CHAPTER 1

INTRODUCTION
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INTRODUCTION

1.1 INTRODUCTION

With the current trends in the business world primarily making for a highly dynamic and volatile marketplace, businesses often do not wait the while before venturing into organic and inorganic growth opportunities. Quick success, corporate benefactors, strong conglomerate backing, and viral success on start-ups, etc. have made for an interesting business scenario where the rise and fall of businesses is common and corporate restructuring for a wide variety of reasons has become the daily staple of businesses worldwide. With the core focus of organizations being to pass on maximum value to their shareholders, organizations are constantly on the lookout to realign their asset, liability, equity and operational structures in order to set them on course towards realizing the maximum operational value and passing on the top / bottom line benefits to their shareholders. This realignment is usually brought about through growth (mergers, acquisitions), or exit (divestment, demergers, etc) and as such restructures the organization’s business capacity, portfolio of operations, financial structure, or organizational control structure. This is defined as Corporate Restructuring. With the increased dynamism and volatility in the business world, all forms of corporate restructuring have become quite the norm de jour of today’s economy with organizations not hesitating to make bold and impactful decisions when it comes to their assets, offering portfolio, financial structures, and control mechanisms. While the numbers of mergers & acquisitions are independent from those of demergers & divestitures, they seem to have grown in tandem over the past few years as a significant percentage when compared to their numbers a few decades ago.
1.1.1 Corporate restructuring:
Corporate restructuring can be defined as any change in the business capacity or portfolio that is carried out or a change in the capital structure of a company or any change in the ownership or control over the management of company. In today’s dynamic competitive world, companies are constantly researching on various options by which shareholders value can be enhanced by changing the composition of their assets, liabilities, equity and operations. All these attempts channelized as strategies are referred to as restructuring strategies. Restructuring may encompass either growth strategy or exit strategy. Important forms of corporate restructuring are as follows:-
Merger, Consolidation, Acquisition, Divestiture, Carve out, Joint venture, Reduction of capital, Buy back of securities, Delisting of securities and Demerger. (Prof. Joshi, 2011)

1.1.2 Demerger
A demerger is typically a situation where in an organization splits its assets, mostly by pooling up the assets it is splitting out under a subsidiary holding company in order to later redistribute the shares of the new company to the already existing stakeholders of the parent organization. (Prof. Sharma, 2011) Demerger is an act of splitting off a part of an existing company to become a new company, which operates completely separate from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company. The entity that emerges has its own board of directors and, if listed on a stock exchange, have separate listings. It does not result in a purchase or sale transaction but is just a division of an existing entity, the demerged company. Demerger is essentially a scheme of arrangement under Section 391 to 394 of the Companies Act, 1956 requiring approval by majority of shareholders holding shares representing three-fourths value in meeting convened for the purpose, and sanction of High Court. Demerger is also called as a corporate divorce. Sometimes demerger is the result of merger failure. Demerger can called as opposite of merger because in merger two companies come together whereas in demerger undertaking of a company gets separated into separate identity.
1.1.3 Rationale of Demerger:

1. **Improve valuation**: In case of Dabur, demerger was done to create a global presence for Dabur’s pharmaceuticals business and provide focus to maximize penetration in global markets. The FMCG business including personal care, health care also benefited from this move as it lead to better and more efficient management of its resources and facilitated more accurate benchmarking with industry which leads to improvement in valuation of both businesses. *(The Economic Times 29th Jan 2003)*

2. **Focus on core business**: Demerger helps to separate less recognized investment out of core business. The company can then focuses on core business and exploit the benefits of core competencies to the maximum extent and utilize surplus cash in productive way. E.g. Demerger of cement business of Larsen & Toubro Ltd into Ultra tech cement co ltd (Aditya Birla group co.) which enabled L & T to become a focused engineering company. *(Mr. Wanti, 2013)*

3. **Attract investors**: Demerger of company can attract specific institutional investors having interest in particular sectors. E.g. retail company Pantaloon was attracting only retail investors. By spinning off a private equity fund Kshitij, it attracted a different set of investors. *(Mr. Jha, 2013)*

4. **Family settlement**: Split among family members can be a reason for demerger. E.g. Demerger of Reliance Industries Ltd in which the business was divided between two brothers as in Shri Anil Dhirubhai Ambani would lead financial services, power and telecom businesses and Shri Mukesh Dhirubhai Ambani would continue to lead the other businesses including petrochemicals, oil and gas exploration and production, refining and other businesses comprising the remaining undertaking. *(The Economic times, 5th August 2008)*

Thus, demerger also occur due to reasons almost the same as mergers i.e. the desire to perform better and strengthen efficiency, business interest and to curb losses, wastage and
competition. Undertakings demerge to set down businesses and fix responsibility, liability and management so as to ensure improved results from each of the demerged unit.

The Rationale of Successful Demerger is that: Sum of the separate entities is greater than the combined entity.

One of the prime reasons why large corporate houses go in for demerger is to increase the role of specialization in the particular segment. In case of large conglomerates, demerging entities often are the departments which are growing at an impressive rate and have substantial potential. A part from core competencies being main reason for demerging companies, in some cases, restructuring in the form of demerger was undertaken for splitting up the family owned large business empires into smaller companies. “Companies which have more than one business and the smaller business is not recognized in valuation of these companies are going for demerger” – Mr. T.V. Ragunath, 2014, Executive directors, Kotak Mahindra investing banking. The remarks by Mr. Ragunath are similar in case of Reliance which has taken demerger as a way of growth. It has tried to enhance shareholders value by adopting the restructuring strategy. After the enactment of comprehensive provisions under the Income Tax Act 1961 dealing with demerger, many corporate embarked on focusing business plans by splitting the unrelated business by way of demerger and there are also other reasons for demerger like family split which occurred in Reliance.

There are many examples of demergers but the biggest demerger in the history of Indian corporate is that of Reliance Industries Ltd. Such demergers are accordingly, more in the nature of family settlements and are affected through the court order. Improving valuation and attracting investors have been the important rationales behind many demergers. Some examples of major demergers in India are as follows:-
<table>
<thead>
<tr>
<th>Sr. no</th>
<th>Name of company.</th>
<th>Date of Demerger</th>
<th>Split in to</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Gulf Oil Corporation Ltd.</td>
<td>Jun-14</td>
<td>Gulf Oil Lubricants India Ltd</td>
</tr>
<tr>
<td>2</td>
<td>Polaris Financial Technology</td>
<td>Mar-14</td>
<td>Intellect Design Arena</td>
</tr>
<tr>
<td>3</td>
<td>Marico</td>
<td>Apr-13</td>
<td>Kaya skin care</td>
</tr>
<tr>
<td>4</td>
<td>Wipro Ltd.</td>
<td>Mar-13</td>
<td>Wipro Enterprises Ltd</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Wipro Consumer Care &amp; Lighting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Wipro Infrastructure Engineering)</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td>(Wipro GE Medical Systems Limited)</td>
</tr>
<tr>
<td>5</td>
<td>Pantaloon Retail Ltd</td>
<td>Nov-12</td>
<td>Future Ventures India</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Future Lifestyle)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>(Future Retail)</td>
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<tr>
<td></td>
<td>Company Name</td>
<td>Date</td>
<td>Company Name</td>
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</tr>
<tr>
<td>6</td>
<td>Jindal Saw Ltd</td>
<td>Nov-11</td>
<td>HexaTradex Ltd</td>
</tr>
<tr>
<td>7</td>
<td>S.E. Investments Ltd</td>
<td>Nov-11</td>
<td>M/s. S. E. Power Ltd.</td>
</tr>
<tr>
<td>8</td>
<td>Hero Honda</td>
<td>Dec-10</td>
<td>Hero Moter Corp.</td>
</tr>
<tr>
<td>9</td>
<td>TV Today Network</td>
<td>Jul-09</td>
<td>Radio Today Broadcasting (RTBL)</td>
</tr>
<tr>
<td>10</td>
<td>Hindustan lever ltd</td>
<td>Sep-08</td>
<td>Brooke Bond Real Estates Private Limited</td>
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<td></td>
<td></td>
<td>Mar-07</td>
<td>Jamnagar Estates Private Limited</td>
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<td></td>
<td>Jamnagar Properties Private Limited</td>
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<td></td>
<td>Daverashola Estates Private Limited</td>
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<tr>
<td></td>
<td></td>
<td>Dec-05</td>
<td>Tea Estates India Limited</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Doom Dooma Tea Company Limited</td>
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</tbody>
</table>
1.2 STATEMENT OF THE PROBLEMS

With the above discussion in light, researcher has selected the research endeavor of examining meticulously and critically the conduct observable of the “Demergers in India- A Case Study of Reliance Industries ltd”.

Researcher has made an attempt to critically address following problems:-

i. Demerger has been increasingly used by companies as a strategy for corporate restructuring and hence it is important to understand its concept thoroughly.

ii. The process of demerger is governed by various legal provisions; hence it is required to study in detail legal aspect of demerger. The taxation aspect in the event of demerger has remained a very burning issue for tax authorities and the entities undergoing demerger, hence it is necessary to study this aspect in detail. In demerger, assets and liabilities of the undertaking of demerged company are transferred to resulting companies; hence it is important to understand the accounting treatment applicable in case of demerger.

iii. Demerger of Reliance Industries Ltd was the remarkable demerger in the history of Indian corporate world hence it is apt to take the case study of this company to know in details the demerger scheme applied by the company.
iv. Shareholders are the ones who are predominantly affected by the process of demerger, therefore it is crucial to analyze its impact on shareholders wealth and also the shareholders perspective to it.

v. Employees also get affected by the process of demerger in respect of their payrolls, human resource policies, transfers, working environment, etc. so it is required to study employees’ perspective to demerger.

vi. Any corporate restructuring activity has immense impact on its stock market prices. Also stock market prices are considered to be the indicators of company performance so it is important to study the stock market position of Reliance Industries Ltd during pre and post demerger period.

1.3 OBJECTIVES OF THE STUDY

The present research aims at the fulfillment of the following objectives:

i. To generate understanding about demerger as a tool for corporate restructuring

ii. To study the legal, taxation and accounting aspects of demerger.

iii. To study in detail the scheme of demerger of Reliance Industries Ltd.

iv. To analyze the perspective of shareholders to demerger of Reliance Industries Ltd.

v. To study the employees perspective to demerger of Reliance Industries Ltd.

vi. To study the behavior of stock prices and turnover of shares of Reliance Industries Ltd in the pre and post demerger period.

1.4 HYPOTHESES OF THE STUDY

With a view to develop a sound theoretical framework for the investigation, a review of literature on demergers in India has been done. However, the related published literature on the area of study in India is indeed scanty. Hence, the hypotheses framed are as follows:
HYPOTHESIS 1:

Null hypothesis (H₀): Demerger of Reliance Industries Ltd had no significant impact on the shareholders wealth.

Alternative Hypothesis (H₁): Demerger of Reliance Industries Ltd had significant impact on the shareholders wealth.

HYPOTHESIS 2:

Null hypothesis (H₀): Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

Alternative Hypothesis (H₁): Employees of Reliance Industries Ltd were significantly affected by the process of demerger.

HYPOTHESIS 3:

Null hypothesis (H₀): There is no significant difference between the mean stock market prices of shares of Reliance Industries Ltd in the pre and post demerger period.

Alternative Hypothesis (H₁): Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is significantly less than that of post demerger period.

HYPOTHESIS 4:

Null hypothesis (H₀): There is no significant difference between mean turnover of shares of Reliance Industries Ltd in the pre and post demerger period.

Alternative Hypothesis (H₁): Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is significantly less than that of post demerger period.
1.5 SCOPE OF THE STUDY

i. The geographical scope of the present study covers the entire India region.

ii. The functional scope of the study is assessment of the impact of demerger on employees, shareholders and share market.

iii. The analytical scope covers the fulfillment of the objectives set out for the study.

iv. The topical scope is confined to study the scheme of demerger of Reliance Industries Ltd.

1.6 RESEARCH METHODOLOGY OF THE STUDY

1.6.1 Case study selected for study:

Demerger is a recent form of corporate restructuring as compared to other forms. Also research work on this topic is very limited hence to study demerger in detailed manner, researcher has selected case study method. A case study method facilitates to study the topic in detail from various angles and then draw conclusions from particular event and generalize it through inductive method. This study covers legal, accounting, taxation, shareholders, employees and stock market aspects of the demerger.

1.6.2 Reason for selecting case study of Reliance demerger:

There are many example of demerger at national and international level. The biggest demerger in the history of Indian corporate is that of Reliance Industries Ltd. Also this demerger has received maximum publicity by media and hence known to the common public as well. This demerger was more in nature of family settlement and affected through the court order. This demerger has been understood to have an impact on every stakeholder i.e. shareholder, employee etc. so a case study of demerger of reliance is selected to study its impact on stakeholders.
1.6.3  **Area selected for the study:**

The area selected for the study is all over India. 1000 (non-promoters) shareholders and 500 employees, including all directors of the company were selected for collection of data. Various Indian legal provisions and data from National Stock Exchange and Bombay Stock Exchange were considered for the study.

1.6.4  **Source of data collection:**

The fulfillment of the objectives set forth for the study has called for data collection from different sources. Hence the researcher has taken cognizance of collecting the data through primary source as well as secondary source explained as under:-

**Primary data:** The study requires detail information about the impact of demerger on employee and shareholders hence the researcher decided to collect such information from primary data. To collect such information is more time consuming, but it is likely to yield a more accurate picture than a study based on secondary data. There are mainly 3 ways to collect primary data namely: by observation of behavior, by experimentation and by survey. As the researcher wanted to ask the employees regarding their views about demerger, i.e. reason behind the demerger, changes in human resource policies, working environment, anxiety level of the employees etc. hence the survey method was selected for collecting the data. Soliciting the information from the respondents was time consuming and it is difficult to judge the anxiety level and the syndrome in the behavior of employee. Impact of demerger on shareholders wealth has been calculated by secondary data but researcher also wanted to analyze the view point and opinion of shareholders hence the researcher has prepared two separate questionnaires to understand the opinion of the share holders and employees towards the demerger process.

**Questionnaire method:** The researcher has prepared two separate questionnaire one for the shareholder and other for the employees for collecting the data for the present study. Questionnaire was of structured and non disguised type. To develop a list of items for
framing a questionnaire review of existing literature on demerger was undertaken. Consultation with experts was also made in this regards. The questionnaire was pre-tested with 50 respondents. Thereafter changes were made to the questionnaire with specific reference to wording, sequence and language.

Utmost precautions were taken to make the questionnaire simple and easily understandable, so that the respondents would not find any difficulty in answering questions. Great care was taken in working each question to avoid biasing the responses. The first questionnaire is related to year of service of employees, if left the company then the reason for leaving, HR policies in pre and post period of demerger, and opinions with multiple choices. Second questionnaire for shareholders is related to purchase of shares in pre, post or during the period of demerger, sale of shares, stake of shareholders in resulting companies and overall opinion with multiple choice questions. The respondents are asked to give their opinion on five point Likert scale regarding different characteristics related to effect of the process of demerger on Employees and shareholders of Reliance Industries Ltd. The codes were as follows: Strongly Disagree (1), Disagree (2), Neither agree nor disagree (3), Agree (4), Strongly Agree (5)

As the respondents are from all over India, questionnaires were sent by email and information was collected as it was not possible to meet respondents personally. The questionnaire gathered information on employees’ reaction on news of demerger, ESOP scheme, morals of employees, HR policies, social and mental syndrome during demerger, fear of losing job etc. The questionnaire gathered further information on shareholders view on the exchange rates in demerger, market price, and their wealth, decision of purchasing new shares in resulting company or selling of shares

**Secondary data:**

The secondary data in the form of archival information necessary for investigation was collected mainly from reports of Reliance demerger, project reports published on demerger at national and international level and government published source as well as internet (websites related to study topic). The data regarding shareholders wealth and stock market
was collected from official websites of National Stock Exchange and Bombay Stock Exchange. Various libraries were visited for collection of secondary data through access of related books, journals, etc.

1.6.5 Sample design

Target population

The survey’s target population is the entire set of population units about which the survey data are to be used to make inferences. For this survey, in case of the shareholders the target population was all shareholders having shares of Reliance Industries Ltd before and after demerger and in the period of demerger. In case of employees the target population was all employees who were part of the company before, after and at the time of demerger.

Sample selection

The sample selected for the study constitutes of shareholders and employees who were part of companies before, after and at the time of demerger. It was purposively decided to have a quota sample of 1000 (non-promoters) shareholders and 500 employees including all directors of Reliance Industries Ltd. In order to carry out data collection exercise more meticulously the researcher approached some of the respondents to sort their opinion, and noted their responses accordingly. The sampling technique adopted for the study was judgmental and purposive sampling method. The researcher is of the strong conviction that the sample size selected for the study is a representative sample of the universe.
<table>
<thead>
<tr>
<th>Point of respondent profile</th>
<th>Sub points</th>
<th>Shareholders</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
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<td>280</td>
<td></td>
</tr>
<tr>
<td>Female</td>
<td>240</td>
<td>220</td>
<td></td>
</tr>
<tr>
<td>Total</td>
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<td>500</td>
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<tr>
<td><strong>Age</strong></td>
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<td></td>
<td></td>
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<tr>
<td>Below 35</td>
<td>80</td>
<td>10</td>
<td></td>
</tr>
<tr>
<td>36-50</td>
<td>620</td>
<td>290</td>
<td></td>
</tr>
<tr>
<td>Above 50</td>
<td>300</td>
<td>200</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td><strong>Annual income</strong></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>up to 6 lakhs</td>
<td>100</td>
<td>20</td>
<td></td>
</tr>
<tr>
<td>6 lakhs to 12 lakhs</td>
<td>480</td>
<td>100</td>
<td></td>
</tr>
<tr>
<td>above 12 lakhs</td>
<td>420</td>
<td>380</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>500</td>
<td></td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

### 1.6.6 Data Analysis and Interpretation

All the completed questionnaires were scrutinized carefully and the responses of respondents have been presented in the form of tables, graphs and figures. Specimen of questionnaires is given in the annexure. The data was subjected to appropriate statistical procedures to test the hypothesis with which the study is initiated. In consultation with computer experts and statisticians, software such as SPSS, AMOS and Mega stats were used. After getting the data computerized, in order to sharpen the inferences drawn based on simple description of facts, statistical techniques like frequency distribution, averages,
and percentages have been used. Researcher tabulated the data and analyzed it using spreadsheets (Excel) and a statistical program. Further Inferential analysis and conclusion are drawn using one sample t test with hypothesized mean value 3. The data and all the completed questionnaires were scrutinized carefully together with the theoretical material and have been interpreted through an intellectual exercise. The findings derived from these exercises are presented separately.

1.7 SIGNIFICANCE OF THE STUDY:

The cases of demergers in Indian corporate are increasing in recent times hence it is very important to have detailed research study on demerger which would include all legal aspects, tax implications, accounting procedures, its impact on employees, shareholders and share market. There is no major research carried out in this field and hence this study assumes importance. Demerger of Reliance Industries Ltd being the biggest in Indian corporate history makes this topic very suitable for the research. It is a financial restructuring by a company for future and better growth.

The present study is an attempt to investigate process of demerger from various angles. Further this study is to reveal the speed hurdle and benefits of demerger on the road of demerger process. The study analyzes and focuses a review of the current laws. It has explained the complexities of various laws relating to demerger and the way company has managed these complexities.

Further the study explains shareholders view on wealth maximization in the process of demerger and employees view in the process of demerger. The role of human resource department in relation to motivating factors required during the demerger and post demerger. The study has also highlighted the company performance pre and post demerger which would help analyst to track performance of companies going in for demerger. The impact of demerger on stock market prices and turnover would help investors to understand how the stock market performance of a company is affected by a particular companies demerger. It generates the conceptual base for understanding the process of demerger. The
study will help shareholders and common public to understand the complicate process of
demerger. It would also be helpful to fund managers and investors to balance their portfolio
in the event of demerger. It will also prove to be beneficial for companies planning to adopt
demerger as a strategy for corporate restructuring in future. It will certainly help human
resource department to better understand the employee’s perspective to demerger.

1.8 LIMITATIONS OF THE STUDY

The main limitation of study is that primary data for the study was dependent upon the
cooperation of employees, shareholders, directors, auditors of Reliance Industries Ltd.
The data collection has been done by email and telephonic conversations. Thus the
inferences drawn are purely based on feedback received from the respondents. This study
covers the experiences of shareholders and employees in the demerger of Reliance.
Therefore the scope of study is limited to selected shareholders and employees only. It
must be cautioned that results presented are solely based upon data received from the
surveyed respondents and the possibility of biased opinion cannot be ruled out. This
survey is indication of the opinion of the shareholders and employees but it is not
referendum. It contains certain biased related to those who chose to respond the survey
and the subject interpretation of the questionnaire itself. Also the study itself is limited to
only the case of Reliance Industries Ltd and hence the conclusions drawn are for a
specific company and may not hold true for every other company adopting demerger.
Hence one needs to be careful while generalizing the conclusions drawn from this study.
1.9 CHAPTER SCHEME

The Thesis has been divided into nine chapters as follows:

Chapter-1: Introduction and Research Design
This chapter deals with the objectives of the study, hypothesis of the study, significance of the study, limitations of the study and the detailed research methodology adopted for the present study.

