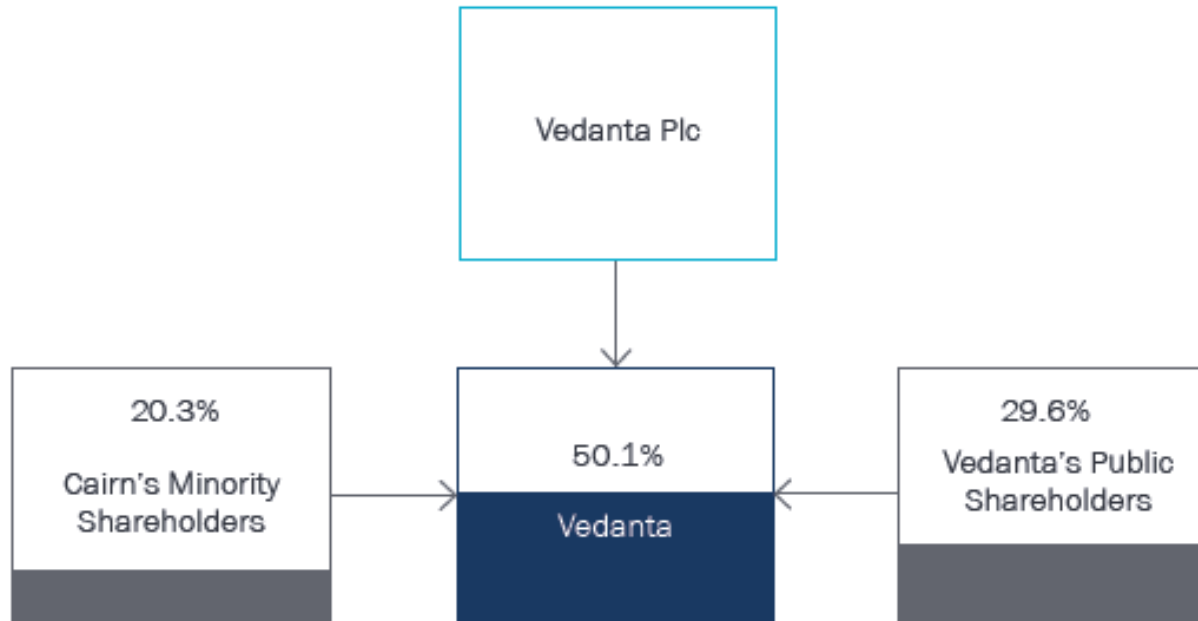
Group Structure



Shareholding Structure - Pre Transaction



Shareholding Structure Post Transaction



Legend: Holding Structure \longrightarrow Transaction Mechanism $\cdots\cdots\longrightarrow$

Key terms of Merger

- Shares of Cairn held by Subsidiaries of Vedanta will get cancelled. No shares will be issued to Vedanta Limited or any of its subsidiaries for their shareholding in Cairn India.
- Shareholders of Cairn India will receive for each equity share held:
 - One equity share in Vedanta Limited of face value INR 1 each
 - One 7.5% Redeemable Preference Share (“RPS”) in Vedanta Limited with a face value of INR 10 each