Chapter-2: Review of Relevant Literature
This chapter is devoted to review the literature comprising of earlier studies related to the topic.

Chapter-3: Conceptual Framework of the study
This chapter explains the concepts used in the study. It also shows the model of the present study and explains in detail the scheme of demerger of Reliance Industries Ltd.

Chapter-4: The legal, taxation and accounting aspects of demerger
This chapter deals with the various legal and taxation provisions related to demerger. Also the accounting treatment applied in case of demerger is explained.

Chapter-5: Shareholders perspective to the demerger of Reliance Industries Ltd
This chapter specifically deals with impact of demerger of Reliance Industries Ltd on its shareholders wealth and the opinion of shareholders with respect to demerger.

Chapter- 6 : Employees perspective to the demerger of Reliance Industries Ltd
This chapter focuses on the impact of demerger on employees of Reliance Industries Ltd and the role of human resource department in the process of demerger.
Chapter-7: The behavior of stock market prices and turnover of shares of Reliance Industries Ltd in pre and post demerger period.
This chapter deals with the study of movements in stock market prices and turnover of shares of Reliance Industries Ltd in pre demerger period, during the process of demerger and post demerger period.

Chapter-8: Findings and Conclusions
This chapter includes the conclusions and findings, which are derived from the study.

Chapter-9: Suggestions and Recommendations
This chapter highlights the suggestions and recommendations in respect of demergers.

The structured questionnaires used for collecting the primary data and a select bibliography and appendices conclude the Thesis.
Reference:


12. www.hul.co.in surfed on Jan 28, 2013
CHAPTER 2

REVIEW OF
LITERATURE
CHAPTER 2

REVIEW OF LITERATURE

2.1 INTRODUCTION:

To generate understanding of the subject, extensive review of literature was carried on by the researcher. Past research work relating to demerger was deeply analyzed to frame objectives of the study. Since the studies related to demerger in India was found limited, international studies were also referred to. Various aspects of demerger were found in different studies and that are consolidated here in this chapter. Researcher has also reviewed some literature relating to other forms of corporate restructuring like mergers, amalgamation hive offs etc to get or comparative view with the corporate restructuring in the form of demerger. Hence this chapter deals with comprehensive review of literature relating to demerger as a form of corporate restructuring and various aspects relating to it. For the purpose of convenience the list of ROL is classified into Studies at International level and at national level.

2.2 AT INTERNATIONAL LEVEL:

This part of the chapter covers the literature review at international level. Various studies done at international level were referred by the researcher and the important takings from the same are listed below:

1. Agraval and Jeffrey (1999) analyses literatures for effects of mergers on long-run abnormal returns. It also tries to identify causes for underperformance of companies following mergers. The paper concludes there exists no significant relationship between underperformance and slow adjustment to merger news.
It also, in no uncertain terms, discards the EPS myopia hypothesis, i.e. that theorizes that if the acquisition rises Earnings per Share, then market, in the initial phases of merger, overvalues acquirers that in distance future results into underperformance.

2. Alexander, Benson and Kamp Meyer (2012) analyses the consequences on shareholder’s wealth when a firm announces to disinvest and sell to another firm. The paper identifies that there is increase in abnormal returns on the announcement date itself. However, it is been observed a period of abnormally negative returns is usually followed by selloffs, indicating release of undesirable information about the firm preceding the announcement.

3. Allen (2001) analysed the extrapolative ability of cognizant trading in relation to post-spin-off (demerger) stock motion and corporate managed transactions. This article highlights causality relation between knowledge of sensitive information about the spin off and insider trading. It was identified that after spin-offs (demerger), the majority buyers in public subsidiaries were the firm insiders. They were also identified as major sellers in the parent firm. A significant relationship was observed between post-spin-off stock returns, takeovers, and de-listings of spin-off firms and insiders’ trading. It relationship in fact, was significantly true for senior managers of public subsidiaries. It does not however, strongly exhibit for outside directors or large block-holders.

4. Allen and McConnell, (2002), studied the managerial behaviours with respect to controlling of assets and to demerge subsidiaries. It argues that demergers generally are supported by manager, if firm is struggling for capital. It was concluded that firms that execute demergers are not operated well and high leverage before demerging. It is also observed that the average excess stock returns are substantially better when demerger is executed for capital to invest than for paying off debts.

5. Bergh, Johnson and Dewitt, (2008), analysed the decision processes of managers in corporate restructuring implementation selections and their consequences on profitability of the restructuring event. This analysis was based on 204 restructuring events. The authors
state that there is discrepancy with respect to knowledge of restructured firms' diversification strategy and restructuring assets of owners and managers. They further state the in order to negate the knowledge gap and to earn monetary gains, the managers opt between two accepted implementation alternatives, spin-offs and sell-offs. Observers find it difficult to analyses restructuring event when its assets are part of primary and related business processes or the firm has low and related diversification among its business processes. Spin-offs decrease knowledge gap by relocating assets to the capital market and thereby resulting to better transparency and efficiency of the restructuring firm. On other hand, firms that have restructured assets as part of their secondary and unrelated business processes or have high diversification, sell-offs best decreases the knowledge gap by using market forces to reassign assets to their most fruitful purposes. It also makes strategy and performance of the restructuring firm more productive. It eventually concludes, it is restructuring implementation strategy that mostly affects the financial performance.

6. Boehm (2010). The study analyses the effect of IT disintegration on regulatory compliances for demerging companies. The process of demerger includes lot of regulatory compliances and under this compliance pressure the role of information technology disintegration is explained by this study.

7. Boone and Boot (2000) had initiated research of demerger and analysed the precursors of demergers, identifying over diversification and weak corporate strategy.

8. Booz, Allen and Hamilton (2003) study stated that corporate restructuring in the form of strategic alliance was been adopted by every industry and leading to substantial growth. Also the number of strategic alliances, that is also a corporate restructuring, in the world is on rise. Further, it was stated the cost of strategic alliances will in range between $30 trillion to $50 trillion. It also identified that 20% of the revenue generated from the top 2,000 US and European companies comes from alliances.

9. Boston Consulting Group (BCG) New Global Challengers report(2008), identified the rise of companies from developing economies such as China, Russia, India, Mexicoand Brazil,
and are challenging the supremacy of establishing multinational players around the globe. In 2006, they completed 72 outbound acquisitions, up from 21 in 2000. The average value of these transactions grew from $156 million in 2001 to $981 million in 2006. Of the 100 companies on BCG’s list, 20 from India, 41 were from China, and 13 from Brazil, with the rest coming from other Rapidly Developing Economies.

10. Capron (2001) identified that demergers are often part of the restructuring of merging firms. Demergers are more than just a merger in reverse. Demergers are been done to re-align firms with their core business focus and manage their level of diversification. Demerger has become the corrective solution to failed restructuring caused to incorrect mergers. It has made these observations on certain real world cases.

11. Capron, Mitchell, and Swaminathan, (2001), identified that integration or disintegration of corporate assets is part of corporate strategies that also depend on integration and dis-integration of information and technologies. Any organizational integration or demerger cannot be successfully achieved without successfully integrating or disintegrating respectively the information technology assets.

12. Charmen, Bezjak and Toms, (1995), analysed the investor reactions to the use of corporate selloffs as antitakeover devices. They observed increase in capital of firms with no restructuring plans and decrease in wealth in vice-a-versa. Also firms remain independent for one year after demergers that was initiated to avoid takeovers. Investors also consider these divestitures after rumours of takeover attempt as antitakeover strategies. Contradictorily, selloffs in a takeover-free environment were seen as a positive net present value decision.

13. Chemmanur, and Yan (2004), identified reasons for corporate spin-offs, and for the performance and value improvements, based on corporate control priorities. They considered firms that had multiple divisions with specialised management abilities. They identified that firms believe that demerger leads to loss of control of their business priorities. Firms with either, in order to prevent any loss of control, will increase their
efforts, or to loosen control allow corporate spin-off. They also observed certain categories of spin-offs showed long-term positive abnormal stock returns.

14. Chen and Guo, (2005) analysed the rationales for firms to divest their units, and for choosing among the three divestiture mechanisms (equity carve-out, spinoff, and asset selloff, demerger). A comparative analysis was done on firm’s viable choices on a substantial list of corporate divestitures from 1985 to 1998. They identified that found that low operating efficiency more often lead highly diversified firms to divest. They further proved that firms are divesting to ease pressure on their credit constraint, as firms with low cash income and higher leverage ratios are mostly engage in carve-outs or selloffs. According to their analysis, the major reason for divestitures was substantial evidence of information asymmetry. They conclude that firms that intend to divest smaller units mainly use asset selloffs, divesting smaller units operating in the same industry. Firms with larger divested units in majority use spinoff or carve-out transactions. Spin-offs is the preferred route when parent firms having high book-to-market ratio, high revenue growth, and high divesting unit when market sentiment is high. Firms are more likely to use carve-out when having high dividend yield, less information asymmetry, and divesting units operating in different industries.

15. Cho and Cohen, (1998), investigated economic causes and consequences of large corporate divestitures that happened between 1983 and 1987. Prior empirical evidence suggested that firms manage poorly performing operating units for a substantial period before divestiture. An agency-cost explanation for ‘holding on to losers’ had been proposed in the earlier literature, as managers reluctance to admit their mistakes of having wrong choice of assets. They have suggested reasons stating managers hold on to losers as long as they can ‘blur’ their poor performance with other operating units of the firm. They further state that firms sell off poorly performing business units until the firm's other units have huge negatives with respect to their industry peers. And concluded that although there is proof that the stock market reacts favorably to divestitures, as it reverts firm's performance back to its mean pre-divestiture level.
16. Chris and Merkoulova, (2004), compared US demerger and European demergers and took wealth effects sample of 156 spin-offs from 15 different European countries that were announced between January 1987 and September 2000. And observed a significant abnormal return in short run and subsequent spin-offs. The cumulative average abnormal return was approximately 3.5% for spin-offs by companies that increase their industrial focus and less than 1% for non-focus increasing companies. In the long-run returns in excess of matching firms were mostly insignificant for parents, subsidiaries and pro-forma combined firms. Finally suggested that, unlike US spin-offs, European spin-offs were not associated with long-run superior performance.

17. DePamphilis (2011) explains the real world of mergers, acquisitions, and restructuring. He had discussed tax and legal issues pertaining to restructuring. With as much as 99 case studies he had not only covered theoretical aspect but also given a practical approach adopted by the companies in restructuring. With the help of excel-based models of valuation, cash flows and other key financial aspects of Mergers and Acquisitions decision making are discussed in detail. He had also focused on reorganization, bankruptcy, and liquidation issues both inside and outside of bankruptcy court.

18. Dittmar, and Shivdasani, (2003), studied cases of demerger that alter the divisional organisational structure of diversified firms. They noticed substantial increases in firm value around because of reorganization. Further they added Firms that continue to operate as separate firms reduce divisional investment levels and increase capital allocation across divisions. Firms that realign to merge as single segment firms substantially increase the investment of the remaining divisions. It was concluded that internal capital markets allocated investments are critical factors of the gains from demerger and they were of the opinion that Divestitures also increase firm’s value by providing capital for financially constrained segments.

19. Drucker (2012) stated that the greatest change in corporate culture and the way business is being conducted is the strategic intervention and relationship based not on ownership, but
on partnership. He also quoted that there is not just a surge in alliances but a worldwide restructuring of companies in the shape of alliance and partnerships.

20. Eglin, Roger,(1992), discussed the case of ICI demerger wherein he pointed out that ICI's managers were enthusiastically promoting their own radical demerger plan, the critics had on the whole remained silent. And quoting ‘the Financial Times’ column that said “ICI's demerger plan is a splendid example of how a supposedly conventional management can be rendered nimble by a sense of threat.” ICI was long overdue for radical treatment as they were facing job losses and a company was seeking a strategy. ICI were in to paints, explosives and heavy chemicals, and employments in these units were very high and also earning profit as good as half of the overall profit of company. So situation asks for demerger but ICI's managing director, Ronnie Hampel, robustly defended restructuring as a business may lose a cash cow. Despite case for the demerger remains powerful and helped cut through some of the bureaucracy those envelopes ICI. And finally he agreed upon that the demerger does not alter the basic problems that each business faces.

21. Erdorf, Thomas, Nicolas, Matz, (2012), surveyed the literature on corporate diversification. The article tries to find out the influence of corporate diversification on firm value whether positive or negative. Their literature concluded that the effect on value varies from firm to firm, and that corporate diversification has no direct bearing on discount or premium. A varied effect was observed across certain industry settings, economic conditions, and governance structures. It points out various factors having combined effect on value during diversification. Exploring Success Factors for IT Carve out Projects.

22. Franks, Harris, and Titman, (1991), analysed share-price performance after corporate takeovers. They set benchmarks from the portfolio evaluation literatures that overcome some of the known mean-variance inefficiencies of more traditional single-factor benchmarks. Studied nearly 400 takeovers consummated in the 1975–1984 period, they conclude that previous findings of poor performance after takeover were due to benchmark errors rather than mispricing at the time of the takeover.
23. G. Hite, and Owers, (1983), examine security price reactions around the announcements of various organisations involving a pro-rata distribution of the common stock of a subsidiary to the investors of the parent firm. And took a period of 50 days prior to the announcement through completion of the spin-off to check the volatility in share price. But did not found any evident proof that indicates the gains to investors represent wealth transfers from senior security holders. Over the entire event period they found positive gains for firms engaging in spin-offs but negative returns for firms responding to legal and/or regulatory difficulties. In the two-day interval surrounding the first press announcement they found positive average excess returns for all groups.

24. Gallet C.A (1996) examines the relationship between mergers in the U.S. steel industry and the market power. The study employed New Empirical Industrial Organization (NEIO) approach that estimates the degree of market power from a system of demand and supply equations. The study analysed yearly observations over the period between 1950 and 1988 and results have revealed that in the period of 1968 to 1971 mergers did not have a significant effect on market power in the steel industry; whereas mergers in 1978 and 1983 did slightly boost market power in the steel industry.

25. Gaughanin (2010) explains nearly every type of restructuring including mergers and acquisitions, divestitures, reorganizations, joint ventures, leveraged buyouts and more. Combining a historical focus with a review of the current laws it has well explained how to manage the complexities of corporate restructurings. The book is equipped with latest research and recent case studies in this field. It not only explains financial aspects of these transactions but also the economic, legal, taxation and regulatory considerations. He explains both management and shareholders viewpoint, emphasizing shareholder impact through review of the wealth effects of various restructuring tactics. He highlights the key strategies and motivating factors that arise during the course of restructuring. This book gives the overall information relating to restructuring strategies covering all aspects.

26. Gonul, Whited, (2005), analysed whether spin-offs or divestitures improves effectiveness of conglomerate investment. At issue are genuineness of those restructuring decisions and
correct measurement of investment efficiency. It was a problem because the factors that lead firms to spin off or divest divisions may also improve investment efficiency. After accounting for those differences and for measurement error they did not found any evidence of improvements in investment efficiency. Hence it was concluded that there were various factors affecting investment efficiency and it cannot be said that spin offs or divestitures result in improved investment efficiency.

27. Harris, Oneil, Glegg, Charmaine, (2008), threw light on the stock price reaction to cross-border demerger and investigated whether country characteristics cause variation wealth effects. They observed a positive and significant price response to cross-border spinoff announcements. More the subsidiaries located in countries with more active takeover markets, more is increase in capital. This implies that investors could expect the newly spun-off companies to become takeover targets. Abnormal returns decrease when subsidiaries are situated in countries with weaker investor protection with respect to the home country of the parent multinational. So they arrived at a conclusion that cross-border spinoffs that result in adverse changes in investor protection elicit lower wealth effects. Also, the spinning off units in foreign markets could increase wealth for parent shareholders, whereas the characteristics of the markets in that the units are spun-off matter to investors.

28. Harvard Business School (2011), corporate restructuring has enabled thousands of organizations around the world to respond more quickly and effectively to new opportunities and unexpected pressures, thereby re-establishing their competitive advantage. The study signifies the role of corporate restructuring to cope up with the changing business environment in this dynamic world. It states how restructuring can help to enhance the company’s potential and deal with the known threats.

29. Heller, Robert, (1992), also took a case of ICI demerger but gave a different angle to it. By giving example of IBM and AT and T demerger he concluded that there are both negative and positive effects of de merger. Negative effect is the misguided efforts of central management to direct enterprises over too wide a field (in products and/or geography) lead
to delays, overlapping jurisdictions, bureaucratic interference, muddled priorities, and poor decisions taken too far away from the customer. And positive effect of it is demerger devolves power to smaller units that not only mitigates the above problems of size, but puts new people in authority. The shock of the new will, with luck, encourage the fresh regimes sweeps away organisational cob webs and start afresh.

30. Hogan, Olson, (2004), analysed the level of under-pricing and characteristics of equity carve-outs during 1990s that as per them was a bubble period for global economy. And tested nearly 450 samples. They took a mean of initial return that was 8.75% for early 1990s that rose to 47.76% for the global economic crisis period. And suggest that, similar to earlier findings initial public offerings (IPOs), ECOs eagerly accept under-pricing over time because of an increased importance in analyst coverage and the increased use of corporate restructuring, and the general practice at that time was to allocate IPOs to high profile customers to gain potential future business.

31. Hoskisson, Johnson, and Moesel, (1994) have the opinion that only one third of all demergers are directly related to unsuccessful mergers and acquisitions. Reason being inadequate governance and inappropriate strategy. They combined both views in a structural equation model in that demerger intensity is directly related to firm performance and strategy that were in turn preceded by weak governance. Some supportive results indicated that bulk shareholders, a governance antecedent, and relative product diversification have important indirect effects on demerger activity and that relative product diversification and relative debt have important direct effects.

32. Humphrey, Kaplinsky and Saraph (1998) explore in depth analysis of restructuring experience of Crompton Greaves a leading Indian firm in electrical industry. The authors analyse the factors that both speed up and impede the process of restructuring. It compares the India’s restructuring experience with a range of firms in other countries. The book basically deals with only a case study of a particular company but by making comparison
of the said company’s experience with other countries companies, it actually gives the
global view for the corporate restructuring.

33. Huson, and MacKinnon, (2001), concentrated on the impact of corporate spinoffs on the
trading of the stock of firms that spinoffs their units. They are of the opinion that demerger
change the information environment of firms. The increased precision and quantity of
information will alter the relative advantage of informed traders. With increased
information incorporation, residual return variance increases following spinoffs.
Transaction costs and the price impact of trades were also higher in the quarter following
spinoffs. Their findings were more relevant for spinoffs where parent firms divest
unrelated subsidiaries. And concluded that Changes in the information environment linked
with spinoffs appear to benefits informed traders at the cost of uninformed traders.

34. J. Randall (2002) using a huge list of equity carve-out events during the (1980)s and
(1990)s found that rivals of carve-out parent firms experience negative announcement-
period returns. The study differentiates the divestiture gains hypothesis from the
asymmetric information hypothesis. With the additional tests he further provide support for
the divestiture gains. And finally concluded that operating performance improves for both
parents and their carved-out subsidiaries.

35. James Miles and Randall Woolridge (1999) state that spinoffs create value for
shareholders. In their paper, they document incremental value by showing that spinoffs, on
average, are associated with subsequent improvements in operating performance also
added that Spun off subsidiaries exhibit faster growth in sales resulting in high operating
income. They conjecture that investors are benefitted by spinoffs by providing a more
decentralized and more market-based capital allocation process and produces streamlined
top management team, often motivated by significant stock-based compensation.

36. JoCornell, (1999), states that over the two-year period prior to the spin-off, the stock price
of the average parent company outperforms the stock market by 35% on average. Post
spin-offs, stock returns of both the parent and the spin-off out do the market, on average.
Over the entire three-year period, assuming portfolio rebalancing they found a compounded raw return of 106.6%, that corresponds to a compounded annual return of 27.4%. Between one and two years after the distribution month, the maximum returns are realised.

37. John, Ozbilgin and Wahal, (1993) showed large positive excess stock returns following spinoffs for the parent firms that undertake the spinoffs and for the spin off subsidiaries themselves. They examine the period 1965 through 1988 and consider returns for up to 36 months following the spinoff. Author investigated whether a trading strategy based on ex post analysis earns positive excess returns on an ex ante basis using a holdout sample of spinoffs that occurred over the period 1989 through 1995. They found that, such a strategy produced break-even results when compared with a size-and industry-matched firm benchmark. Tests of “beat-the-market” strategies based on long-run post-event returns are often used to argue against the semi-strong form of the efficient market hypothesis. But their results indicate that post-spinoff returns cannot be used to make that argument.

38. Kang and Diltz, (2000), analysed the returns to above 170 divestitures and 21 acquisitions associated with divestiture occurring between 1990 and 1994. Consistent they also found positive abnormal returns associated with demerger on and before the announcement date. However, abnormal returns disappear, save for day -1, upon application of a contemporaneous dividend announcement filter. Acquiring firms experience significant positive abnormal returns on average the day prior to announcement. Also added that acquiring firm wealth impacts decrease substantially upon application of a contemporaneous dividend filter. They suggested that wealth impacts related with divestitures are sensitive to contemporaneous dividend announcement impacts, and studies that don’t employ critical data filtering techniques may lead to biased results.

39. Kang, and Shivdasani, (1996), analysed restructuring of 92 Japanese corporations that experienced a significant decrease in operating performance during 1986 to 1990. They identified that those Japanese firms adopted downsizing measures such as plant closures, asset sales, and employee layoffs. Compared to a sample of US firms that experience a
similar decline in operating performance, Japanese firms were less likely to downsize, and layoffs affect a smaller fraction of their workforce. The rate of asset downsizing and layoffs in Japanese firms increases with increase in the equity ownership by the firm's main bank and other block holders. Block holders also increased the probability of management turnover, outside director additions and removals, and decreased the likelihood of acquisitions. Finally, it was concluded that downsizing measures in Japan were associated with substantial increase in operating performance and Japanese banks and block holders performed an important monitoring function by triggering firm responses during periods of weak performances.

40. Kaplan and Weisbach, (1992), they are of the opinion that returns at the time of acquisition announcement are significantly lower for unsuccessful demergers than for successful curve-out and acquisitions not split-off. Although diversifying acquisitions are almost four times more likely to be divested than related acquisitions, he did not found strong evidence that diversifying acquisitions are less successful than related ones.

41. Karl and, Henri (1999,) focused on the valuation impact of diversification and analysed large samples of firms in Germany, Japan, and the United Kingdom for 1992 and 1994. They did not found any significant diversification discount in Germany, but a significant diversification discount of nearly 10% in Japan and 15% in the U.K. Further their research concluded that concentrated ownership in the hands of insiders enhances the valuation impact of diversification in Germany, and not in Japan or the U.K. For Japan, only firms with strong links to an industrial group had a diversification discount. Hence international differences in corporate governance affect the impact of diversification on shareholder wealth.

42. L Daley, Vikas Mehrotra, Ranjini Sivakumar, (1996), tested a prediction from the corporate focus literature that cross-industry spinoff distributions, where the continuing and demerger units belong to different two-digit Standard Industry Classification codes that created more value than own-industry spinoffs. And results indicated significant value creation around the announcement of cross-industry spinoffs. They also proved that value
creation comes from increase in operating performance, or bonding benefits, or both, where bonding refers to a pre-commitment by managers to avoid cross-subsidizing comparatively poor performing units within the firm. They observed significant increase in operating performance for cross-industry spinoffs. But could not see strong evidence of bonding to understand spinoff-related value creation. Further, the operating performance increase is related to the continuing rather than the demerge entity, consistent with their hypothesis that spinoffs create value by removing unrelated businesses they put forward the case very clearly.

43. Leimeister (2008); and Faehling (2009). These studies identify that, given the severe time pressure in demergers; companies rely on a phased approach of systems disintegration: first a separation of data (logical separation) followed by a separation of the specific systems themselves (physical separation). Another study considers IT related challenges that companies face in emerges as well as antecedents of those challenges.

44. Lipsey, (1997), studied the Indian scenario of corporate restructuring especially demerger and the reasons for the same. According to his study corporate restructuring has enabled thousands of organizations around the world to respond more quickly and impassively to new opportunities and unexpected pressures, thereby re-establishing their competitive advantage. In India, corporate houses have recently witnessed an increase of restructuring indifferent organizations. He stated that the main reasons for the sudden momentum to restructure in India were the shackling of strict MRTP, new government policy of relicensing, increased competition, also mounting pressure on margins have necessitated higher volume of business, resulting in mergers and acquisitions or the grand concentration of strategy has led to demergers of non-profitable businesses, and all round resource optimization in existing businesses to streamline operational profit and to stay fit in competition. When the market prices of shares are rising, the companies like to use their shares to acquire other companies. Acquisition is a process of taking over companies and in a market of falling prices, mergers and initial public offers are less popular and the merchant banks, who normally earn their fees from corporate activity, start to look at demerger possibilities of their clients.
45. Lloyd (1997) compiled a significant selection of the key papers published by the Journal on the subject over the past 30 years. It states that huge amounts of money is gained and lost through activities related to Mergers, Acquisitions, Demergers, Buyouts and Alliances. It is a major management activity in many in both the private and public sectors organisations, in almost all parts of the world. It identifies a vast difference between those organisations who seem to operate these processes successfully and those who do not.

46. Lorenz, Andrew, (1997), discussed the case of demerger of Granada a British company that deals with hotels and media business. Raised a doubt whether Granada should remain as a much enlarged conglomerate that uncomfortably straddles the media and leisure sectors as the working mind behind both the business are known for their team work so demerger will also means separation of team. So threw a light on informal relation in organisation and impact of the same after demerger. By taking this case the article discusses about the pros and cones of adopting demerger. It tries to compare whether it would be better to stay together as a giant business house or is it better to diversify and demerge.

47. Madura, and Murdock, (2012), found that in general, parents experience an increase in risk following divestitures, although the specific increase is conditioned on the form of divestiture and the type of proxy used to measure risk. The increase in risk following divestitures is generally higher for carve-outs than for asset sell-offs. The increase in risk in response to all forms of divestitures is more pronounced when parents eliminate related assets than when they eliminate unrelated assets, and when parents increase their financial leverage. Overall, findings suggested that the shift in parent risk is associated with the remaining asset and liability structure of the parent. This implies that the parents have much control over the degree to that the divestiture will change their risk, based on the types of assets divested (whether related to parent's remaining assets), and the liability structure of units divested (the amount of debt that the parent transfers to the unit).
48. Moeller, Schlingemann, (2005), provided empirical evidence on how cross-border acquisitions from the perspective of an US acquirer differ from domestic transactions based on stock and operating performance measures. Large sample was tested and controlling for various factors. They identified that US firms who acquire cross-border targets relative to those that acquire domestic targets experience significantly lower announcement stock returns of approximately 1% and significantly lower changes in operating performance. Stock returns were negatively associated with an increase in both global and industrial diversification. Cross-border takeover activity had increased during that decade and the observed difference in bidder gains was more pronounced for late 90’s. It was concluded that bidder returns are positively related to takeover activity in the target country and to a legal system offering better shareholder rights. With the exception of the UK, the target country’s degree of economic restrictiveness is negatively related to bidder returns.

49. Msolli Badreddine, (2014), talked about the new technologies and obsolete situation of old economy. Their research work aims to highlight an instrument that has been discarded by the French financial system during period when British, German and American markets grew. That allowed new acquisition means and to increase value creation. And the result was tracking stock issuance faces other rival forms of restructuring (spin-offs, demerger and equity carve-outs). Consequently, they identified that the factors that companies had to consider when choosing tracking stock restructuring. According to authors the goal of value creation is achieved by reinforcing an internal capital market weakened by a pointless diversification strategy and also by improving company’s performance.

50. Mulherin and Boone (2000) studied the acquisition and divestiture activity of a list of over 1000 firms from 50 different industries during the 1990-99 periods. Consistent with the importance of restructuring activity during the 1990s. They identified that half of the sample firms practiced in a major divestiture. Consistent with the notion that economic change is a source of the observed restructuring activity, they found significant industry clustering in both acquisitions and divestitures. The announcement impacts of the two forms of restructuring also increase shareholder wealth. Moreover, the wealth effects of
both acquisitions and divestitures are directly proportional size of the event. The symmetric, positive wealth effects for acquisitions and divestitures are aligned with a synergistic explanation for both forms of restructuring. They are also inconsistent with non-synergistic ideas based on entrenchment, empire building and hubris.

51. Nixon, Roenfeldt, and Sicherman, (2000), discussed about the various factors that influence the decision of management to opt the appropriate demerger strategy. The authors are of the opinion that deciding to divest some assets is an important decision in accomplishing corporate objectives. Spin-offs and sell-offs are two major methods of divesting assets, and the consequential impact of each on the divesting company are considerably different. The authors examine divesting-company characteristics that may influence the choice between a spin-off and a sell-off. Financial distress that is measured by the interest coverage ratio is found to be a major motivation behind the choice to sell off rather than to spin off units. The number of directors on the board, whether the CEO is also the board chair, and the size of the divested entity are important determinants of the choice.

52. PaCusatis, Miles and Woolridge, (1993) investigated the value created through spinoffs over the 1965–1988 period by measuring the stock returns of spinoffs of their parent firms, and parent-spinoff for periods of up to three years following the spinoffs. They saw substantial increase in abnormal returns for spinoffs, their parents, and the spinoff-parent combinations. Both the spinoffs and parents experience an unusually high degree of takeovers and the abnormal performance is restricted to firms involved in takeover activity. Finally they suggested that spinoffs lead to a low-cost method of moving corporate assets control to bidders who would create greater value.

53. Paul (2003) evaluated the valuation of the swap ratio, the announcement of the swap ratio, share price fluctuations of the banks before the merger decision announcement and the impact of the merger decision on the share prices. He analysed the merger between the Bank of Madura of 57 years which focused on mass banking strategies based on social objectives, and ICICI Bank, a six year young bank, that focused on profitability in the interests of investors. It was concluded that synergies generated by the merger would
include improve financial capability, customer base, branch network, and better technology. However, the difference in work ethics in the two organizations made managing rural banking difficult.

54. Rewinkel, (2014), researched about the value creation of demerger mainly based on the US market and the European market. His thesis conducts a research on the market in for the period after 2000he also mentioned that earlier research on the topic showed positive abnormal returns around the equity carve-out announcement period. The long-term evidence presents mixed results for both parent and subsidiary returns. He tested long term wealth impact of demerger. And analysed the determinants of value creation. The results show positive short-run wealth impacts and negative long-run wealth impacts. He is strongly of the opinion that there are differences between countries based on law origin or shareholder rights.

55. Roni and Shaw, (1995), analysed how firms choose between a spin-off and an equity carve-out as a way to divest assets. Considering a list of 91 master limited partnerships that were issued to the public. They identified that riskier, more leveraged, less profitable firms choose to divest through a spin-off. The spin-off firms were smaller and less profitable than the carve-out firms. They suggested that the choice is affected by a firm's access to the capital market: Greater scrutiny and more stringent disclosure are required in carve-outs rather than in spin-offs. They contradict earlier findings that management attempts to leave undervalued assets in the hands of current investors or that parent organizations' need for cash are the driving motives behind the divestiture choice. But supported the argument that operating efficiencies can be a reason for these transactions. Both spin-off and the carve-out firms underperform the market by a wide margin. The spin-off parents experienced significantly poor performance, while carve-out parents' performance was commensurate with their control groups.

56. Saple V. (2000) finds that the target firms were better than industry averages while the acquiring firms had lower than industry average profitability. Overall, acquirers were high growth firms that had improved the performance over the years prior to the merger and had
a higher liquidity. The paper basically deals with the comparison of firm’s performance with the industry average before and after merger or diversification. It also helps to understand how a restructuring strategy would help speeding up the firm’s performance.

57. Schipper and Smith (1986) stated that equity carve-outs result in divestiture gains because of independent financing for the subsidiary's investment projects, improved contracts between investors and managers, and the generation of pure-play stocks. The authors provide no proof with respect to divestiture gains explanation except for observed announcement returns.

58. Schipper, and Smith, (1983), investigated the impact of voluntary corporate spin-off announcements on shareholder wealth. A significant positive share price reaction is documented for approximately 100 voluntary spin-off announcements between 1963 and 1981. They identified that shareholder gains did not appear to come wholly at the expense of bondholders, but the gains to investors arises from tax and regulatory advantages and/or improved managerial efficiency resulting from the demerger.

59. Tanriverdi and Dus (2009) identified that corporations with higher demerger intensity are more likely to become non-compliant with Sarbanes-Oxley-Act due to the level of ongoing change in the IT environment. A follow-up study by the same researchers identifies that transitional service agreement that allow the parent company to provide IT services to the curve-out following the closing of a demerger can have performance impacts on the carve out company.

60. The McKinsey Quarterly magazine (1999) discussed about how restructuring through spin-offs, equity carve-outs and tracking stocks can create gains for investors. Equity carve outs in the parent company that retains majority ownership outperform with an average annual total return to investors (TRS) in the two years after issue of 24% as compared with 11%. Spin-offs also substantially outperform the market, showing a two-year annualized TRS of 27%, compared with 14% and 17% for different indices. Overall average improvement in the P/E of the consolidated parent and subsidiary outperformed the market by 21%.
61. Whelan, Robert K.; Joncas, Pierre, (2005,) talked about bureaucracy faced by the company for demerger that adversely affected profit of the organisation there was a huge ruckus created by opposition before and after passing of law. Few highlights of the reforms were such as “There is to be an independent assessment of the costs, service impacts, advantages and disadvantages of demerger”. Secondly “The results of the studies are to be made available to the public.” And also it requires a simple majority (50% plus) of votes cast. To safeguard the interest of stake holders.

62. Wu, Delios and Andrew (2009), examine the role of stakeholders as an influence in the practice of portfolio restructuring. They contend that with the presence and creation of new legal arrangements and regulations, portfolio restructuring achieved widespread usage, but only when the initiatives were consistent with the interests of the most powerful social actors in a firm. Building on a stakeholder power approach to corporate governance, they tested whether the interests of relational banks, managers, and business groups were consistent with the practices of portfolio restructuring they observed Japanese firms in the 1998 to 2005 period. Regressions using data on 174 Japanese machinery firms lend support to predictions that portfolio restructuring increases in frequency with the extent to that business groups' strategies were facilitated and decreases with the degree to that banks' interests were protected. The association between the frequency of portfolio restructuring and managerial interests depends on the level of managerial ownership.

2.3 AT NATIONAL LEVEL:

This part of the chapter deals with review of literature at national level. Since the researcher has undertaken a case study of Indian demerger it is important to study the Indian aspects of the same and hence research work in India relating to restructuring activities were studied thoroughly and highlights of the same are listed as follows:
63. Agrawal, Jaffe and Mandelke (1992) examine the merger issue with huge list of mergers between NYSE acquirers and NYSE/AMEX targets. They identified that investors of acquiring firms experience around 10% loss over the five-year post-merger period, a result robust to various specifications. Their evidence suggests that neither the firm size impact nor beta estimation problems are the cause of the negative post-merger returns. They examine whether those result was caused by a slow adjustment of the market to the merger event. Their results did not seem consistent with the above hypothesis. And It was concluded that merger or demerger does not affect performance.

64. Beena P.L (2000) attempts to analyze the significance of merger and their characteristics. The paper establishes that acceleration of the merger movement in the early 1990s was accompanied by the dominance of merger between firms belonging to the same business group of houses with similar product line. It lists down the various private sector companies who adopted merger as a part of their growth strategy.

65. Bhagbole, (2013) had touched the aspect of Marketing, studied the impact of this demerger on the Hero group particularly the Hero brand. Specifically, they limited the scope of their research to a Brand Image Study they looked into whether there is any change in the decision-making process for consumers while buying a Hero bike in the future and finally analysed the Ad-Campaign Impactiveness of the “Hero Group” campaign. They analysed that the share price of Hero stock gained immensely renewing confidence in the brand, however there were concerns regarding sustained growth in the long-term. This is because Hero group will face increased competition from new entrants and there were concerns regarding the technological capability of Hero without Honda. It was concluded that Hero Honda ranked higher than Hero group on Brand Image that is an area of concern for Hero’s management however Hero’s positioning on Style was found to be greater than that of Hero Honda. And further he recommend that Hero group should focus on developing their technical capabilities and quality standards in a big way keeping Style and Quality in mind in order to attract the growing youth segment of this country.
66. Bharadwaj, (2000), also explored the information technology aspect of demerger he was of the opinion that prior academic work in this field had focused almost exclusively on post-merger integration of information technology. One group of academic researchers explores the basic structures of IT disintegration operations and success factors and also offers the first considerations of a process of IT separation activities.

67. Biyani, (2006) stated that demerger is undertaken basically for two reasons. First as an exercise in corporate restructuring and the second is to give impact to kind of family partitions in case of family owned enterprises. A de-merger is also done to help each of the segments operate more smoothly, as they can focus on a more specific task. Further in his findings he stated that earlier demergers were used to dismantle conglomerates after it became apparent that the costs of running such organizational structures outweighed the benefits in the economic environment. The dismantling of conglomerate’s argument is widely based on the idea of removing inefficient organizational structures and hence the elimination of negative synergies. From an organizational perspective, value can be created through the elimination of misfits in the strategic focus or organizational properties of the organization. In addition, the reduction of the size of an organization leads to an over-proportional reduction in information losses within the hierarchy. More focused units might improve access to the capital market or attract a new set of investors, thereby eliminating barriers to growth from a capital market perspective. Value creation through improvements in the role and function of the head office, improvements in the structuring of managerial incentives and more impactful market based governance mechanisms due to increased transparency.

68. Chandratrein (2010) presents the detailed information of laws and procedures in India related to corporate restructuring amalgamations, arrangements, compromises, corporate mergers and demergers, reduction of capital, buy-back of shares, variation of investors' rights, with cases, materials, forms and precedents. All the legal provisions related to corporate restructuring are explained in lucid manner. The book also lists down the step by step procedure involved.
69. Desai and Jain, (1999), examine whether an increase in focus is an explanation for the stock market gains associated with spinoffs. They took a sample of 155 demergers between the years 1975 and 1991, and their study revealed that the announcement period as well the long-run abnormal returns for the focus-increasing demerger were significantly larger than the corresponding abnormal returns for the non-focus-increasing spinoffs. The results for the change in operating performance were consistent with those for the stock market performance. Cross-sectional, the stock market performances as well as the operating performance were positively associated with change in focus. And analysed that the non-focus-increasing spinoffs showed that the firms are likely to undertake those spinoffs to separate underperforming subsidiaries from the parents.

70. Godbole (2013) gives a concise but yet comprehensive coverage of the corporate restructuring from all the angles- strategic, legal, accounting, taxation, fund raising and valuation. The book has a holistic approach in the discussion on the topic and hence proves to be of immense practical utility. The book comprises of thoroughly revised and updated relevant Indian laws, regulations and accounting standards including multiple interpretations of many provisions. It consists of over 60 numerical or situational examples to explain concepts and legal provisions. The author interprets and explains 4 comprehensive cases and 9 mini cases from the Indian corporate history and current affairs.

71. J.P. Morgan and Co. analysed 101 carve-outs between 1986 and 1997 documented that, on average, the share price of the parent rose between 3-4% in the 90 days following the announcement of a carve-out. In the case of 12 carve-out companies in that the parent announced there would be a later spin-off, the share price of the carve-out performed 11% above the market 18 months after the initial public offering.

72. J.P. Morgan study of 231 spin-offs and carve-outs between 1985 through 1998 found that during the first 18 months of trading, straight spin-offs beat the S and P 500 by 11.3% vs. 10.1% for carve-outs.
73. Jain, (1985) stated that Sell-off activities happen when a firm sells part of its assets but continues to exist in essentially the same form. His study investigated the effect of voluntary sell-offs on stock returns. From a sample of over 1000 sell-off events, he proved that both sellers and buyers earn significant positive excess returns from demerger transactions. The excess returns earned by buyers are smaller than those earned by sellers.

74. Jaina, Kinib, Shenoyc, (2009), stated two major topics being: (a) The choice of the method of vertical divestitures, i.e., equity carve-outs versus spin-offs and (b) the wealth impacts of vertical divestitures on the parent firm, rival firms, supplier firms, and customer firms. They identified that partial divestitures through demerger were more likely in the presence of explicit contractual agreements between the parent and subsidiary and in industries where relationship-specific investments are more prevalent, while divestitures through spin-offs are more likely in larger and growing industries. On examining announcement-period wealth impacts that indicate that vertical divestitures were likely to be motivated by efficiency gains. And, while product market considerations such as the reduced possibility of collusion or foreclosure appear to play no role, the increased potential for holdup after a vertical divestiture influences both the method of divestiture and wealth impacts. It was concluded that firms shrink their boundaries for efficiency reasons, and that the resulting gains to parent firms also extend to rival firms, supplier firms, and customer firms.

75. Jawa, (2009) presents the procedures and processes involved in financial restructuring of companies. The book elaborates 10 case studies with statistical analysis and brings out the major issues that actually crop up in a restructuring exercise. The practical hitches in the implementation of financial restructuring are drawn out while explaining the process involved and procedure followed in the select cases.

76. Joy, Deep and Biswas (2004) explain the trend of corporate restructuring in Indian private sector. The research focuses on Corporate restructuring in the form Mergers and Acquisitions and states that it is perhaps a desirable phenomenon in the current economic environment. In the tune with the worldwide trend, M and A have become an important
channel for FDI inflows in India in recent years. In this paper it is argued that the FDI and cross-border M and A’s are not alternatives in developing countries like India.

77. Kale and Singh (2004) concluded that in the initial years of economic liberalization, Indian companies failed to create sufficient value from acquisition, as compared to Multi-National Companies. The increase in Competition, rapid advances in technology, more demanding investors, more flexible workforces and rising complexity of the business conditions have increased the burden on managers to deliver superior performance and value for their investors. They further pointed out that as per the modern economic scenario of “winners take all”, companies have to take a timely responsive action to save their organizations. And advised to think following point of view before putting them in to the action “Will restructuring work?” and “When does restructuring improve economic performance?” It has enabled numerous organizations to respond more impactful to new opportunities and unexpected pressures so as to re-establish their competitive advantage.