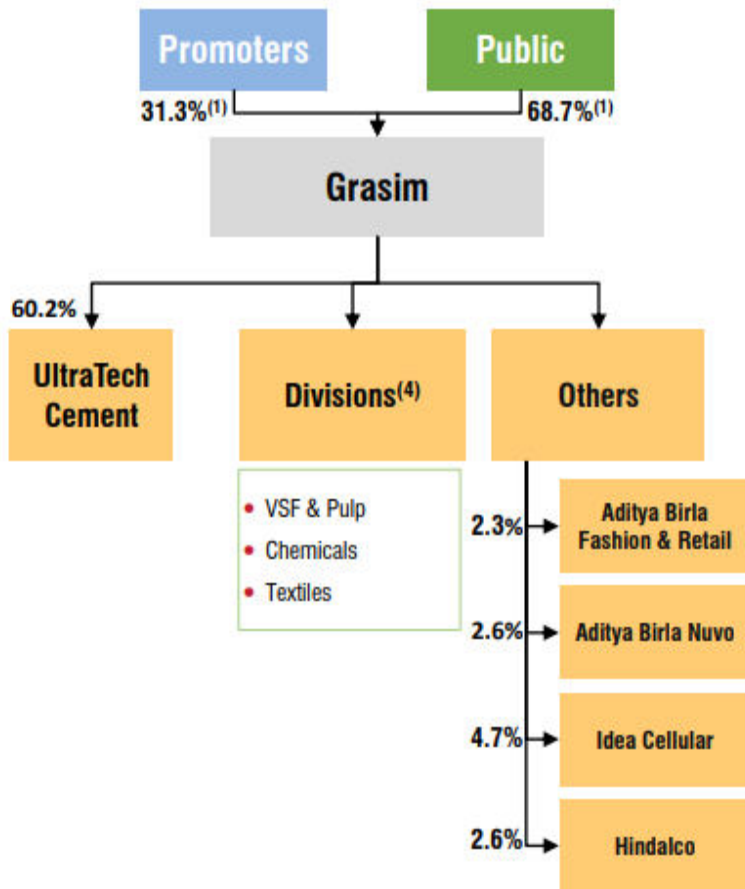
Key terms of RPS –

- Dividend of 7.5% per annum payable annually at the end of each financial year
- Tenure – 18 months from issuance
- Redeemable at face value of INR 10 per share for cash at the end of the tenure
- Vedanta Limited will arrange for a third party facility enabling a cash exit for RPS holders at par within 30 days from issuance
- Listed on the NSE

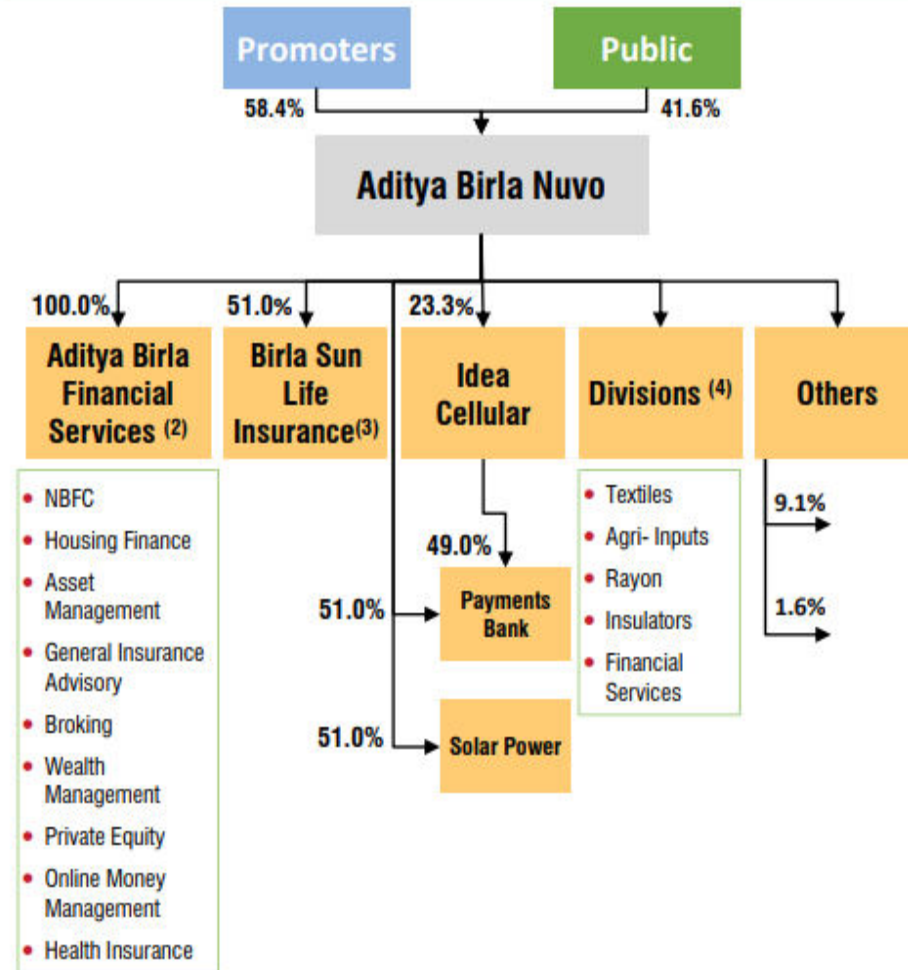
Case Study - Combining Business Grasim - ABNL