78. Krishnaswami, Subramaniam, (1999), analysed information-related motivations for firms demerger through spin-offs. They were of the opinion that the separation of a firm's divisions into independently traded units through a spin-off improves market valuation by negating information asymmetry about the firm. And proved that firms that engage in spin-offs have higher degree of information asymmetry before to the spin-offs with respect to their industry and size matched counterparts. Further, the asymmetry problems decrease substantially post spin-offs. Their literature argued that by separating unrelated divisions, spin-offs reduce negative synergies between divisions and improve the focus in firms' operations; the likelihood of a spin-off was increase of asymmetry and diversification in firms. They suggested that spin-offs may be partially anticipated by the market; therefore they compute the anticipation-adjusted announcement period abnormal returns to identify the total gains from a spin-off. Their results indicate that information-related motives are especially important in explaining the anticipation-adjusted abnormal returns, when firms spin off related subsidiaries. Finally it was concluded firms that have higher growth opportunities and firms want external capital have high likely to spin-offs, even though spin-offs themselves generate no new capital for the firms.
79. Kumar (2009), analysed the post-merger operating performance of a sample of 30 acquiring companies involved in merger activities during the period 1999-2002 in India. The study attempts to identify synergies, if any, resulting from mergers. The ratio analysis is used as a tool to analyse the performance of the companies. The study uses accounting data to examine merger related gains to the acquiring firms. It was found that the post-merger profitability, assets turnover and solvency of the acquiring companies, on average, show no improvement when compared with pre-merger values.

80. Nanda (1991) in an extension of Myers and Majluf (1984), develops a signalling model in that firms raise capital through equity carve-outs when parent firm shares are relatively undervalued and subsidiary shares are relatively overvalued. It is observed that the parent shares are not overvalued, at least when compared to subsidiary valuation. Since the parent is typically several times larger than the subsidiary, this leads to an increase in parent share price. This model suggests how equity carve outs can be used to magnify the share prices of the parent company. It shows the comparison of share valuation of parent company and subsidiary company pre and post carve outs.

81. Narzareth (1999) stated, corporate restructuring is the most powerful tool available for those companies that are in horrible straits. The most possible thing for these companies is to ‘restructure” their operations so that performance may improve. Some of the steps include hiving-off of the subsidiaries, merging loss-making units with profitable ones, demerger of company etc, among others. The study throws light on practicability of merger and other ways of restructuring? Are they really working? Of the merger in Indian corporate sector since last two years, none can highlight that mantra of corporate strategy by mergers is working.

82. Paul (2003) evaluated the valuation of the swap ratio, the announcement of the swap ratio, share price fluctuations of the banks before the merger decision announcement and the impact of the merger decision on the share prices. He also attempted the suitability of the merger between the 57 year old Bank of Madura with its traditional focus on mass banking
strategies based on social objectives, and ICICI Bank, a six year old ‘new age’ organisation, that had been emphasizing parameters like profitability in the interests of investors. It was concluded that synergies generated by the merger would include increased financial capability, branch network, customer base, rural reach, and better technology. However, managing human resources and rural branches may be a challenge given the differing work cultures in the two organizations.

83. Pawaskar (2001) studied the impact of mergers on corporate performance. He compared the pre- and post- merger operating performance of the corporations involved in merger between 1992 and 1995 to identify their financial characteristics. The regression analysis showed no increase in the post- merger profits. The study showed that the merging firms were at the lower end in terms of growth, tax and liquidity of the industry and better in profitability.

84. Puri (2008) opined that Business Restructuring in India has been slow and expensive. Due to a complex tax framework, lack of favorable regulatory environment, court processes and an unending list of compliance issues slow down the process and prevent efficient and forceful reallocation of resources through restructuring. The study reveals the procedural hindrances in the process of corporate restructuring that has resulted in slow growth in the number of companies opting for it in India as compared to number in developed countries.

85. Sathe (1989) comprehensively gives analysis of the evolution and the subsequent growth of the public sector in India. While critically examining their shortcomings and explaining the reasons for such shortcomings, he also lists down his suggestions for enabling this sector to attain ‘commanding heights’ as visualized by late Pandit Jawaharla Nehru. The performance of public sector has always been an important instrument of social change in India. Hence its very important to consider how to overcome its shortcomings. The author has suggested restructuring of this sector as the ultimate remedy. The book signifies the importance of restructuring strategy to revive the public sector growth rate.
86. Shinghvi, (1984) attempts for exhaustive review of literature on demerger. The researcher states that given the strategic importance and occurrence rate of demergers, academic research was surprisingly limited with regard to demergers. Similar to the merger and acquisition literature, considerations of demerger first started in the academic field of finance. Finance literature provides mixed results with regard to financial performance of demerging firm. The study of limited research available on the topic of demerger does not give a clear conclusion about impact of demerger on financial performance of the company. In some cases it has proved to be positive whereas in some it has been proved to have no direct impact due to multiple factors influencing the performance of the company.

87. Singh, Bhowal and Bawari, (2009) studied the case of Camlin Limited. This had shown significant difference in the shareholder’s wealth before demerger and after demerger. In 80% of their sample, there was negative synergy in their diversified business. The comparison of investor’s wealth in pre demerger period with post demerger period of Camlin Ltd was done and it could be seen that it had increased significantly. Thus, due to demergers or spin-off the companies were successful in getting proper valuations of their various diversified businesses. Presently demergers create enormous wealth for investors. However, he suggested that investors should differentiate between sincere attempts at value creation and de-mergers undertaken to create hype around the stocks.

88. The Hindu, nationalised newspaper, (2005) stated about special trading session for Reliance Industries Limited. To discover the post-demmerger price of Reliance, the BSE and NSE had jointly decided, a special one-hour trading session was conducted on 18th January 2005 from 8 a.m. to 9 a.m. Only equity shares of Reliance were traded and without a circuit filter. The volume weighted average price such discovered was used for adjustment to the base market capitalisation of the respective indices. No index was calculated during the special trading session. Also, the trades done for Reliance during the special trading session were settled with the normal market trades of same day. The exchanges could not post demerger as the newly created entities from demerger were not registered with the exchanges.
89. V. Nilakant and S. Ramnarayan (1998), offers practical insights into managing change in a globally competitive environment by drawing upon and integrating current theories, models and experiences of companies in India and abroad. The authors emphasize on both what organizations need to change and how they should go about it. It explains the change strategy to be adopted by the management to deal with organisational change. Change is the only constant thing and it is crucial to manage the change in the right manner.

90. Vanitha. S (2007) analysed the financial performance of the merged companies, share price reaction to the announcement of merger and acquisition and the impact of financial variables on the share price of merged companies. The paper deals with the cases of mergers and acquisitions in the manufacturing industry and highlights how the share prices are influenced with the news of such merger and also studies its impact on financial performance. The researcher found that the merged company reacted positively to the merger announcement and also, few financial variables only influenced the share price of the merged companies.

91. Vanitha. S and Selvam. M (2007) analysed the pre and post-merger performance of Indian manufacturing sector during 2000-2002 by considering a list of 17 companies out of 58 (thirty per cent of the total population). For financial performance analysis, they used ratio analysis, mean, standard deviation and ‘t’ test. To judge the performance of company researchers have listed 13 variables. They identified that the overall financial performance of merged companies in respect of 13 variables were not significantly different from the expectations.

92. Verma (2005) discussed confusion among fund managers, Foreign Institutional Investors and traders who follow the BSE Sensex and the NSE Nifty index, on how to balance their portfolio after demergers and decisions regarding shares of new companies, that wouldn’t be traded for some time. The article explains the stand of investors in the event of demerger. It highlights the uncertainty and unpredictability of stock market prices.
2.4 CONCLUSION:

It is observed from the above list of review of literature, that there is very limited research available on the topic of demerger in Indian context. Researcher could collect certain international studies related to demerger and which has paved a guiding path for the current study. Studies reveal various legal provisions and taxation matters relating to demerger hence researcher had taken up the objective to study all legal, taxation and accounting aspects of demerger in detail. Extensive review of literature has helped in framing the hypothesis for the study. Past studies show that the demerger has impact on investor’s wealth hence researcher had framed hypothesis stating that demerger has a significant impact on the shareholders wealth. There are studies that emphasize the importance of human resource management during the process of demerger and therefore researcher had framed a hypothesis stating demerger has significant impact on employees. The studies have revealed the impact of release of corporate news especially news of corporate restructuring on the movement of prices and volume on stock exchange and hence researcher had framed hypothesis stating mean stock market price and turnover pre demerger is less than that in post demerger period. The other companies’ case studies have helped in drawing a frame work for the study. The newspaper articles on Reliance demerger have thrown light on insights of the Reliance Industries Ltd’s demerger. Though the study is focused on case study of demerger of Reliance Industries Ltd, the researcher has given the base for study in the following chapter explaining the conceptual framework of the study.
References:


CHAPTER 3

CONCEPTUAL FRAMEWORK
CHAPTER 3
CONCEPTUAL FRAMEWORK

3.1 INTRODUCTION:

The first objective of the study is to generate understanding about demerger as a tool for corporate restructuring and this chapter helps is fulfilling this objective by explaining the various concepts related to demerger. This chapter deals with the understanding of various concepts and terminologies used in the study. Various definitions given by relevant statutes have been listed and some of the terms not defined by statutes have been explained in a lucid manner. Demerger being a technical concept has been explained in detail and also how is it different from other forms of corporate restructuring.

The study is in the form of case study of Reliance Industries Ltd’s demerger and hence the basic scheme document of RIL demerger has been summarized in this chapter. The brief profile of the resulting companies along with demerged company RIL is also stated to generate background for the study.

3.2 CORPORATE RESTRUCTURING:

Restructuring: - As per oxford dictionary the term restructuring means to give a new structure, to rebuild or rearrange.

The term business restructuring is made up of two terms ‘business’ and ‘restructuring’. The word business comprises of trade, commerce, manufacture, etc and the word restructuring means rearranging. Hence business restructuring can be defined to be process by which business enterprises rearrange their affairs. To face the strong competition in this dynamic world, corporate have to continuously be on their toes to look for possible competitive advantage through various strategies.

Corporate restructuring can be defined as any change in the business capacity or portfolio that is carried out or a change in the capital structure of a company or any change in the ownership or control over the management of company. In today’s dynamic competitive world, companies are constantly researching on various options by which
shareholders value can be enhanced by changing the composition of their assets, liabilities, equity and operations. All these attempts channelized as strategies are referred to as restructuring strategies. Such alterations could be growth strategies or exit strategies. Corporate restructuring means any sort of change that company undertakes to enhance its operations and value. “Change is the only constant thing”. Hence company undertakes many significant changes and such change strategies are categorized as corporate restructuring. Corporate Restructuring implies a significant alteration of the business capacity or activities carried out by the business, or a drastic change in the ownership or management of the business entity (Hildebrandt, 2004).

Various types of corporate restructuring strategies are as follows: (Dr. Chandratre, 2010)

Financial Restructuring: It indicates re-organizing the financial aspect of the business, that is, the liabilities and funding of the business. It could be achieved through buy-back of securities, debt re-structuring, etc.

Amalgamations, mergers, de-merger and joint ventures.

Technological Restructuring: A business entity looking for a major upgrade in its technology may form a strategic alliance with a technologically advanced entity.

Marketing Restructuring which encompasses a change in the strategies and policies related to the products and market segments.

Organizational Restructuring which refers to a change in the internal management of the company with a view to drastically change the policies and approach of the business entity.

Important forms of Corporate Restructuring: (Gaughan, 2002)

**Merger:** It refers to the takeover of two or more companies by an existing business entity which will combine the assets and liabilities of the companies so taken over, with its own assets and liabilities. The companies whose business has been taken over will be effectively liquidated and lose its existence. It is also known as absorption.

**Consolidation:** It means floating a new company to take over the business of two or more companies. The companies which are taken over will cease to exist. The purchasing
company will take over the assets and liabilities of the existing companies on a going concern basis.

**Acquisition:** It refers to an existing company purchasing a significant investment in another company, which gives them a controlling interest over the other company. Both the companies involved retain their respective entities, with the purchasing company getting a large shareholding in the target company.

**Divestiture:** It refers to the sale of all the assets or effectively all the assets of a business or unit for cash. It is also referred to as a slump sale, since the amount of sale price is a lumpsum compensation for all assets without specific reference to selling price of individual assets. In this case, the transferor company retains its identity.

**Carve Out:** It refers to the transfer of all assets, liabilities and business related to one of the undertakings of a company to its wholly owned subsidiary company.

**Joint Venture:** It refers to the investment in the equity share capital of a new company by two or more companies in a pre-determined ratio. The two contributing companies generally intend to carry out a common business activity or venture.

**Reduction of share capital:** It refers to the reduction of liabilities or share capital or their cancellation with a view to improving the financial position of a company. It is subject to provisions of section 100 of the Indian Companies Act, 1956.

**Buy back of securities:** It is a process by which a company purchases its equity capital, subject to certain limits and provisions governed by section 77A, 77AA and 77B of the Indian Companies Act, 1956. Such a reduction, also called buy-back of equity, is done with a view to reduce the excess capital in case of overcapitalisation.

**Delisting of Securities:** It refers to the removal of some or all of the securities of a company from trading on any or all the stock exchanges.

3.3 **DEMGER:** (Dr. Chandratre, 2010)

It refers to the splitting up of a company into two or more business units, without a change in the financial position of the stakeholders. It can be done in the following ways:
**Spin Off:** It refers to the transfer of all assets or effectively all assets, liabilities and business of one of the business units to another company. The purchasing company issues shares to the shareholders of the transferor company proportionately. Such a transfer of assets and liabilities is done on a going concern basis.

**Split up:** It refers to the sale of all assets or effectively all assets, liabilities and business to two or more companies in exchange for shares of the purchasing company being issued to the shareholders of the transferor company. However, the transferor company does not retain its identity, unlike in the case of a spin off.

**Split off:** It refers to the sale of all assets or effectively all assets to two or more companies in exchange for shares in the purchasing company. However, the shares in the purchasing company are not given to all the shareholders of the transferor company. It is a method of realigning the shareholding of the promoters.

De-mergers can be partial or complete.

Partial De-merger: It refers to the transfer of only some of the undertakings of a business to the purchasing (resulting) company. The transferor company does not cease to exist since only some of the undertakings are transferred while some are retained.

Complete De-merger: In this case, all the undertakings of the transferor company are transferred to the resulting company and as a result, the transferor company loses its existence.

**Some related terminology:**

**Divestitures:** In case of divestitures there is a sale of segment of company to an outsider in consideration of cash or shares.

**Equity carved out:** Only some shareholding of subsidiary company is sold out to public and parent company continues to hold control over subsidiary company.

Demerger normally can be executed in two forms:
i. Direct sale of the part of business where the consideration is directly received by the selling company and profit or loss of the undertaking becomes part of capital account.

Or

ii. The consideration can also directly be paid to the members of the selling company and in return selling company deducts the net assets to the extent of the amount directly paid to members. Scheme usually provides for simultaneous reduction of capital also.

3.3.1 Definitions of Demerger:

Different authors and authorities have defined Demergers in different ways few of the important ones are listed below:

(a) According to Victoria Strong, "Broadly, a demerger refers to a situation where an entity undertakes a reorganization of its operations and structure, leaving its members in the same economic position as they were immediately before the reorganization. It is a form of structural readjustment for corporations in which a corporate or trust group splits into two more entities or groups. In such cases, the underlying owners of the head entity will directly control each of the demerged entities or groups. Effectively, ownership of the demerged entity is passed from an indirect ownership by the shareholders of the head entity to a direct ownership of the demerged entity."

(b) In the words of Agawam, "a demerger is a form of restructure in which investors in the head entity (for example, shareholders or unit holders) gain direct ownership in an entity that they formerly owned indirectly (the 'demerged entity'). Underlying ownership of the companies and/or trusts that formed part of the group does not change. The company or trust that ceases to own the entity is known as the 'demerging entity'. The entity that emerges has its own board of directors and, if listed on a stock exchange, have separate listings. The purpose of demerger is to revive a company's flagging commercial fortunes, or simply to lift its share price."

(c) Nazia Hasan, Bosky Agarwal, Shalini Bansal & Shwetansh Chandra defined demerger as “A corporate strategy to sell off subsidiaries or divisions of a company is called demerger.”
(d) The Companies Act, 1956: “The expression 'demerger' is not expressly defined in the Companies Act, 1956. However, it is covered under the expression arrangement, as defined in clause (b) of Section 390 of Companies Act. Division of a company takes place when:
Part of its undertaking is transferred to a newly formed company or an existing company and the remainder of the first company's division/undertaking continues to be vested in it; and
Shares are allotted to certain of the first company's shareholders.”

(e) The Income Tax Act: Demerger has been defined in Sub-section (19AA) of Section 2 of the Income-tax Act, 1961. According to the said Sub-section, demerger in relation to companies, means transfer, pursuant to a scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956, by a demerged company of its one or more undertakings to any resulting company in such a manner that:

i. All the property of the undertaking being transferred by the demerged company, immediately before the demerger, becomes the property of the resulting company.

ii. All the liabilities relatable to the undertaking, being transferred by the demerged company, immediately before the demerger, become the liabilities of resulting company of virtue of the demerger.

iii. The property and the liabilities of the undertaking, being transferred by the demerged company are transferred at values appearing in its books of account immediately before the demerger;

iv. The resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis;

v. The shareholders holding not less than three fourths in value of the share in the demerged company (other than shares already held therein immediately before the demerger or by a nominee for, the resulting company or, its subsidiary) become shareholders of the resulting company or companies by virtue of the demerger.

vi. The transfer of the undertaking is on a going concern basis;
vii. The demerger is in accordance with the conditions, if any, notified under Sub section (5) of Section 72A of the Income Tax Act 1961 by the Central Government in this behalf.”

3.3.2 SWOT analysis of Demerger:

To analyze the concept of demerger from various angles researcher has listed various strengths, weakness, opportunities and threats related to demerger. The summarized results of SWOT analysis are presented below.

Table 3.1 SWOT analysis of demerger

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
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<tbody>
<tr>
<td>i) Unlock the full potential of the business by creating different companies</td>
<td>i) Anxiety amongst employees in course of creating departments.</td>
</tr>
<tr>
<td>ii) Increase the valuation of wealth of shareholders</td>
<td>ii) Delay in finalization of deals</td>
</tr>
<tr>
<td>iii) Attract the investors</td>
<td>iii) Sometime sudden change in management and organization vision creates a gap leaving certain capacity idle and promoting inefficiency in utilization of resources.</td>
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</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
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<tbody>
<tr>
<td>i) Restructuring is an attempt to relax some or all of the short run constraints which is concerned with changing structure in pursuit of long run strategy.</td>
<td>i) Difficult to tap credit / funds</td>
</tr>
<tr>
<td>ii) Can focus on core business</td>
<td>ii) Losing the synergy</td>
</tr>
<tr>
<td>iii) Scope for independent collaboration and expansion</td>
<td>iii) Misconception in the minds of investors about the stability of resulting company</td>
</tr>
</tbody>
</table>

Source: Appraisal based on ROL
3.3.3 CONCEPT OF DEMERGER

To explain the concept of demerger in a very lucid manner, researcher has explained demerger with the help of chart 3.1 given below. As it can be seen from the below given pictorial presentation of the concept of demerger how the undertaking of a company is split from the demerged company and it becomes a separate identity as a resulting company. In the above example researcher has considered a company X having 4 undertakings A, B, C, D, and hypothetically having two shareholders with shareholding of 60% and 40%. The company X opts for demerger to transfer its undertaking A and B to the resulting companies namely company A & Company B. The point to be noted is shareholders holding patterns remains same in the resulting companies also. In real life there can be ‘n’ number of shareholders of demerged company who will be issued proportionate shares in resulting company according to the exchange ratio specified in the scheme of demerger. The demerged company X continues to be in existence with remaining undertakings C and D.

Chart 3.1 Concept of Demerger

PRE DEMERGER

Shareholder - 1
60%

Shareholder - 2
40%

COMPANY X

Undertaking A

Undertaking B

Undertaking C

Undertaking D
**3.4 MEANING OF OTHER TERMS**

1) **Shareholders:**

Any person who holds a part of the company in form of shares is termed as shareholder. A shareholder is entitled to profits or losses based on the performance of the company. A shareholder also has the right to vote on performance of the management of the company and also has the right to elect the directors to run the company. The voting rights are in proportion to the percentage of shareholding(www.investopedia.com).

2) **Employees:**

Any person who works for remuneration paid periodically and has entered into contract with the company to fulfill duties assigned. The employees can be part time or full time based on terms of contract.
3) **Share Capital:**

Share capital is ownership of company transferred to an individual for cash exchange. The Share capital of a company can change time to time based on new shares issues or any buyback of shared done by the company (Business dictionary)

4) **Corporate restructuring:**

Corporate restructuring means any modifications done in the current structure of company or debt or business verticals. These type of exercise is normally carried out by a company to either solve financial crisis or to meet the changing needs or dynamics of the market (Lloyd, 1997)

5) **Auditors:**

Auditor is defined as an independent entity to check the books of accounts of a company for its true and fair nature. This entity also ascertains if the business is being run ethically and there is no going concern issues. The entity so appointed by the shareholder to acts as guardian to their interest is termed as Auditors (www.businessdictionary.com)

6) **Directors:**

Director is the head of the organization elected to carry out daily activities to ensure running of the organization. Corporations have board of directors who normally together take decisions on several day to day important matters. A company director does not have to be a stockholder (shareholder) or an employee of the firm, and may only hold the office of director (see qualifications for directors). Directors act on the basis of resolutions made at directors' meetings, and derive their powers from the corporate legislation and from the company’s articles of association (Legal dictionary)

7) **SEBI:**

Securities Exchange Board of India in India was created with view to maintain and regulate the investment markets. They work on guidelines and policies created by govt. of India and have to ensure that all corporates adhere to the policies.
The Securities and Exchange Board of India is similar to the U.S. SEC. The SEBI is relatively new (1992) but is a vital component in improving the quality of the financial markets in India, both by attracting foreign investors and protecting Indian investors (The Securities and Exchange Board of India Act, 1992)

7) **Companies Act:**

The Companies Act 1956 is an Act of the Parliament of India. It enabled companies a common platform for registration and also provided set of rules for the people governing the companies (Dutta, 2008)

Since its commencement, it has been amended many times, in which amendment of 1988, 1990, 1996, 2000 and 2011 are notable.

8) **Income Tax Act:**

The Income-tax Act, 1961 is primarily responsible for governing rules with regards to direct taxes to be paid by individuals and corporates. Recently the Government of India has brought out a draft statute called the "Direct Taxes Code" intended to replace the Income Tax Act, 1961 and the Wealth Tax Act, 1956 (Dr. Ahuja, Dr. Gupta, 2014)

9) **ESOP:**

An employee stock ownership plan (ESOP) is a form of remuneration for the employees by giving them part ownership of the company. This acts as a motivation for employees to improve their performance. The ESOP’s can be sold by the employee after he completes particular no. of years as per contract with the company. The Esop for tax purpose is considered as part of income of the employee (Rosen & Rodrick, 2013)

10) **Employee morale:**

Employee morale is the mental state of an employee and the satisfaction achieved by him while discharging his duties for the company. The better the morale .more dedicated and faithful employee he will be. Low morale leads to reduced concentration and poor customer service and missed deadlines (Ewton, 2007).


11) **NSE**: The National Stock Exchange is India's largest financial market. The volume traded on NSE ranks third in the world. NSE has one of the most sophisticated electronic traded exchanges (www.nseindia.com)

12) **BSE**: The Bombay Stock Exchange was India’s first stock market established in 1875. BSE in terms of companies listed, is one of the world’s biggest market place for trading of shares. BSE has been instrumental in developing India’s capital markets (www.bseindia.com)

13) **Stock Market**: The market in which shares of publicly held companies are traded either through exchanges or OTC markets. It is one of the most important aspects of the free economy, as it gives companies access to capital without interest and in turn they are able to sue funds to grow companies and shareholders’ value. The stock market has helped people grow small initial sums of money into large ones, and to become wealthy without taking the risk of starting a business or making the sacrifices that often accompany a high-paying career (Gupta, 1989)

14) **Price**: A sum that will allow exchanging a product of service for a defined value. The share market price means the value of share quoted on stock exchange where the company’s shares are listed.

15) **Turn Over**: The number of value of goods and services traded by a company during a financial period. Share turnover means the number of shares traded for a period as a percentage of the total shares in a portfolio or of an exchange.

13) **Share Holders Wealth:**

Shareholders wealth is the present value of the investments made by the shareholder in the company and also the expected future returns in forms of dividends and bonus shares for the shareholder. In a simple sense shareholders wealth is also calculated as number of shares held multiplied by share market price (Singh, 2009)

14) **Risk**: The chance that an investment's actual return will be different than expected. Risk includes the possibility of losing some or all of the original investment. Risk are usually measured by calculating the standard deviation of the historical returns or average
returns of a specific investment. A high standard deviation indicates a high degree of risk. Many investment companies develop risk management strategies to help manage risks associated with their business and investment dealings. Risk assessment involves assessing amount of risk involved in particular business or investment dealings (McTaggart, Kontes, and Mankins, 1994)

15) **Return:** The gain or loss of a security in a particular period. The return consists of the income and the capital gains relative on an investment. It is usually quoted as a percentage. The general rule is that the more risk you take, the greater the potential for higher return -and loss (McTaggart, Kontes, and Mankins, 1994)

16) **Market Capitalization:**

Total Value of shares traded in the stock market at current value. Market capitalization is calculated by multiplying total number of outstanding shares with the current market value of the shares. The higher the market capitalization the more valuable the company is (Desai& Jain, 1997)

17) **Work Culture:**

Work culture is the way a company functions, its core values and the expectation is has from its employees in terms of their attitude and behaviour can be defined as work culture. The work normally flows from top to bottom (Bruce M. Tharp, 2009).

18) **Capital Structure:**

Capital structure is concerned with how the firm decides to bifurcate its cash flows into two broad components, a fixed component that is set aside to meet the obligations toward debt capital and a residual component that belongs to equity shareholders (Chandra, P. 2001).

19) **Survivor Syndrome:**

A set of reaction be it emotional, psychological and experienced by those who remain employed or survive the job loss process. Survivor Syndrome was originally in relation to survivors of traumatic events. The term was later used in management studies and applied
specifically to redundancy situations to explain the impact of job losses on people who escaped the cut (Pierse, 2013).

20) **Investors:** An individual who puts money with the expectation of financial return. Generally, the primary concern of an investor is to minimize risk while maximizing return, as opposed to a speculator, who is willing to accept a higher level of risk in the hopes of collecting higher-than-average profits (Benjamin, 2013).

21) **Company:** According to section 3 of companies act 1956 company means a company formed and registered under this Act or an existing company formed under any previous company laws as defined in clause (ii) of section 3.

22) **Demerged Company:** According to Section (19AA) of Income Tax Act, 1961 demerged company means the company whose undertaking is transferred after the demerger to a resulting company.

23) **Resulting company:** According to Section 2(47A) of Income Tax Act, 1961 resulting company means one or more company, (including a wholly owned subsidiary thereof) to which the undertaking of the demerged company is transferred in a demerger, and the resulting company in consideration of such transfer of undertaking issues shares to the shareholders of the demerged company and include any authority or body or local authority or public sector company or a company established, constituted or formed as a result of demerger.

24) **Human Resource Management:** Human Resource Management is a department function that helps managers to recruit, train and develop members for an organization. Thus Human Resource Management is the function that deals with managing people, developing and motivating people (Pierse, 2013).

25) **Human Resource:** Human Resource means the resource available in an organization in the form of people. Human resource takes into consideration not only physical aspects of a human being but also his or her abilities, proficiency, skills, knowledge, mental capabilities, potentialities and aptitude (Pierse, 2013).
26) **Appointed date:** It is the date on which assets and liabilities of the transferor company are transferred to the transferee company. Accounts on the appointed date form the basis for valuation of shares and determination of share exchange ratio. Appointed date is relevant for the purpose of assessment of income of the transferor and transferee companies. The appointed date signifies the basic condition to be satisfied before a restructuring exercise is recognized as demerger for the purposes of tax laws (www.caclubindia.com).

The other way of looking at Appointed Date is to consider the date as the demarking line to rearrange the affairs of the companies before the date so that, thereafter there arises no need to revisit as to which of the assets have to be kept with the demerged company and that with the resulting company.

27) **Effective date:** It is the date from which any transfer is Complete & Effective, i.e. certified copy of the High Court order is filled with Registrar of Company or the last of the approvals obtained(www.caclubindia.com)

From the effective date demerger becomes effective and Transferor Company stands changed / dissolved.

28) **Record date:** It is the cut out date on which details of owners or shares holders for the Companies are taken for the purpose of corporate action(www.caclubindia.com)

29) **Exchange ratio:** The exchange ratio means the number of shares of transferee companies to be issued to the shareholders of transferor company.

**3.5 MODEL OF THE STUDY**

The pictorial presentation of the various aspects undertaken in the study is given in the following chart 3.2.
As seen in the above chart the study deals with the case study of demerger of Reliance Industries Ltd which resulted into four resulting companies namely Reliance Energy Ventures Ltd, Global fuel management services ltd, Reliance capital ventures ltd and Reliance Communication ventures Ltd. The various aspects in the process of demerger like legal, taxation, accounting, shareholders, employees and stock market are dealt with in detail in this study.
3.6 SCHEME OF DEMERGER OF RELIANCE INDUSTRIES LTD:

Reliance Industries Ltd announced a historical decision of demerger in the year 2005-06. The research methodology adopted is of case study of this demerger and hence it is very important to understand the terms and conditions given in the scheme of demerger submitted by the company for court approval.

The researcher has summarized the interpretations of the content of scheme of arrangement and the explanatory statements filed by Reliance Industries Ltd which is as follows:

In accordance with sections 391 to 394 of the Companies Act, 1956, Reliance Industries Ltd (RIL) was demerged into the following subsidiaries and affiliate companies:

Reliance Industries Limited (Demerged Company), Reliance Energy Ventures Limited (Coal Based Energy Resulting Company), Global Fuel Management Services Limited (Gas Based Energy Resulting Company),

Reliance Capital Ventures Limited (Financial Services Resulting Company), Reliance Communication Ventures Limited (Telecommunication Resulting Company), their respective shareholders and creditors.

3.6.1 Description of Companies as stated in the scheme:

Reliance Industries Limited (RIL), which is the flagship company of the Reliance Group, is one of the largest private sector industrial enterprises in India. Besides vertical integration, RIL has entered a number of new avenues of business over the years. Having initially started as a business predominantly trading yarn, RIL ventured into manufacturing and trading of textiles through its unit at Naroda in Gujarat. Among its many objectives were to increase market share in the domestic market, to access leading technologies, to capitalize on export opportunities, to implement vertical integration and thereby achieve economies of scale.

Pursuant to its objectives of vertical integration, RIL set up plants at Patalganga for the manufacture of polyester, fibre intermediates, and petrochemicals. This was followed by plants at Hazira for manufacture of petrochemicals through Reliance Petrochemicals
Limited ("RPCL") and for manufacture of polymers through Reliance Polyethylene Limited ("RPEL") and Reliance Polypropylene Limited ("RPPL"). RIL also set up one of the largest Greenfield refineries at Jamnagar in the State of Gujarat through Reliance Petroleum Limited ("RPL") for manufacture of petroleum products. With a view to enhance shareholder value RPCL, RPPL, RPEL and RPL were amalgamated with RIL in stages to make RIL a vibrant and economically strong corporate entity.

Furthermore, RIL has located gas fields which can be commercially explored and is in the process of commencing the production and sale of gas. Also, RIL acquired a considerable stake in Indian Petrochemicals Corporation Ltd (IPCL) from the Government of India.

RIL has also ventured into the financial services sector and also into the business of telecommunications. RIL acquired considerable experience in the energy sector by setting up captive power projects for all its manufacturing and production plants. RIL commenced its external foray in the power sector by planning to set up power plants in Jamnagar, Gujarat (Reliance Power), Orissa (Hirma Power) and Tamil Nadu (Jayamkondam Power).

RIL also commenced its business activities in the financial services sector by setting up Reliance Capital Limited (RCL), which predominantly deals with leasing, merchant banking and other related services. It entered the segment of mutual funds in 1995-96 by sponsoring a mutual fund (i.e., Reliance Mutual Fund). It also set up Reliance Life Insurance Company Ltd. (Reliance Life) and Reliance General Insurance Company Ltd (Reliance General), thereby announcing its entry into the insurance sector.

After the Government opened up the Indian telecommunications sector to private participation, RIL set up Reliance Telecom Ltd (RTL) which provided GSM technology based cellular telephone services in the eastern and north-eastern parts of India and also basic telephone services in Gujarat. It subsequently set up Reliance Communications Infrastructure Ltd. to provide the required infrastructure for its business in the telecom sector and also Reliance Infocom Ltd to provide CDMA based wireless services.

To summarize, the business carried on by RIL through its subsidiaries and affiliate companies can be classified into (i) petrochemicals; (ii) refining; (iii) oil and gas; (iv)
textiles; (v) coal based power generation; (vi) gas based power generation (vii) financial services business including insurance business; and (viii) telecommunications.

3.6.2 Rationale for the scheme of RIL demerger as stated in the scheme:

Each of the many businesses carried on by RIL either directly or through its subsidiaries and affiliate companies have a tremendous potential for growth. However, each business is subject to risks and competition which are distinct and peculiar to that business. Further, there is a marked difference in which each of these businesses need to be managed. With a view to facilitate special focus on the operation of each of its businesses, RIL proposed to de-merge its undertakings in Coal Based Energy Undertaking, Gas Based Energy Undertaking, Financial Services Undertaking, and Telecommunication Undertaking. Furthermore, RIL also proposed to de-merge and re-organize the management of each of these businesses to provide increased focus and specialized management to each of them. Shri Anil D. Ambani, the erstwhile Vice Chairman & Managing Director of RIL would take responsibility for providing such focused management attention and leadership to the segregated and demerged businesses whereas Shri Mukesh D. Ambani, Chairman & Managing Director of RIL would continue to lead the businesses retained by RIL including, in particular petrochemicals, refining, oil and gas exploration and production, textiles and other businesses.

It is believed that such a de-merger is in the best interest of the stakeholders of RIL and would eventually increase the shareholders’ value. It would enable investors to invest in different business segments with different business characteristics and risks according to their investment policies.

The de-merger would also allow independent expansion of the de-merged entity without committing the existing organization in its entirety.

The Board of Directors of the de-merged entity also believed that not only the shareholders and other stakeholders, but also the employees of the de-merged companies.
3.6.3 Purpose of the Scheme of Demerger.

In view of the aforementioned objectives, each of the resulting companies had a clearly defined purpose.

The purpose of the Coal Based Energy Resulting Company is “To carry on, manage, supervise and control the business of transmitting, manufacturing, supplying, generating, distributing and dealing in electricity and all forms of energy and power generated by any source whether nuclear, steam, hydro or tidal, water, wind, solar, hydrocarbon fuel or any other form, kind or description.”

The purpose of the Gas Based Energy Resulting Company is “To carry on, manage, supervise and control the business of transmitting, manufacturing, supplying, generating, distributing and dealing in electricity and all forms of energy and power generated by any source whether nuclear, steam, hydro or tidal, water, wind, solar, hydrocarbon fuel, natural gas or any other form, kind or description.”

The purpose of the Financial Services Resulting Company is “To carry on and undertake the business of finance, investment, loan and guarantee company and to invest in, acquire, subscribe, purchase, hold, sell, divest or otherwise deal in securities, shares, stocks, equity linked securities, debentures, debenture stock, bonds, commercial papers, acknowledgements, deposits, notes, obligations, futures, calls, derivatives, currencies and securities of any kind whatsoever, whether issued or guaranteed by any person, company, firm, body, trust, entity, government, state, dominion sovereign, ruler, commissioner, public body or authority, supreme, municipal, local or otherwise, whether in India or abroad and subject to such permissions and licenses as may be necessary, carry on, manage, supervise and control business of insurance (including general insurance and life insurance). The Company will not carry on any activity as per Section 45 IA of RBI Act, 1934”.

The purpose of the Telecommunication Resulting Company is “To carry on, manage, supervise and control the business of telecommunication, infrastructure,
telecommunication system, telecommunication network and telecommunication services of all kinds including and not limited to setting up telephone exchange, coaxial stations, telecommunication lines and cables of every form and description, transmission, emission, reception through various forms, maintaining and operating all types of telecommunication service and providing data programmes and data bases for telecommunication”.

3.6.4 Some important provisions of the Scheme of demerger:

i. All the properties of the demerged undertakings which were transferred by RIL immediately before de-merger were to become the properties of the de-merged undertakings by virtue of the de-merger.

ii. All the liabilities traceable to each of the de-merged undertakings immediately before the de-merger were to become the liabilities of the de-merged undertakings by virtue of the de-merger.

iii. Such properties and liabilities were to be transferred by RIL to the de-merged undertakings at book values appearing immediately before the de-merger.

iv. Each of the demerged undertakings were to issue shares to the shareholders of RIL on a proportionate basis.

v. All shareholders of RIL (except certain specified shareholders) were to become the shareholders of each of the resulting companies by virtue of the de-merger.

The Trustees of the Petroleum Trust and the aforesaid four companies (viz. Reliance Polyolefins Private Limited, Reliance Aromatics and Petrochemicals Private Limited, Reliance Energy and Project Development Private Limited, and Reliance Chemicals Private Limited) are collectively defined as the ‘Specified Shareholders’.

vi. The transfer of the de-merged undertakings was to be on a going concern basis.
**Table 3.2 Details of Share Capital:**

<table>
<thead>
<tr>
<th>Company</th>
<th>Particulars</th>
<th>Amount (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Demerged Company</td>
<td>Authorised Capital: 250 crore equity shares of Rs. 10 each and 50 crore Preference Shares of Rs. 10 each. Issued, Subscribed and Paid up Capital: 1,39,35,08,041 equity shares of Rs. 10 each. Less: Calls in arrears 0.35 crores.</td>
<td>3,000 crores</td>
</tr>
<tr>
<td>2. Resulting Coal Based Energy Company</td>
<td>Authorised Capital: 50,000 equity shares of Rs. 10 each. Issued, Subscribed and Paid up Capital: 50,000 equity shares of Rs. 10 each.</td>
<td>5,00,000</td>
</tr>
<tr>
<td>3. Resulting Gas Based Energy Company</td>
<td>Authorised Capital: 20,00,000 equity shares of Rs. 5 each. Issued, Subscribed and Paid up Capital: 1,00,000 equity shares of Rs. 5 each.</td>
<td>1,00,00,000</td>
</tr>
<tr>
<td>4. Resulting Financial Services Company</td>
<td>Authorised Capital: 50,000 equity shares of Rs. 10 each. Issued, Subscribed and Paid up Capital: 50,000 equity shares of Rs. 10 each.</td>
<td>5,00,000</td>
</tr>
<tr>
<td>5. Resulting Telecommunication Company</td>
<td>Authorised Capital: 1,00,000 equity shares of Rs. 5 each. Issued, Subscribed and Paid up Capital: 1,00,000 equity shares of Rs. 5 each.</td>
<td>5,00,000</td>
</tr>
</tbody>
</table>

Source: Scheme of arrangement of RIL

Note: Each of the Resulting Companies is a wholly owned subsidiary company of Reliance Industries Limited.
3.6.5 Salient Features of Demerged Undertakings:

i. Transfer of Assets: All the assets, rights, claims, title, interest and authorities were transferred to the respective resulting undertakings on a going concern basis.

ii. Contracts, deeds, etc: All contracts, deeds, bonds, agreements, schemes, arrangements and other instruments which are subsisting or have effect immediately before the effective date, are to be continued in full force.

iii. Each of the resulting companies, after coming into existence, may take such actions and execute such deeds, as may be necessary to give formal effect to the provisions of this scheme.

iv. If any asset cannot be transferred to the resulting company for any reason, the demerged company shall hold such asset in trust for the benefit of the resulting company.

v. Transfer of Liabilities: All debts, liabilities, loans raised, obligations incurred by the demerged company shall be transferred to the relevant resulting company.

vi. Any liability paid by the demerged company before the effective date of the de-merger shall be assumed to be discharged by the de-merged company on account of the relevant resulting company.

vii. After the de-merger, the resulting company alone shall be responsible for the discharge of the liabilities transferred to them by the de-merged company.

viii. All the assets and liabilities of the de-merged company shall be transferred to the resulting company at the values appearing in the books of the de-merged company on 31st August 2005.

3.6.6 Conduct of Business:

i. The de-merged company is assumed to be diligently carrying on the business of each of the resulting companies from the appointed date till the effective date of the de-merger.
ii. During this period, all profits and income accruing and all losses and expenses incurred by the de-merged undertaking are assumed to be profits, incomes, losses and expenses, as the case may be, of the respective resulting company.

iii. Any power, rights, authorities exercised or any obligation, duties, commitments discharged by the de-merged company is assumed to have been done so on behalf of the respective resulting company.

iv. All employees, consultants and advisors of the de-merged company who are in employment till the effective date shall be the employees, consultants, advisors, as the case may be, of the respective resulting company. However, all employees, consultants and advisors employed or engaged on part time basis by the de-merged company shall be made available to the resulting companies, for a period of twelve months, to provide the same services at no additional cost.