Pre Transaction Structure

Grasim



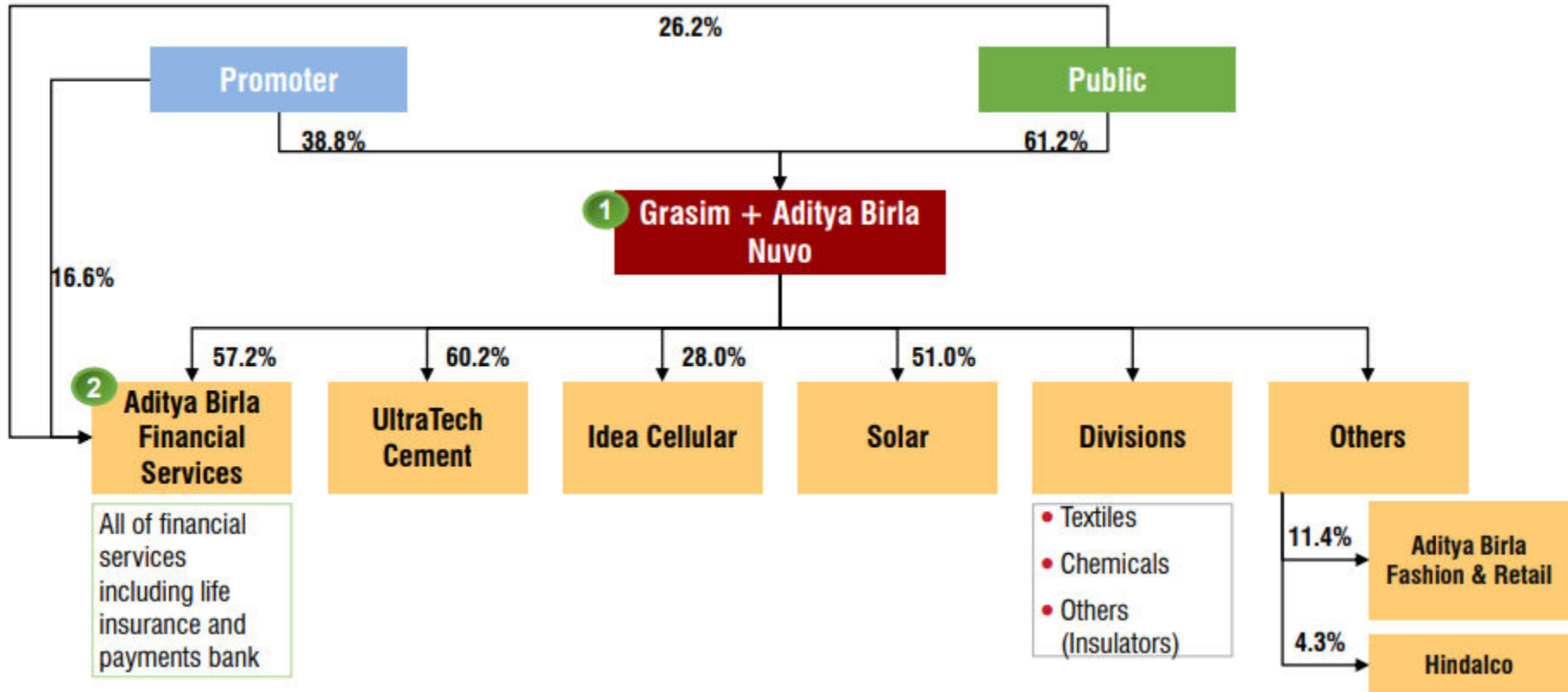
Aditya Birla Nuvo



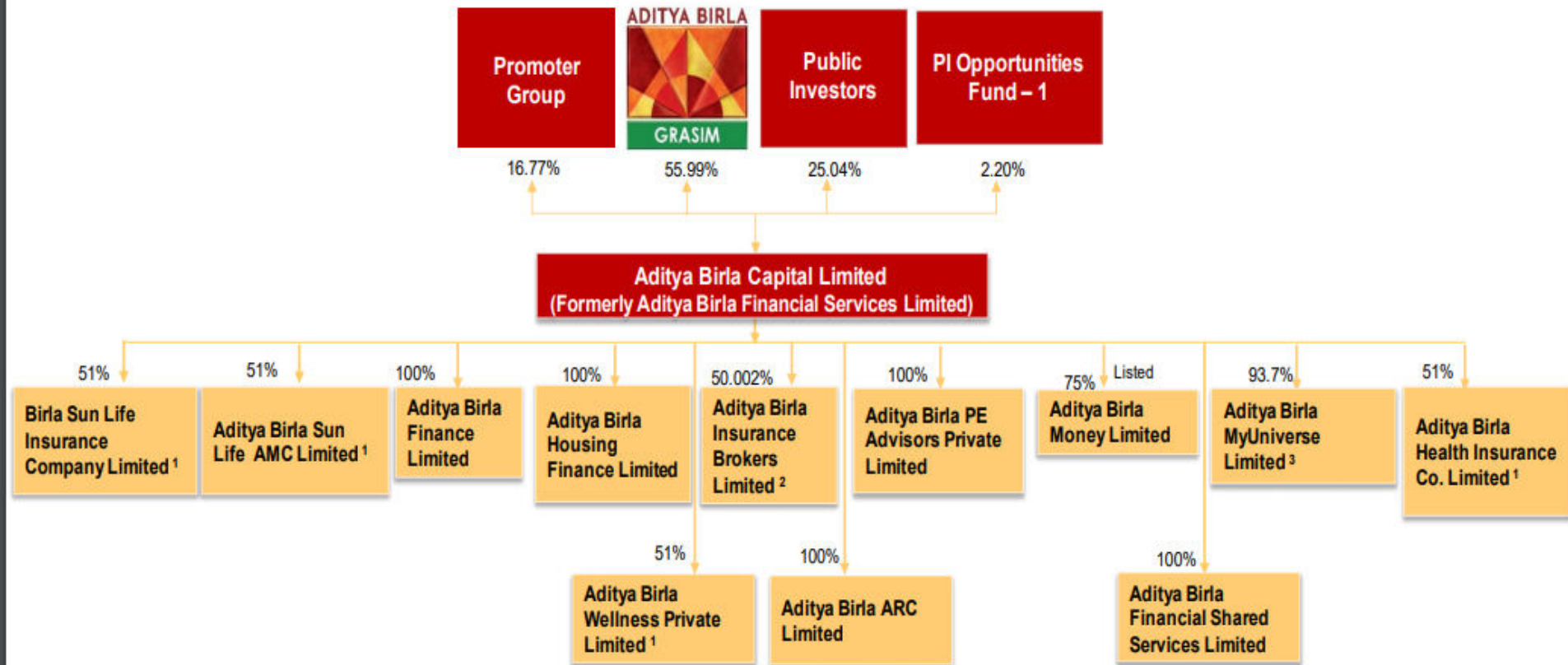
Transaction

- Step – 1 – Merger of ABNL into Grasim
- Step – 2 – De-merger of financial services business (other than shares of Aditya Birla Financial Services) from the merged entity into Aditya Birla Financial Services.
 - Reverse order – de-merger – followed by merger – public shareholding wasn't achieved