3.6.7 Increase in Share Capital: After the effective date of the de-merger, the authorized capital as well as the paid up capital of each of the resulting companies was altered as follows:

**Table 3.3 Increase in share capital**

<table>
<thead>
<tr>
<th>Company</th>
<th>Original Authorized Capital (Rs.)</th>
<th>Increased Authorized Capital (Rs.)</th>
<th>Increased Issued, Subscribed and Paid Up Capital (Rs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal based energy resulting company</td>
<td>5 lakhs</td>
<td>1,250 crores</td>
<td>1223,13,04,220</td>
</tr>
<tr>
<td>Gas based energy resulting company</td>
<td>1 crore</td>
<td>650 crores</td>
<td>611,56,52,110</td>
</tr>
<tr>
<td>Financial services resulting company</td>
<td>5 lakhs</td>
<td>1,250 crores</td>
<td>1223,13,04,220</td>
</tr>
<tr>
<td>Telecommunication resulting company</td>
<td>5 lakhs</td>
<td>650 crores</td>
<td>611,56,52,110</td>
</tr>
</tbody>
</table>

Source: Scheme of arrangement of RIL
3.6.8 Accounting Treatment:

In the books of accounts of the de-merged company:

i. The assets and liabilities of the de-merged company were transferred to the respective resulting companies at the values appearing in the books of accounts of the de-merged company at the close of business on August 31, 2005.

ii. The difference between the value of the assets and value of liabilities transferred were appropriated against the revaluation reserve and the balance against securities premium.

iii. The reduction in the securities premium of the de-merged company would not result in the reduction of unpaid share capital or payment of paid up share capital.

In the books of the resulting companies:

i. The assets and liabilities taken over by the resulting companies were recorded at the values appearing in the books of the de-merged company at the close of business on 31st August, 2005.

ii. Each of the resulting companies credited their share capital account by the aggregate face value of the new equity shares issued to the shareholders of the de-merged company.

iii. The difference between the net assets and the share capital so credited was credited to General Reserve Account or debited to Goodwill Account.

iv. The existing shareholding of RIL in each of the resulting companies was cancelled as a part of the de-merger scheme.

3.6.9 General Terms and Conditions:

i. Board Reconstitution: After the de-merger, RIL would cause the Board of Directors of each of the resulting companies to be reconstituted in such manner as was agreed between the resulting company and Anil D. Ambani. Further, each of the resulting companies was to be managed by Anil D. Ambani.

ii. Dividends: The de-merged company as well as resulting companies are entitled to declare and pay dividends in respect of the accounting period after the appointed
date but before the effective date. However, the shareholders of the de-merged companies are not entitled to dividends in the resulting companies prior to the appointed date. The shareholders of the de-merged company as well as the resulting companies are to continue to enjoy their existing rights under their respective Articles of Association including the rights to receive dividends.

iii. Agreements: The resulting companies are permitted to use the ‘Reliance’ brand and logo and appropriate agreements were to be entered into for this.

iv. Approvals: Each of the resulting companies are entitled to apply to the Central Government or any State Government and all other authorities, for approvals and sanctions which the resulting companies may require to own the de-merged undertakings.

v. Filing of Applications: The de-merged company and each of the resulting companies are to make and file all the required applications and petitions before the High Court for the sanction of the scheme of de-merger.

The exchange ratio given under the scheme of demerger is 1:1 but the effective ratio due to subsequent mergers changed which is exhibited in the following chart.

**Chart 3.3 Exchange Ratio under the Demerger scheme of Reliance Industries Ltd.**

<table>
<thead>
<tr>
<th>100 Shares of Reliance Industries Ltd.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Energy Ventures Ltd</td>
</tr>
<tr>
<td>100 shares of Global Fuel Management Services Ltd.</td>
</tr>
<tr>
<td>Renamed as Reliance Natural Resources Ltd</td>
</tr>
<tr>
<td>100 shares of Reliance Capital Venture Ltd.</td>
</tr>
<tr>
<td>5 Shares of Reliance Capital Ltd</td>
</tr>
<tr>
<td>100 shares of Reliance Communication Ventures Ltd.</td>
</tr>
<tr>
<td>7.5 Shares of Reliance Communication</td>
</tr>
</tbody>
</table>
3.7 COMPANY PROFILES:

Reliance Natural Resources Limited (RNRL) (www.reliancepower.co.in)

A member company of Anil Dhirubhai Ambani Group, Reliance Natural Resources Limited (RNRL) is an Indian energy company involved in sourcing, coal and liquid fuels and supply and transportation of gas. The company was originally incorporated on 24th March 2000 as Reliance Platforms Communications Private Ltd. which was later changed to Reliance Energy Private Ltd. on 3rd January 2003. The name was again changed to Reliance Wattage Private Ltd. on 16th January 2003. The company went public on 25th July 2006 and subsequently renamed Global Fuel Management Services Ltd on August 10, 2005.

On January 9, 2006, company’s name was again changed to Reliance Natural Resources Ltd. On March 01, 2006, Reliance Natural Gas Resources Ltd got listed on the Bombay Stock Exchange Ltd. and the National Stock Exchange, the major stock exchanges of India. It has now merged with Reliance Power, again a member company of Anil Dhirubhai Ambani Group.

Reliance Energy Ventures (REVL)(www.relianceenergy.in)

A member company of Anil Dhirubhai Ambani Group, Reliance Energy Ventures Limited is the holding company of Reliance Energy. It was originally named as Reliance Terra Networks Private Limited on 3rd July 2000. The company made its first public offer on July 25, 2005. It then acquired the name Reliance Energy Ventures Limited. On 24th February 2006, it began its trading on the Bombay Stock Exchange Ltd. and the National Stock Exchange, the major stock exchanges of India. On 26th April 2006, the merger of REVL with REL was approved by its shareholders. Reliance Energy Ventures was merged with Reliance Energy with fully diluted equity capital at around Rs 228 crore which does not include conversion of foreign currency.
Reliance Capital Limited (RCL) (www.reliancecapital.co.in)

A member company of Anil Dhirubhai Ambani Group, Reliance Capital Limited is a diversified financial services holding company and is headquartered in Mumbai, Maharashtra, India. It has business interests of wide range of financial services such as in asset management and mutual fund; commercial finance and industrial finance, life and general insurance, stock broking, depository services. It is also into services like distribution of financial products, proprietary investments, leasing, bill discounting, custodial services, money market operations and inter-corporate deposits.

It was incorporated as Reliance Capital & Finance Trust Limited in year 1986 at Ahmedabad, Gujarat. On January 5, 1995 it was renamed to Reliance Capital Limited. In 2006, Reliance Capital Ventures Limited was merged with RCL. This increases the shareholder base of RCL to 1.3 million from 0.15 million shareholders. It was recognized as a Non-banking Finance Company (NBFC) in December 1998.

It made first public equity offer in 1990 and currently its shares are listed on The Bombay Stock Exchange Ltd. and the National Stock Exchange, the major stock exchanges of India. It is part of CNX Nifty Junior and MSCI Global Small Cap Index

It offers products such as Reliance Mutual Fund, Reliance Life Insurance and Reliance General Insurance with over five million subscribers and insurance millions of policy holders. In retail broking, Reliance Securities is among top performing Indian companies. As on December 31, 2014, the net worth of Reliance Capital Ltd. is of Rs. 13,156 crore and has total assets of Rs. 45,077 crore.
Reliance Communications Limited (RCOM)(www.rcom.co.in)

A flagship company of Anil Dhirubhai Ambani Group, Reliance Communications Ltd. is an Indian Internet access and telecommunications company and is headquartered in Navi Mumbai, Maharashtra, India. It started its operations in 1999 and today has more than 118 million subscribers which includes more than 2.6 million individual overseas retail customers and has more than 39,000 Indian and multinational corporate clients. It is also a host to over 290 domestic, regional, and global carriers. Reliance Communications offers a complete range of integrated telecom services which include mobile and fixed line telephone, national and international long distance services, broadband, data services and a multitude of value added services. It has a pan-India digital network touching over 21,000 cities and towns and over 400,000 villages in India. It is one of a kind convergent - synergises voice, data and video integrated - both wired and wireless, modern digital network providing top class service in every aspect of communication.

Reliance Communications owns and managed the world's largest next generation IP enabled connectivity infrastructure, made up of over 280,000 kilometres of fibre optic cable systems in India, Middle East, Europe, and USA. A Reliance Communications’ subsidiary - Reliance Globalcom, is operational hub of global telecom operations of India’s largest Integrated Telecom Service Provider. It provides high class integrated services of Reliance Communications that includes Internet Solutions and Value Added Services, Capacity Sales, Managed Services, Enterprise Services and Global Voice.

Reliance Industries Ltd. (RIL)(www.ril.com)

Reliance Industries Ltd. is a flagship company of the Indian conglomerate Reliance Group, with businesses in major industry sectors such as energy and materials value chain, refining and marketing, petrochemicals, polyester, fiber intermediates, plastics, and exploration and production.
Founded by late Mr. Dhirubhai Ambani and his cousin Champaklal Damani in 1960s, Reliance Industries Ltd. is also the second-largest publicly traded company in India by market capitalization and by revenue. It is the largest polyester yarn and fiber producer in the world and among the top five in major petrochemical products producers. It is India’s largest private sector company in India and contributes to India’s 14% exports. Till date, it has one major associate - Reliance Industrial Infrastructure Limited, and 121 major subsidiaries.

RIL was the first private sector company in India to be rated by international credit rating agencies. In the Fortune Global 500 list of the World's Largest Corporations of 2010, it was ranked in 100th and 175th based on profit and revenues respectively. It was ranked 68th in 2010, in the Financial Times' FT Global 500 list of the world's largest companies. In the ICIS Top 100 Chemicals Companies list, RIL has been ranked at 20th position, on the basis of sales; the only Indian company to do so.

It was first company to issue an IPO to the general Indian public. It was also the first corporate in Asia to issue 50 and 100 years bond in US debt market. In 2002, RIL became the first Indian private sector company to record Net Profit of over Rs. 1,000 crores in one quarter and first Indian private sector company to record net profit of over Rs 4,000 crore in one financial year. For the financial year 2012-2013, RIL’s revenues were Rs. 371,119 crore with net profit of Rs. 21,003 crore, net-worth was Rs. 176,766 crore and total assets were Rs. 318,511 crore.

Its equity shares are listed on India’s two major stock exchanges - Bombay Stock Exchange Limited (BSE) and National Stock Exchange of India Limited (NSE). Its issued Global Depository Receipts (GDRs) are listed on Luxembourg Stock Exchange. Currently, Reliance Industries Ltd. has more than 3 million shareholders trading in more than 54.66% shares of the company, the rest been held by Ambani family and company promoters.
3.8 TERMS RELATED TO STATISTICAL ANALYSIS:

Analysis of data can also be defined as the act of transforming data with the aim of extracting useful information and facilitating conclusions. Depending on the type of data and the question, this might include application of statistical methods. The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups.

“Thus in the process of analysis, relationships or differences supporting or conflicting with original or new hypothesis should subject to statistical tests of significance in order to determine with what validity data can be said to indicate any conclusions.” (C.R.Kothari, 1990)

Analysis particularly in case of surveys involves estimating the values of unknown parameters of the population and testing of hypothesis for drawing inferences. Analysis therefore may be categories as descriptive analysis and inferential analysis which is often known as statistical analysis. For analysis purpose, the study is divided in two sections namely primary data analysis and secondary data analysis.

In statistical applications, primary data analysis is divided into descriptive statistics and inferential statistics.

3.8.1 Descriptive Statistics:(Anderson, Sweeney, Williams, 2013)

Descriptive statistics are used to describe the basic features of the data in a study. They provide simple summaries about the sample and the measures. Together with simple graphics analysis, they form the basis of virtually every quantitative analysis of data.

“Descriptive analysis is largely the study of distribution of one variable. This study provides us with profiles of companies, work groups, persons and other subjects on any of a multiple characteristics such as size, compositions, efficiency, preferences etc.”

Descriptive analysis is more specific in that they direct attention to particular aspects or dimensions of research target. Such studies reveal potential relationship between variables, thus setting the stage for more elaborate investigation later. The analysis with one variable known as One-dimensional analysis, in respect of two variables it is known as bivariate analysis and for more than two variables it is described as multivariate analysis. For descriptive analysis we use following statistical tools.
i) **Measures of central tendency**: these are ways of describing the central position of a frequency distribution for a group of data. Central tendency is measured in three ways: mean, median, and mode. The mean is simply the average score of a distribution. The median is the center, or middle score within a distribution. The mode is the most frequent score within a distribution. In a normal distribution, the mean, median, and mode are identical.

There are three major types of estimates of central tendency which are used in this study.

**Mean**: The Mean or average is probably the most commonly used method of describing central tendency. To compute the mean all the values are added and then divided by the number of values.

**Median**: The Median is another measure of central location for a variable. The median is the value in the middle when the data are arranged in ascending order. With an odd number of observations, the median is the middle value. An even number of observations has no single value. In this case the median is defined as the average of the values of middle two observations.

**Mode**: The mode is the most frequently occurring value in the set of scores. To determine the mode, the scores are ordered as in case of median, and then count each one. The most frequently occurring value is the mode.

ii) **Measures of Variation**:  
Measures of variation help us to summarize how spreads out these scores are spread out. To describe this spread, a number of statistics are available to us, including the range, quartiles, absolute deviation, variance and standard deviation. Measures of variation determine the range of the distribution, relative to the measures of central tendency. Where the measures of central tendency are specific data points, measures of variation are lengths between various points within the distribution. Variation is measured in terms of range, mean deviation, variance, and standard deviation.

There are four types of Measures of Dispersion used in the research study

**Range**: Range is the difference between the largest and smallest observation.
**Mean Deviation:** Mean deviation is the sum total of deviations of the items of a given data from one of the averages of that data divided by numbers of item.

**Variance:** Variance is defined as the sum of squared deviations around the mean divided by the population size.

**Standard Deviation:** The standard deviation is defined to be positive square root of the variance.

### 3.8.2 Inferential statistics: (Doane and Seward, 2013)

The inferential statistics is used to make inferences from the given data to more general conditions; while descriptive statistics is simply used to describe the data.

Inferential analysis is used to generalize the results obtained from a random (probability) sample back to the population from which the sample was drawn. This analysis is only required when: a sample is drawn by a random procedure; and the response rate is very high. Hence, this type of analysis is not appropriate when: non-probability methods of selection are used; inferential statistics arise out of the fact that sampling naturally incurs sampling error and thus a sample is not expected to perfectly represent the population. The methods of inferential statistics are (1) the estimation of parameter(s) and (2) testing of statistical hypotheses.

In the present study researcher used both descriptive and inferential statistical tools. Both, primary as well as secondary data is used while analyzing.

**Inferential analysis:**

Inferential analysis is used to generalize the results obtained from a random (probability) sample back to the population from which the sample was drawn. Inferential statistics are frequently used to answer cause-and-effect questions and make predictions. In the present study researcher used this analysis for hypothesis testing.

Role of statistics in research is to function as a tool in designing research analyzing its data and drawing conclusions there from. Most research studies result in a large volume of raw data which must be reduced so that the same can be read easily and can be used for further analysis.

Descriptive statistics concern with the development of certain indices from raw data, whereas inferential statistics concern with the process of generalization. Inferential
statistics are also known as sampling statistics and are mainly concerned with 2 major
types of problems:
i. The estimation of population parameters and
ii. Testing of hypothesis.
Inferences on population parameters are often made on the basis of sample observations
especially when the population is large and it may not be possible to enumerate all the
sampling units belonging to the population. Such hypothesis about the population is termed
as statistical hypothesis and hypothesis is tested on the basis of sample values. This
hypothesis is tested with available evidence and a decision is made whether to accept this
hypothesis or reject it.
In the context of statistical analysis we often talk about null and alternate hypothesis.
The null hypothesis is generally symbolized as H0
The alternate hypothesis is generally symbolized as H1
Researcher has used these measures of statistical analysis according to the requirement of
data analysis. For testing hypothesis or test of significance we use both parametric and
non-parametric tests. Parametric tests assume within properties of the population from
which we draw samples. Such assumptions may be about population parameters, sample
size etc. In this type of research parametric tests are used. Important parametric tests are as
follows:
   i.    t-test
   ii.   Levene’s test etc.
In our study researcher applied different parametric as well as non parametric tests. Details
of which are given below.

**i) One sample t- test:**
A t-test is used to determine if the scores of two groups differ on a single variable. A t-test
is designed to test for the differences in mean scores. To conduct a one-sample test when
the population standard deviation is not known, we use a variant of the \( z_{\text{stat}} \) called the \( t_{\text{stat}} \).
The advantage of the \( t_{\text{stat}} \) is that it can use sample standard deviation \( s \) instead of \( \sigma \) to
formulate the estimated standard error of the mean.
**Hypotheses:** The null and alternative hypotheses are identical to those used by the \( z \) test. The null hypothesis is \( H_0: \mu = C \) Alternatives are

\[ H_1: \mu \neq \mu_0 \text{ (two-sided)} \]
\[ H_1: \mu > \mu_0 \text{ (one-sided to right)} \]
\[ H_1: \mu < \mu_0 \text{ (one-sided to left)} \]

**Test statistic:** The one-sample \( t \) statistic is:

\[
t = \frac{\text{Mean Difference}}{\text{Error Variance}} = \frac{\text{(Sample Mean – Population Mean)}}{\text{(Standard Deviation / \( \sqrt{\text{Sample Size}} \)}}
\]

This statistic has \( n - 1 \) degrees of freedom.

**P-value and conclusion:** The \( t \) statistic is converted to a \( p \) value with a computer program or \( t \) table. When using the \( t \) table, we will only be able to find boundaries for the \( p \) value. Small values of \( P \) provide evidence against \( H_0 \).

**ii) Levene's Tests:**

Statistical tests usually involve making various assumptions about the characteristics and parameters of the population being sampled. In your case, you are performing the "t-test" to test hypotheses about 2 sampled groups. One of the assumptions made by the standard "t-test" is that the 2 populations being sampled have EQUAL VARIANCES. The purpose of the Levenes Test is to test and verify that this equal variance assumption is reasonable.

**Independent T-Test for Two Samples:**

The Levene’s Test outputs 2 parameters. The first is the F statistic value. The larger the F statistic number, the greater is the possibility the variances are different. Similarly, the smaller the F value, the greater is the probability that the variances are equal.

The independent t-test, also called the two sample t-test or student's t-test is an inferential statistical test that determines whether there is a statistically significant difference between the means in two unrelated groups.

Hypothesis for the independent t-test
The null hypothesis for the independent t-test is that the population means from the two unrelated groups are equal:

\[ H_0: \mu_1 = \mu_2 \]

In most cases, we are looking to see if we can show that we can reject the null hypothesis and accept the alternative hypothesis, which is that the population means are not equal:

\[ H_A: \mu_1 \neq \mu_2 \]

To do this we need to set a significance level (alpha) that allows us to either reject or accept the alternative hypothesis. Most commonly, this value is set at 0.05

3.9 CONCLUSION:

There are various forms of corporate restructuring, one of which is demerger. Demerger is a form of restructuring wherein a company demerges its undertaking into a separate identity. Demerger is different from divestitures and equity carve outs. Shareholders and the employees are the major stakeholders in the demerger process. The shareholding pattern in demerged company is continued as same in resulting companies also that is proportionate shares are allotted. The important dates in demerger process are appointed date, effective date and record date. This chapter helps in generating understanding about the relevant concepts related to the study. Technical terms used in the further study are explained here so as to facilitate interpretation of the study to a common man. Model of the study gives pictorial view to the summary of the study. Brief profile of Companies and summary of Reliance Industries Ltd’s Demerger explains the case in details which serves as a base for further case study. The document of scheme of arrangement gives detailed information about the rationale of scheme and various terms and conditions related to demerger. It also suggests the accounting treatment and cost of acquisition of shares for taxation purpose. Hence this chapter creates a platform for further analysis in the study. Considering this conceptual framework in mind, researcher elaborates the legal, taxation and accounting aspects of demerger in the following chapter.
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CHAPTER 4
THE LEGAL, TAXATION AND ACCOUNTING ASPECTS OF DEMERGER
CHAPTER 4

THE LEGAL, TAXATION AND ACCOUNTING ASPECTS OF DEMERGER

4.1 INTRODUCTION:

This chapter deals with fulfillment of objective number two which is to study the legal, taxation and accounting aspects of demerger. Demerger is a corporate restructuring process which needs compliance of various legal provisions. Hence this chapter covers the provisions of various statutes relating to demerger. It lists down the different steps involved in the process of demerger. The chapter further draws on the various provisions of Indian company law, Indian tax law and related judicial decisions. Taxation has remained a burning issue in case of corporate restructuring hence the taxation aspect of demerger is also explained in this chapter. Demerger involves transfer of assets & liabilities of an undertaking to the resulting companies. Therefore it is important to understand the accounting procedure to be followed in the demerger. The according treatment has been explained with the help of journal entities in this chapter.

4.2 LEGAL ASPECTS OF DEMERGER:

The cases of demergers in Indian corporate are increasing in recent times hence it is very important to have detailed research study on demerger which would include all legal aspects. It is very important to know the detailed steps and formalities to be followed while carrying on corporate restructuring in the form of demerger to adhere to all the legal provisions relating to demerger. Before the researcher discusses the various legal provisions relating to demerger, it is important to note meaning of few concepts.
Meaning of the terms in common parlance:

Amalgamation - combination of two or more independent business corporations into a single enterprise

De-merger – transfer and vesting of an undertaking of a company into another company

Reconstruction-re-organisation of share capital in any manner; varying the rights of shareholders and/or creditors

Arrangement-All modes of reorganizing the share capital, including interference with preferential and other special rights attached to shares

Indian laws applicable to restructuring activities:

  i. Companies Act, 1956 – [Sec 391-394]
  ii. Listing Agreement
  iii. Accounting Standard - 14
  iv. SEBI Takeover Code (in case of acquisition by/of a listed company)
    v. Company Court Rules
  vi. FEMA (in case of merger of companies having foreign capital)
  vii. Competition Act, 2002
  viii. Income Tax Act, 1961
    ix. Indian Stamp Act, 1899

The provisions of the above acts that are relevant to demerger are discussed in the forthcoming sections of this chapter.

4.2.1 Understanding Demerger:

Demerger and hiving-off are very similar concepts and are sometimes used interchangeably in Indian corporate scenario and hence companies undertaking corporate restructuring opt for any one of the two modes for investment purposes, for raising capital or for increasing profits through cost-reduction and to them it makes not much difference.
But conceptually these two concepts are significantly different. This section of the chapter analysis the differential points like how the consideration is to be paid and proportioned, how the assets would be valued, how the depreciation will be carried forward to the investing partner and what would be the cost of assets in the hands of the investor, depending on whether the transaction is a demerger, or hiving-off.

Demerger:
The expression ‘Demerger’ is not expressly defined in the Companies Act, 1956. However, it is covered under the term arrangement, as defined in clause (b) of Section 390 of Companies Act. Division of a company takes place when part of its undertaking is transferred to a newly formed company or an existing company and the remainder of the first company’s division/undertaking continues to be vested in it and shares are allotted to certain of the transferor company’s shareholders (www.legalserviceindia.com)

A demerger is a form of restructuring in which shareholders gain direct ownership in an entity that they formerly owned indirectly. Underlying ownership of the companies and/or trusts that formed part of the group does not change. The entity that emerge have its own board of directors and, if listed on a stock exchange, have separate listings. The purpose of demerger is to optimise company’s future growth or dividing the unrelated business undertakings or simply to increase its share price.

Demerger is to be implemented under the scheme of arrangement with approval of the court u/s 391 of the Companies Act.

General Procedure for Demerger:

1. Demerger forms part of the scheme of arrangement or compromise within the ambit of Section 390, 391, 392, 393, 394 besides Sec 394A

2. Demerger is most likely to attract the other provisions of the companies Act, envisaging reduction of Share capital comprising Sec. 100 to 105
3. The company is required to pass a special resolution which is subject to the confirmation by the court by making an application.

4. The notice to the shareholders convening the meeting for the approval will usually consist of the following detail:

(a) Full Details of the scheme
(b) Effect of the scheme on shareholders, creditors, employee
(c) Details of the valuation Report

5. An application has to be made for approval of the High Court for the scheme of arrangement

6. It is necessary that the Articles of Association should have the provision of reduction of its Share Capital in any way, and its Memorandum of Association should provide for demerger, Division or split of the Company in any way. Demerger thus, resulting into reduction of Companies share capital may also require the Company to amend its Memorandum of Association (M C Bhandari, 2010)

Hiving Off the Business/Sale of Undertaking:

The term ‘Undertaking’ as interpreted in the present context means a unit, a project or a business as a going concern. It does not include individual assets and liabilities or any combination thereof not constituting a business activity.

Under a sale as a going concern, the rights, liabilities and obligations of all the affected parties (eg. debtors, creditors, employees etc.) are protected. It provides for the continuation of the running of the undertaking without any interruption. Precautions must be taken by buyer in a going concern principle the buyer inherits both benefits and liabilities from the ongoing contracts that may arise at a later date even with respect to past transactions. There should be clear provisions in the sale agreements fixing the responsibilities of the parties in this behalf
Legal aspects of Hiving off:

The MOA of the company shall contain a provision empowering the company “to sell or dispose off the whole or any part of the undertaking, or of any of the undertaking of the company”. If there is no provision in that regard, then the MOA can be amended under section 17 of the Companies Act by passing a special resolution.

The objects clause of the transferee company shall also contain such a provision for carrying on the business that it seeks to acquire. However it is not necessary that the objects of the two companies should be in uniformity.

The company needs to take consent of high value creditors in writing, if the assets on which the loans were raised are transferred (as a part of the industrial undertaking). Only then the loans can be transferred or the assets can be released from the charge.

The consideration for the transfer of the business/undertaking can take any one of the following forms: Shares; Shares and Bonds; Cash (C R Dutta, 2008).

**Demerger v/s Hiving – Off:**

i.  Consideration:
In case of demerger, consideration is given to the shareholders of the demerged Co by issuing proportionate shares in the resulting Co whereas in Hiving- off, the payment of a lump sum sale consideration is required in respect of transfer of an undertaking.

ii. Valuation of Asset:
In case of demerger, the assets and liabilities of the demerged Co. are transferred at the value appearing in the books of accounts immediately before the demerger to the resulting companies whereas in case of Hiving- off values are not assigned to individual assets and liabilities of the undertaking.

iii. Carry Forward of Depreciation:
Unabsorbed depreciation/loss can be carried forward by the resulting companies in case of
demerger whereas in case of Hiving-off in the case of demerger, depreciation/loss can be
carried forward only by a transferor Co.

iv. Cost of Assets in Hands of the Transferee:
In demerger the assets are valued at the book value as appearing in the books of transferor
and hence determination of cost of assets in the hands of transferee company is simple
whereas in case of Hiving off, to determine the actual cost of assets transferred, the lump
sum consideration received is apportioned in fair and reasonable manner among the assets
transferred.

4.2.2 Sections 391 to 394 of the Indian Companies Act, 1956:
Merger / Amalgamation / De-Merger / Re-construction is not directly defined under the
Companies Act, 1956. But the Companies Act, 1956 defines arrangement as a re-
organisation of the share capital of the company by the consolidation of shares of different
classes, or by the division of shares into shares of different classes or, by both those
methods

Sections 391 to 394 of the Companies Act, 1956 deals with the reconstruction and
amalgamation of companies. The procedures require an application by the company to the
concerned High Court by way of a scheme of compromise or arrangement with its
creditors or members or any class of its members. Important to note is that sections 391 to
394 of the Act facilitate a “single window clearance” by providing a complete code for
facilitating reconstruction scheme which removes the need for making several separate
applications under the Act and ensures that the interested companies don’t have to pass
through unnecessary and cumbersome procedures creating hurdles in implementing such
schemes (Ramaiya, 2013)

In sections 391 and 393, (b) the expression "arrangement" includes a reorganisation of the
share capital of the company by the consolidation of shares of different classes, or by the
division of shares into shares of different classes or, by both those methods.
Definition of “company” for the purpose of Sec 391- 394: Sec 390- ‘Company’ means any “company liable to be wound up under this Act”.

Landmark ruling in Khandelwal Udyog Ltd. and ACME Mfg. Ltd., Re, (1977) 47 Com Cases 503 clarifies the meaning of above phrase with following rulings stated as an outcome of the case:

i. All companies registered under the provisions of the Companies Act, 1956

ii. All unregistered or other companies in respect of which winding-up orders can be made by a court under the provisions of the Companies Act

iii. Amalgamation can be done under Sec 391 where the transferor company is a foreign company

iv. There cannot be an amalgamation where the transferee company is a foreign company

4.2.3 Important point relating to demerger:

De-merger is essentially a scheme of arrangement under Section 391 to 394 of the Companies Act, 1956 requiring approval by;

i. majority of shareholders holding shares representing three-fourths value in meeting convened for the purpose, and;

ii. Sanction of High Court.

De-merger involves ‘transfer’ of one or more ‘undertakings’. The transfer of ‘undertakings’ is by the demerged company, which is otherwise known as Transferor Company. The company to which the undertaking is transferred is known as resulting company which is also known as Transferee company.

Existing provisions relating to amalgamations of companies were rationalised and new ones relating to demerger of companies, or sale/transfer of business as a going concern through slump sales were introduced.

A demerger can take place through a spin out by distributed or transferring the shares in a subsidiary company to shareholders of the company implementing the demerger. The
Demerger can also occur by transferring the relevant business to a new company or business of which then the parent company's shareholders are issued shares.

Demerger also take place through the process of ‘decartelisation’, i.e the transition of a national economy from monopoly controlled by groups of large businesses, known as cartels, to a free market economy.

Important points to be noted in respect of resulting company in case of demerger:

i. Consideration for transfer of undertaking would be by issue of shares only by resulting company.
ii. Such consideration would be paid only to the shareholders of de-merged company.
iii. Resulting company can also be a subsidiary company of a de-merged company.

(www.lawyersclubindia.com)

Points to be considered by an investor:

Demerger is relatively a new phenomenon in the Indian corporate scenario. A demerger is a reorganization of a company where all the existing assets and liabilities are divided into one or more additional entities leading to resulting companies. While there are no specific provisions under the Companies Act governing demergers, some transactions of this nature do take place through schemes of compromise or arrangement under sections 391 to 394 of the Companies Act and these are sanctioned by the High Courts. Hence due to the creation of an altogether new business entity, it calls for prudence and careful decision making on the part of the investor.

The following are some of the important points and key notes that the investors must make and take heed of in case of Demerger of a corporate restructuring

i. Extent of separation:
The most important and crucial factor is the extent of activities separated at the time of demerger. It is important to remember that the overall size of the business entity and the extent of the profits that it makes is the prime factor that determines the pricing of the newly-listed shares. Also, the future potential will determine the price impact after the demerger.

ii. Identifying benefits:

Investors must identify the future benefits with respect to returns on shares expected from the company. The key role for the investor is to identify an entity where the strong or profitable business remains. And then analyze and look for the company which has a future potential.

iii. Trading price:

Demerger can lead to some immediate gains for the investors where the price of the separate entities shoots up. When the prices are too high investor looks for an immediate sell option. This is then followed by a downfall in price to match up with the valuation. Hence investors have to take note of this and book their profits at right time.

iv. Investor interest:

There is often a high interest on particular scrip, immediately after the demerger leading to a shooting up of the share price at the stock exchanges. Following a thumb rule where the price of the scrip as compared to actual valuation gives a fair idea about the extent of overvaluation or undervaluation taking place.

4.2.4 Provisions in the Companies Act, 1956 relating to Compromise or Arrangement

Compromise & Arrangement could be between a company and its creditors or any class of them; or between a company and its members or any class of them. Compromise & Arrangement can be applied by company itself or creditors or members and in the case of a company which is being wound-up, the liquidator.
Approvals and sanctions are required from the following:

i. Dual criteria for approval from members- more than a special resolution majority of members/creditors, as the case may be, in number representing three-fourth in value

ii. Sanction from the High Court (www.indiafinancing.com)

4.2.5 Company Court Rules- Procedure (Rule 67 to Rule 87)

The procedure to be followed is prescribed in rule 67 to rule 87 which are enumerated as under: (C R Dutta, 2008)

Rule 67:

An application for obtaining judge’s summons for directions to convene a meeting shall be in Form No. 33, and shall be supported by an affidavit in Form No. 34.

A copy of the proposed scheme of compromise or arrangement is also required to be annexed thereto.

Rule 68:

Where the company is not the applicant, a copy of the summons and affidavit is required to be served on the company, or, where the company is being wound up on its liquidator, not less than 14 days before the date fixed for the hearing of the summons

Rule 69:

Upon the hearing of the summons, the Judge gives directions (Form No. 35) in respect of the following matters:-

Determining the class or classes of creditors and/or of members whose meeting or meetings have to be held, the time and place of such meeting(s) appointing a chairman for the meeting(s), fixing the quorum and the procedure to be followed at the meeting(s).
Notice of the meeting and the advertisement of such notice, the time within which the chairman of the meeting is to report to the Court the result of the meeting and such other matters as the Court may deem necessary.

**Rule 70:**

Voting by proxy shall be permitted. Proxy to be in prescribed form duly signed and filed with the company at its registered office not later than 48 hours before the meeting.

Member company/body corporate shall lodge with the company, certified true copy of the resolution under section 187 at its registered office not later than 48 hours before the meeting

**Rule 73:**

The notice of the meeting shall be in Form No. 36,

Notice shall be sent by post under certificate of posting not less than 21 clear days before the date fixed for the meeting.

Notice shall be accompanied by a copy of the proposed Scheme and of the statement required to be furnished under section 393 and a form of proxy in Form No. 37.

**Rule 74:**

The notice to be advertised in such newspapers and in such manner as the Judge may direct, not less than 21 clear days before the date fixed for the meeting in Form No. 38.

**Rule 75:**

Every creditor or member entitled to attend the meeting shall be furnished by the company, free of charge and within 24 hours of a requisition being made for the same, with a copy of the proposed compromise or arrangement together with a copy of the statement required to be furnished under section 393, unless the same had been already furnished to such member or creditor.
Rule 76:

The Chairman to file affidavit of service proving dispatch of individual Notices to the shareholders and publication of the Notice in newspapers with respective Court, at least 7 days prior to the date of the shareholders’ meeting

Rule 77:

The decisions of the meeting(s) held in pursuance of the order made under rule 69 on all resolutions shall be ascertained only by taking a poll.

Rule 78:

The chairman of the meeting(s) shall submit its Report within 7 days after the conclusion of the meeting to the Court in Form No. 39.

Rule 79:

The Company shall file petition for confirmation of the Scheme in Form No. 40 within 7 days of filing the Chairman’s Report.

Rule 80:

The Court shall fix a date for the hearing of the petition, notice of the hearing shall be advertised in the same papers in which the notice of the meeting was advertised, or in such other papers as the Court may direct, not less than 10 days before the date fixed for the hearing.

Rule 81:

The order sanctioning the Scheme shall include such directions in regard to any matter and such modifications in the compromise or arrangement as the Judge may think fit to make for the proper working of the compromise or arrangement.

The order shall direct that a certified copy of the same shall be filed with the Registrar of Companies within 14 days from the date of the order, or such other time as may be fixed by the Court. The order shall be in Form No. 41, with such variations as may be necessary.
Rule 84:

Upon hearing of the Petition, the Court shall make such order or issue such directions as it thinks fit.

An order made under section 394 shall be in Form No. 42 with such variation as the circumstances may require

4.2.6 Contents of the Scheme:

The scheme shall clearly include the following important points:

i. Appointed Date (controversy as regards Appointed Date was set to rest by the Supreme Court in Marshall Sons & Co case)

ii. Effective Date

iii. Capital Structure

iv. Objective of scheme

v. Vesting of property from the Appointed Date

vi. Share Exchange ratio

vii. Manner of conduct of business of Transferor Companies between the Appointed date and effective date.

viii. Effect of demerger on contracts/litigations of the Transferor Companies

ix. Service of Employees of Transferor Companies (www.indiafinancing.com).

Additional requirements for Listed Companies- clause 24

File the scheme with the Stock Exchanges where shares of applicant company are listed, for approval, at least a month before it is presented to the Court

Explanatory statement u/s 393 should contain

i) Pre and post-arrangement or amalgamation (expected) capital structure

ii) Shareholding pattern
Obtain “fairness opinion” from an Independent merchant banker on valuation of assets / shares done by the valuer

While submitting the scheme with the stock exchange, also submit an auditors’ certificate to the effect that the accounting treatment contained in such schemes is in compliance with all the applicable Accounting Standards. This requirement is added vide amendment dated 5th April 2010.

**4.2.7 Relevant provisions of Takeover Code**

Exempted under regulation 3(j) of Substantial Acquisition of Shares and Takeovers Regulations

i) Pursuant to a scheme framed under section 18 of the Sick Industrial Companies (Special Provisions) Act, 1985 (1 of 1986);

ii) Of arrangement or reconstruction including amalgamation or merger or demerger under any law or regulation, Indian or foreign;

**4.2.8 Companies Act, 2013:**

Companies Bill, 2013 has received presidential assent on 30 August, 2013. With this move, India has got a new company law i.e. Companies Act, 2013 that has replaced the erstwhile Companies Act, 1956.

The new Act has different provisions in relation to different types of restructuring processes as follow:

i. Compromise or Arrangements under Section 230 & 231 of the Act.
ii. Amalgamation including demergers falls within section 232 of the Act.
iii. Amalgamation of small companies within section 233 of the Act.
iv. Amalgamation of foreign companies under section 234 of the Act.
4.2.9 Detailed Steps involved in the process of demerger: (Das, 2009)

i) Generally the following steps are adopted in a demerger process:

1. To prepare the draft scheme of Demerger.
2. To get the valuation report for the purposes of shares Exchange Ratio.
3. To obtain fairness opinion from merchant banker on the valuation report (clauses 24 of the listing agreement)
4. To inform the Stock Exchanges for holding Board Meeting for approving the scheme of arrangement.
5. To hold Board Meeting for taking not of the valuation report and share exchange ratio, draft, scheme of amalgamation and authorizing someone to sign all the application, petition, affidavits etc. on behalf of the company.
6. To file draft Scheme of arrangement with the Stock Exchanges at least a month before presenting it to the Court (clause 24 of the listing agreement) along with auditor’s certificate confirming the compliance of AS-14 and other related documents.
7. Filing of application before the Honorable High Court under section 391 of the Act for convening / dispensing with the meetings of shareholders and creditors of the applicant companies.
8. Whether joint application / petition (i.e. by all the companies together falling under jurisdiction of one High Court) possible? – Yes there is no restriction.
9. Order of the High Court for convening of the meetings of the creditors / shareholders / creditors under Rule 69 of the company (Court) Rules, 1959 and appointment of Chairman.
10. To finalize the draft notice of meetings of the creditors / shareholders in Form 36 and advertisement of the notice of the meeting in Form 38.
11. To get the notice of the meeting approved from the Chairman appointed by the Court & Registrar of the High Court.
12. To get the explanatory statement approved from the chairman & Registrar of the High Court. (In case of Listed company, explanatory statement should also comply with the Listing agreement)
13. To get notice along with the explanatory statement printed.
14. To send the notice (Form 36) individually to the shareholders / creditors by the Chairman or under the name of the Chairman by the Company within 21 clear days of the holding off the general Meeting [along with copy of the Scheme, Explanation Statement, Form of Proxy (Form37) and also by way of advertisement in two newspapers, one in English and other in vernacular language circulating in the area where registered office of the Company is situated].

15. To give advertisement in the newspaper at least 21 clear days before the meeting (Advertisement in Form 38)

16. Chairman to file affidavit stating that the direction regarding the issue of notice of advertisement & dispatch of notices have been complied with (at least 7 days before the date of the meeting)

17. To convene meetings of the shareholders / creditors – Pass the resolution with requisite majority and arrange for filing of Chairman’s Report as per directions of the Court.

18. To file petition for obtaining sanction of the Court for the scheme along with all Annexure at the High Court for confirming compromise / arrangement (Form 40) (Within 7 days of filling report).

19. Publication in the newspapers of the notice of petition.

20. To follow up with the Regional Directorate (RD), Registrar of Companies (ROC) and Official Liquidator (OL) for submitting their reports that affairs of the Transferor Company and Transferee Company are not prejudicial to the interest of the members or to public interest

21. To ensure that RD and OL submit the report with the High Court before the final date of hearing as per guidelines by MCA.