Post Transaction Structure



Post Transaction Structure



Case Study - Combining Business Tax

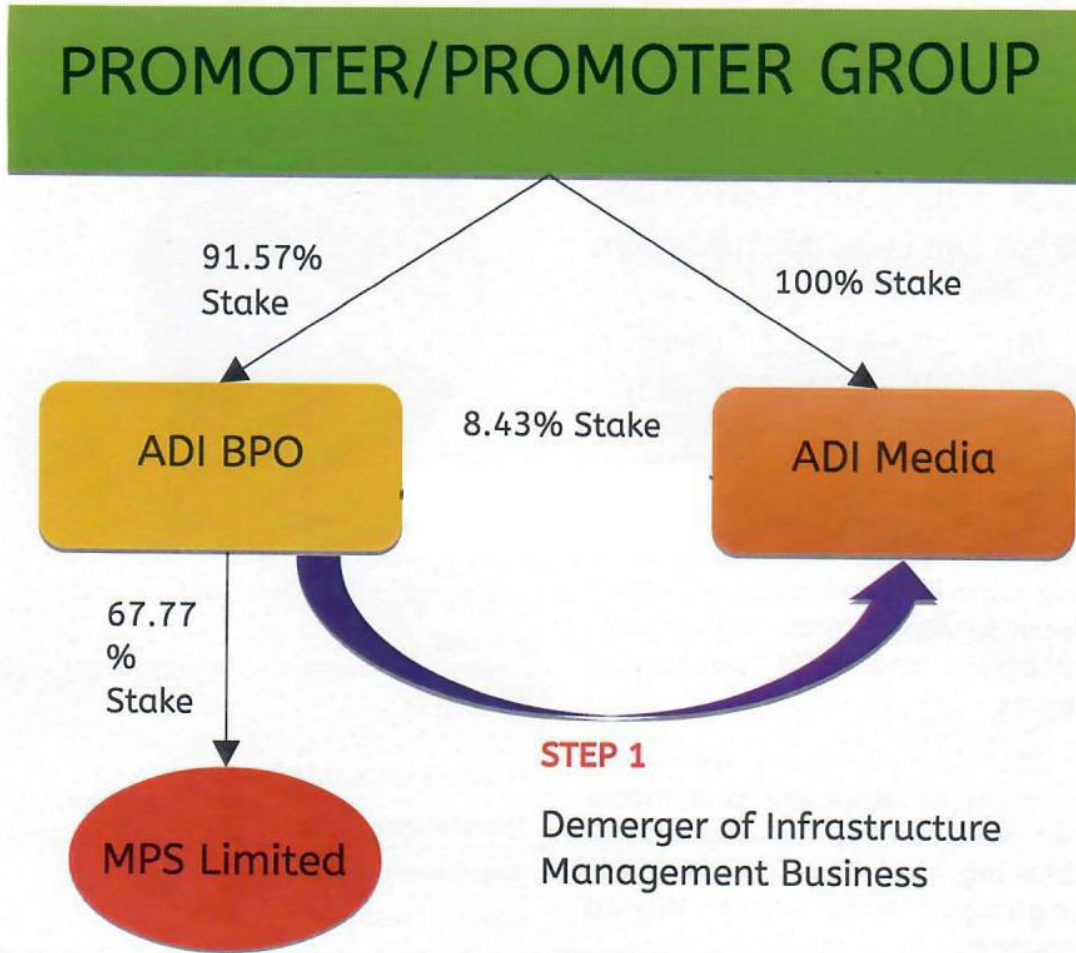
Examples

- HT Media Group – de-merger of India Education Services Pvt. Ltd. into Hindustan Media Ventures Limited (listed entity)
 - Demerged company had brought forward loss – resulting company was not entitled to losses if there was merger instead of de-merger.
- Golden Chem-Tech Limited (GCTML) merged into Stylam Industries Limited
 - GCTML about to start production – entitled to high depreciation & also has interest cost – reduce group tax outflow
- Merger of 13 WOS of Network 18 Group – including one WOS based in Mauritius
 - Tax efficient vis-a-vis declaration of dividend by foreign subsidiary

Case Study - Promoter shareholding

MPS & ADI BPO

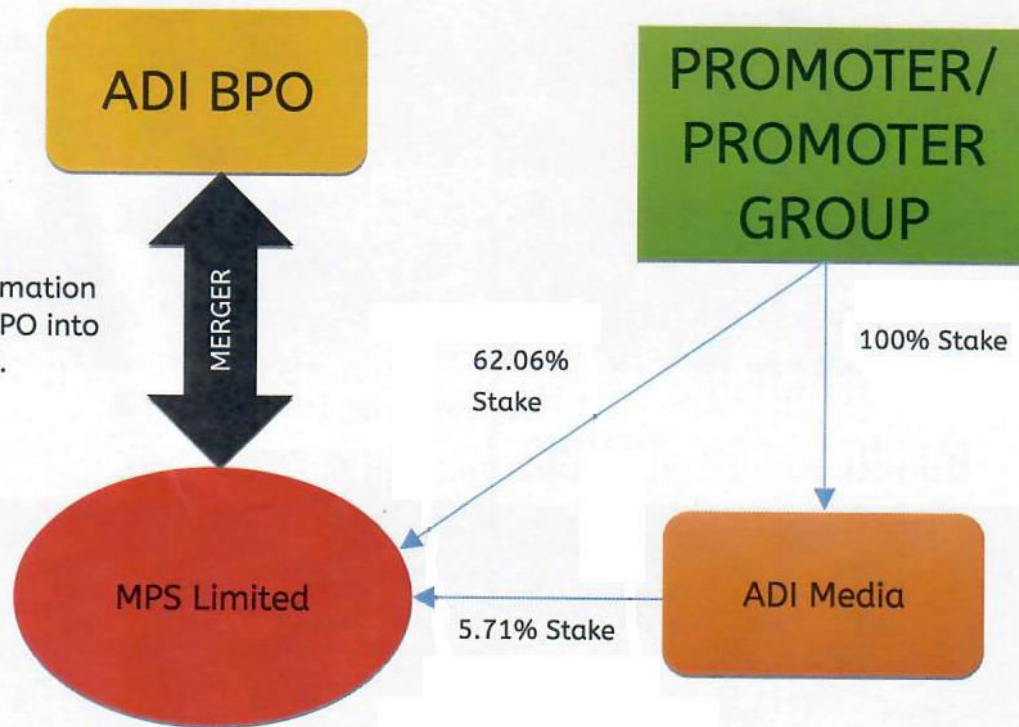
Step - 1



Step - 2

STEP 2

Amalgamation
of ABI BPO into
MPS Ltd.



Outcome

- The intermediary company is eliminated without any tax consequences
- Promoter will directly holding stake in the listed company
 - The scheme of arrangement provided that cost incidental to re-structuring shall be borne by the de-merged company (i.e. the company being amalgamated into the listed company)
- Similar re-structuring recently also done by Indian Metal & Ferro Alloys Limited
- Batliboi Limited – (Applicant - Bhogilal Family Trust)
 - SEBI permits sub-trust structure and grants exemption from making public offer under takeover code

Batliboi Limited

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 - SEBI permits sub-trust structure and grants exemption from making public offer under takeover code

IBC

Bhushan Steel

Few Other Interesting Instances & Issues

Instances & Issues

- Ind-AS 103 – de-merger – fair value accounting
- Bargain Purchase accounting treatment
- MAT – Valuation v. Re-valuation
- Method of Depreciation – Holding v. Subsidiary
- Depreciation – Goodwill & Intangibles
 - CIT v. Smifs Securities Ltd. [2012] (348 ITR 302) (SC) & United Breweries Ltd. (TS-553-ITAT-2016) (Bang. Trib.) [2016]

Instances & Issues

- Acquisition of Flipkart by Walmart
 - Indirect Transfer and withholding tax
- Section 56(2)(x)
 - Capital Reduction & Cancellation
O3 Capital Global Advisory Private Limited – NCLT has permitted Capital Reduction at Nil consideration – to achieve re-alignment of promoter shareholding in the company.
 - Real Estate
- LLP
 - Qube Cinema Technologies Private Limited – NCLT sanctioned – merger of LLP into Company
(Similar order of NCLT in the case of Forgeahead Solutions Private Limited)

Ratio can be applied for merger of Company into LLP or decision is only a concession given by the Tribunal ?

Instances

- Use of Preference Shares
 - Valiant Organics Ltd. – consideration for merger discharged by issue of equity shares and preference shares
 - Preference shares were optionally convertible into equity shares, listed on stock exchange and will carry zero dividend
- Balance Sheet Clean-up
 - Sagar Soya Products Ltd. – reduction of share capital
 - Write off accumulated losses against share capital – dividends can be declared out of future profit.

Thank You