22. To file certified true copy of the order within 30 days with the Registrar of Companies

23. To annex copy of the order of every copy of the Memorandum of the Company.

**ii) Activities from board meeting for approval of demerger scheme to court order:**

1. Intimation in Stock Exchange of Board Meeting date for considering Demerger
2. Board Approval for the Scheme
3. Informing Stock Exchange of Boards decision
4. Consent from shareholders to the Scheme for Resulting Companies (in case of Closely held unlisted Companies)
5. Filing scheme with the Stock Exchanges
6. NOC/ Approval from Stock Exchanges (BSE/NSE)
7. Filing of application under section 391(1) with High Court (along with Judges summons, affidavit in support of summons and draft minutes of order)
8. Finalizing the Notice/Explanatory Statement for Meeting of the Shareholders/Secured and unsecured Creditors
9. Hearing of company’s application
10. Hearing of Resulting Company’s application
11. Receiving authenticated copy of order for holding/ dispensing with the meeting of Shareholders/ Secured and unsecured Creditors
12. Obtaining certified copy of order of High court for court convened meeting
13. Commencement of Printing of Notice for court convened meetings
14. Completion of dispatch of notices for meeting
15. Advertisement of notice of meetings
16. Filing of Notice and advertisement of meeting with stock Exchange(s)
17. Filing of advertisement of meeting with court
18. Filing of Affidavit signed by Chairman of the meeting or other person directed by the court verifying that the directions regarding the issue of notices and the advertisements have been duly complied with
19. Meeting of Creditors and Members
20. Reporting the decision of the poll to the High Court
21. Filing of petition with the Court along with relevant documents
22. Admission of the petition
23. Minutes of order by judge fixing the date of hearing of petition and advertisement of notice of hearing
24. Advertising the notice of hearing in news paper
25. Obtaining certified copy of order on admission of petition
26. Filing of copy of petition with annexures with ROC through FORM 61 (e form)
27. Filing of affidavit confirming service of notice of petition and publication in newspaper
28. 28 Follow up with ROC
29. Receipt of letter, queries etc., from ROC
30. Follow up with ROC/ Legal Counsel to resolve issues, if any
31. Initial date of hearing of petition
32. Adjoined hearing if any
33. Filing of amended petition if any
34. Final date of hearing of petition
35. Obtaining certified copy of order on petition
36. Payment of Stamp duty, if required
37. Filing of certified order with ROC along with Form 21

iii) Activities from court order till record date:
1. Acknowledgement of receipt from ROC and certified true copy of court order to be filed with the Stock Exchange.
2. Notice to Stock Exchange for Record Date to determine eligibility to receive shares of the Resulting Companies and voluntarily give advertisement of the Record Date in National Dailies (30 day notice)
3. Agreement with CDSL and NSDL for admitting its securities
4. Printing of stationery, Allotment Advice, Share Certificate, Envelopes
5. Application seeking exemption for relaxation of Rule 19(2)(b) from SEBI through the designated Stock Exchange
6. Application to Stock exchange for in principle approval for listing of shares
7. Designated Stock exchange to forward the application to SEBI for approval under Rule 19 (2)(b) of SCRA Rules
8. Prepare Information Memorandum
9. Compliance with clause 49 prerequisite for listing
10. File Information Memorandum with BSE and NSE
11. Stock Exchange to receive SEBI Approval and give In-Principle approval for listing of shares of the resulting companies.
12. Keep share certificates, covering letter, envelope of the resulting companies ready for over printing.
13. Keep text and stationery ready for intimation of corporate actions for the Resulting Companies
14. Letter relating to cost of Acquisition to be sent to Shareholders
15. Ex Date for Stock Exchange for F & O

iv) Activities from record date till listing:
1. Procure details of Register of Members as on Record Date
2. Prepare list of eligible shareholders of the resulting companies, including details of the shareholding
3. Hold Board Meeting of Resulting Companies for allotment of shares
4. File Form 2 with ROC

v) Compliances relating to demerger:
1. Resulting Companies to submit the Corporate Action
2. Forms to depositaries and pay fee for the same
3. Over Printing of share certificates, cover letter, envelopes and Dispatch of Share certificates or demat credit of equity shares of the resulting companies.
4. Dispatching share certificate
5. Send intimation to the shareholders of each of the resulting companies regarding the corporate Action
6. Application to Stock exchange, attaching dispatch certificate/demat credit certificate and copy of advertisement, for trading permission
7. Publication of the Advertisement (as per Schedule 28 of SEBI DIP Guidelines) in one English daily, Hindi Daily and Regional Daily

vi) Documents to be filed along with company application with the high court:
1. Application is to be filed with the High Court where the Registered Office is situated for directions to convene a meeting for considering the draft Scheme of Demerger or for dispensing with the meeting. The following documents are necessary at this stage:
2. Judges Summons under Order XIV read with Rule 67 (or Rule 9, 11(b) & 19) read with Sections 391 to 393 and 394 of the Companies Act (to be filed in Form No. 33 of the Companies (Court) Rules, 1959).

3. An affidavit in support of summons in Form No. 34 of the Companies (Court) Rules, 1959.

4. Memorandum and Articles of Association of the company.

5. Latest Audited Balance Sheet.

6. List of Shareholders (if meetings are to be dispensed with).

7. List of Secured Creditors.

8. Scheme of Demerger.

9. Consent affidavits from all shareholders (if meetings are to be dispensed with).

10. Consent letters from secured creditors.

11. If the company does not have any secured creditor, a certificate to that effect from the statutory auditor must be obtained.


13. Extract of the Board Resolution approving the draft Scheme of Demerger.

14. Draft notice of meeting, Explanatory Statement pursuant to Section 393 of the Companies Act, form of proxy (In case meetings are convened)

**4.2.10 Duty of Court:**

Where a scheme of compromise or arrangement is presented to the court for sanction under Section 391, the court should examine it, apart from any specific objective from three abroad angles:

1. Compliance of Statutory provisions – The court has to check that all conditions have been fulfilled and that all statutory provisions are complied with by the company submitting the scheme.

2. Fair representation of all the classes of shareholders – The court has to analyze the elements of the scheme in detail so as to ensure that there is fair representation of all classes of shareholders.
3. Reasonable and Prudent – The court has to ensure that the arrangement is such as man of prudent business knowledge would reasonably approve.

4. Contradictory to public interest or law – It is the responsibility of the court to ensure that the scheme is not contrary to public interest or any other law

It is to be noted that it is not the duty of the court to guarantee that the terms and conditions of the scheme are the best and no better scheme could be offered to the shareholders. It is the prime responsibility of stakeholders i.e. shareholders and creditors of the company to analyze the pros and cons of the scheme before approving it in the meeting held for the same. Court cannot be held responsible for the same. Where the scheme is found to be reasonable and fair, it is not the responsibility of the court to substitute its judgment for the collective approval of the shareholders of the companies involved.

Following are the court cases supporting the above mentioned role of court in sanctioning the scheme of reconstruction:

2. Krl Standard Products Pvt. Ltd., (1976) 46 Com Cases 203, 226 (Guj);
4. Patiala Starch & Chemical Works Ltd., In Re, (1958) 28 Com Cases 111 (P&H)

**4.2.11 COURT CASES AND VIEWS ON DEMERGER:**

The Divisional Bench of Mumbai High Court in the case of Ashok Organic Industries Ltd. & Precision Fasteners Ltd held that once reference to Board for Industrial and Financial Reconstruction is made Company Court has no further jurisdiction under section 391-394. However, the Gujarat High Court in Phlox Pharmaceuticals Ltd held a contrary view that when a sick company although registered with BIFR where all legal proceedings have been
suspended, the same is not applicable to proceedings under section 391-394 and the Court can entertain such a petition as there are apparently no contradiction between the powers of BIFR and those of the company Court.

The Gujarat High Court in Core HealthCare Ltd held the company has jurisdiction on an application under section 391-394 notwithstanding that the Company is before the Debt Recovery Tribunal or the SARFESTI Act has been revoked.

The Madras High Court in Pentmedia Graphics Vs Bombay Stock Exchange (BSE) held that the NOC from the BSE is not necessary for filing the scheme under section 391-394 Companies act 1956. Similar view is held by Gujarat High Court in Torrent Power AEC Ltd.

Following are the cases where the concerned shareholders gave their written consent to the proposed scheme and the court approved that their meeting can be dispensed:

2. Dabur Foods Ltd, Re, (2008) 144 Com Cases 378 (Del)
3. Balaji Industrial Products Ltd., In re [2008] 88 SCL 321 (Raj.)
5. C.M. Smith & Sons Ltd., In re [2009] 89 SCL 377 (Guj.)

In case of Jaypee Cement Ltd. Re, (2004) 122 Com Cases 855 (All): 2004 CLC 1031 , the court held that the change of name of the company can be carried out as a part of the Scheme.

In case of HCL Infosystems Ltd. Re, (2004) 121 Com Case 861 (Del), the court held that there is no requirement of compliance with the provisions of Sec 293(1)(a) for sale, lease, etc., of the company’s property when it is transferred under the scheme of reconstruction.

Following are the cases where court held that it is not required to follow separate procedure for change in object clause:

1. PMP Auto Industries Ltd., (1994) 80 Com Cases 289 (Bom).
2. Rangkala Investments Ltd., Re, (1997) 89 Com Cases 754

Following are the cases where the Court has sanctioned reduction of capital to be considered as a part of the scheme:-

1. Cooper. Cooper and Johnson Ltd., Re, (1902) WN 199
2. Stephon Walters & Sons Ltd., (1926) WN 236
3. Durairajan (T.) v. Waterfall Estates Ltd., (1972) 42 Com Cases 563 (Mad)

4.2.12 Other legal aspects of demerger:

i) Reduction of capital of the demerged company: It is noticed in majority of the cases that demerger is followed with reduction of capital. Reduction of capital is justified as an undertaking is split out of the company or otherwise one needs to justify the capital originally deployed in the demerged company. However, there is no legal requirement as such, as it is well known, that a capital of the company depends on so many factors, and one need not reduce capital only because an undertaking is being transferred. This view is supported by the definition of 'deemed dividend' under section 2(22) which excludes from its purview 'any distribution of shares pursuant to a demerger by the resulting company to the shareholders of the demerged company (whether or not there is a reduction of capital in the demerged company)'. Therefore it is not legally compulsory to have reduction of capital post demerger (Godbole, 2013).

The Delhi High Court in case of SIEL Ltd held that reduction of capital can be part of the scheme without resorting to separate procedure under section 100 to 102. This is the position presently accepted by all courts.
ii) **Transfer of shares during the period of court proceedings:** It is a known fact that any court proceedings normally take a longer time. But there is no restriction with regard to the transferability of shares during the interim period i.e. between the Appointed Date and the date on which the court approves the scheme. In other words, the purchase and sale of shares are allowed to be continued during this period. It is just to remembered that in the case of majority voting required to approve the scheme it is required that shareholders holding at least 75% in value of shares in the demerged company become shareholders of the resulting company or companies as the case may be.

iii) **Some liability not transferred:** In a case where there is substantial compliance of the conditions except that one of the liabilities due to legal constraint cannot be transferred to the resulting company, it is to be noted that there can be given exemption of not transferring such liability. The true substance of the transaction is to be considered relevant i.e. properties must be transferred to the resulting company at book values and shares in a proportionate manner should be allotted to the shareholders. And hence there shall be no tax incidence. Hence it can be concluded that where there exists substantial compliance of the definition, there could be still no tax incidence, even if some minor infringement of conditions occur due to certain exceptional situations.

4.2.13 **Valuation Aspects:**

Since demerger involves transfer of undertakings and consideration is in the form of proportionate shares in resulting companies, it is very crucial to get correct valuation to ascertain appropriate exchange ratio. The definition states that in consideration of the demerger, the resulting company must allot its shares to the shareholders of the demerged company in a proportionate manner. The words to be noted here are 'in consideration of demerger'. Which means it is required to fix the consideration for demerger. Fixing the consideration involves valuing the demerged undertaking and comparing it with that of the original company. This calls for proper business valuation which in turn will help in fixing the exchange ratio to arrive at the further allotment of shares. One of the most important part of the Demerger process is the procedure of valuation which involves the following:

i. Evaluating the value of the demerging company or its undertaking or its business
ii. Evaluating the securities of the issuing company on a standalone basis.
iii. Determining the Exchange Ratio for the securities to be issued to the shareholders of demerged company in the resulting companies so as to ensure fair and appropriate consideration.

The valuer first determines the value of demerged undertaking and the value of the original company and after considering all the relevant data fixes the exchange ratio which is then incorporated in the Scheme of Arrangement placed before the High Courts for its approval.

Some of the commonly used methods of valuation in Corporate Restructuring are as follows:

Earning based method – In this method the value of the company is calculated on the basis of earning capacity of the company.

Asset based Method – In this method emphasis is given on the net assets held by the company and based on assets value the value of company is ascertained. For the purpose of valuation revalued amounts of assets are considered by the assets. And all tangible as well as intangible assets are considered for valuation.

Market value of shares – This method gives importance to the stock market prices of the company’s shares to value the company. Performance of the company is judged here by the stock market prices of shares.

Generally a combination of the earnings or yield method, asset value method and market value method is used by the experts for the purpose of valuation (Donald, 2011).

The valuation report made by an expert appointed by company is subject to scrutiny by lending institutions, Regional Director and Official Liquidator if applicable.

Approval of the scheme and the valuation report by majority of the shareholders and creditors does not imply that the court is forced to treat the same as final. The court can consider it from the test of fairness and if required may in some occasions appoint independent valuers where dissenting shareholders or creditors make a strong case for such an action.
Courts generally do not raise question on the valuation done by independent professional expert and which is approved by the shareholders. Valuation of experts is not to be set aside in the absence of instance of fraud or malafide interest on the part of experts.

Few important case laws in relation to valuation aspects are summarized below:

The Supreme Court in Hindustan Lever Employees’ Union v. Hindustan Lever Ltd., AIR 1995 SC 470 stated that capital cover, yield, earning capacity and marketability must be considered while making valuation of shares.

The Supreme Court in case of Miheer H. Mafatlal (1996) held that if the exchange ratio has been calculated by a recognised firm of chartered accountants who are experts in the field of valuation and if no evident mistake can be pointed out in the said valuation, then the court shall not substitute its exchange ratio, especially when the same has been accepted without objection by the majority of the shareholders of the company.

The above principle is uniformly followed by the courts in several cases.

The court in Vajram Hotel & Resort Pet. Ltd held that authorities like Regional Director, Official Liquidator do not have any right to oppose the exchange ratio which is approved by members.

The Mumbai high court in the case of Advance Plastics Pvt. Ltd has held that there is no requirement under section 391-394 that the exchange ratio should be calculated and certified by the Chartered Accountant and the Company can fix the exchange ratio on its own and would be considered as perfect if it is approved by the shareholders.

4.2.14 Other Related Statutes:

i) FEMA Regulations provide the general guidelines on issuance of shares or securities by an Indian entity to a person residing outside India.

Regulation 11(1) of the SEBI takeover Regulations permit consolidation of shares or voting rights beyond 15% up to 55% provided the acquirer does not acquire more than 5% of the shares or voting rights of the target company in any financial year. However, the
acquisition of shares or voting rights beyond 26% would apparently attract notification procedure under the Act.

ii) Stamp Duty

Stamp duty is levied in case of amalgamation transactions which vary from state to state. As per Bombay Stamp Act, conveyance includes an order in respect of amalgamation, by which property is transferred to or vested in any other person. As per this Act, rate of stamp duty is 10%. As per Section 394 (2) of the Companies Act, 1956 when an order is passed by a High Court under Section 394(I) of the Companies Act 1956 that provides for the transfer of any property or liabilities, then, by virtue of the order, that property and liabilities shall be transferred to the transferee company and in the case of any property, if the order so directs, freed from any charge which is, by virtue of the compromise or arrangement, to cease to have effect.

Since there is no specific mention of the order to High Court passed under section 394(1) in the Indian Stamp Act as an instrument to be stamped and the fact that the High Court confirms the scheme of merger and a major role is played by the stakeholders of the transferor and transferee companies to approve the scheme of merger, leaves with a question that whether such an order is required to be stamped.

Although High Courts in India have led to contrary views with regard to payment of Stamp Duty on such an order but the Supreme Court of India has held that an order under Section 394(1) is liable for payment of Stamp Duty. Therefore ‘Conveyance’ (an instrument by which property is transferred), to include ‘every order made by the High Court or Tribunal under Section 394 of the Companies Act, 1956 in respect of the amalgamation or reconstruction of companies’.

In Andhra Pradesh, Maharashtra, Gujarat, Karnataka, West Bengal, Rajasthan and Madhya Pradesh, Stamp duty is to be paid on the court orders. Other states follow The Indian Stamp Duty Act.

The Supreme Court in Hindustan Lever’s case held that ‘an order under section 394 of the Companies Act is an instrument or a document transferring a right in the instrument and
when a consent decree itself is considered as an instrument liable for stamp duty, the same view should be applied in this case also.

In the case of Gemini Silks Limited and Gemini Overseas Limited [Calcutta High Court] “An order sanctioning a scheme of reconstruction or amalgamation under Section 394 is covered under the Indian Stamp Act and therefore liable to stamp duty.

The Registrar of Companies shall not take on record an order sanctioning a scheme until the same has been duly stamped. The department of this Court is directed to engross the final order sanctioning a scheme under Section 394 of the Companies Act on an appropriate stamp paper and thereafter the order should be placed for final signature.”

But in a demerger, there is no consideration flowing to anybody excepting that there is a restatement of ownership interests. There cannot be any stamp duty incidence as this will become a recurring levy, one at the time of acquisition and later at the time of demerger also.

iii) Compliance with Securities Exchange Board of India regulations:

The SEBI (Disclosure and Investor Protection) Guidelines do provide certain disclosures needed for protecting the investors. No specific guidelines are presently there. However, in SEBI Press Release 3-11-2003 dated December 17, 2003, it has been proposed by SEBI to enforce appropriate disclosures in case of demerger as in the case of amalgamation.

Securities and Exchange Board of India in an attempt to curb volatility in trading of the scripts of the companies going into any form of restructuring gave following directions:-

Trading of shares of companies going for a merger, demerger or a change in the capital structure will have to be done in a price range for the first ten days of post-restructuring.

In addition, trading in these shares will have to be settled between buyers and sellers for the first ten days which means that intra-day trading cannot happen in these shares for the first ten days. That is Trade-for-Trade settlement has to be done; one has to take or deliver securities for every trade. Explaining the provisions, SMC Capitals Equity Head
Jagannadham Thunuguntla said that “the price range in trading of a script concerned on the
first day of listing post-merger, demerger or capital changes will be taken as the band for
trading over the next ten days”. The said circular of SEBI does not apply to "original
scripts on which derivatives products are available, or included in indices on which
derivatives products are available." Thus it implies that trading in only fresh shares, which
would emerge after the merger, demerger or capital restructuring, would have to follow
these rules in case the scripts were eligible for trade under futures and options. Scripts that
were only traded in the cash segment would have to follow these rules.

SEBI also directed that trading in scripts of all companies where at least half of the non-
promoter holding is not in a digital form would have to be in the Trade-for-Trade segment.

SEBI said the exchanges shall ensure that before starting trading in scripts, the companies
have complied with the disclosure requirements and the same is publicly disseminated on
the website of exchanges to enable investors to take informed decision.

These directions of SEBI have helped in controlling and monitoring the sharp and
destabilising price movements in shares of companies and has ensured better price
discovery and increased transparency in the securities market.

4.2.15 Limitations in the Current Legal Provisions Relating to Demerger:

Questionable restructuring strategies are undertaken with an objective of transferring all
vital assets from the parent company and defeat revenue. By this process, the parent
company's business is reduced to such a minimum extent that no significant assets are left
from which the Income Tax Department can recover its dues.

The parent company becomes a shell company though portraying itself as a holding
company.

When the amendments were made, the Central Government was able to prescribe
guidelines or conditions so as to ensure that the de-mergers were made for genuine
business purposes. Section 281 of the Income tax Act declares certain transfers to be void.
But this applies where such transfers are made during the pendency of any proceeding under the Act. It also does not apply to assets not forming part of the stock-in-trade of the business. It was not anticipated that the provisions would be abused not merely to take advantage of tax concessions but also to defeat legitimate tax revenues.

The definition of demerger in Section 2 (19AA) requires fresh look. The property and liabilities of the undertaking being transferred by the demerged company, as per the definition, will be transferred at book value. Even a unit or a division or a business activity of an undertaking can be transferred. No doubt, all the property of the undertaking, including liabilities relatable to the undertaking being transferred by the demerged company, shall become the property and liabilities of the resulting company. But it is necessary to specifically lay down that de-mergers should not result in defeating the revenue by way of transfer of assets.

4.3 TAXATION ASPECTS OF DEMERGER

The concept of demerger was introduced in Income Tax Act with effect from 1st April 2000. If the conditions specified in the definition as per section 2 (19AA) of the Income Tax Act 1961 are fulfilled then the demerger is given the status of tax neutrality. Tax neutrality means that there would be no tax levied on account of changing the earlier structure of the business and transforming into another modified form to carry on the business either on account of amalgamation or demerger.

4.3.1 Section 2(19AA) of the Income Tax Act:

The definition of 'demerger' as given under Section 2(19AA) of the Income Tax Act is unduly restrictive, and subject to various conditions. Sub Section 19AA of Section 2 of Income Tax Act, 1961 defines Demerger as follows:

“Demerger in relation to companies, means the transfer, pursuant to a scheme of arrangement under sections 391 to 394 of the Companies Act, 1956 (1 of 1956), by a
demerged company of its one or more undertakings to any resulting company in such a manner that—

(i) All the property of the undertaking, being transferred by the demerged company, immediately before the demerger, becomes the property of the resulting company by virtue of the demerger;

(ii) All the liabilities relatable to the undertaking, being transferred by the demerged company, immediately before the demerger, become the liabilities of the resulting company by virtue of the demerger;

(iii) The property and the liabilities of the undertaking or undertakings being transferred by the demerged company are transferred at values appearing in its books of account immediately before the demerger;

(iv) The resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis;

(v) the shareholders holding not less than three-fourths in value of the shares in the demerged company (other than shares already held therein immediately before the demerger, or by a nominee for, the resulting company or, its subsidiary) become shareholders of the resulting company or companies by virtue of the demerger, otherwise than as a result of the acquisition of the property or assets of the demerged company or any undertaking thereof by the resulting company;

(vi) The transfer of the undertaking is on a going concern basis;

(vii) The demerger is in accordance with the conditions, if any, notified under sub-section (5) of section 72A by the Central Government in this behalf.
Explanation 1- For the purposes of this clause, “undertaking” shall include any part of an undertaking, or a unit or division of an undertaking or business activity taken as a whole, but does not include individual assets or liabilities or any combination thereof not constituting a business activity.

Explanation 2.—For the purposes of this clause, the liabilities referred to in sub-clause (ii), shall include—

(a) the liabilities which arise out of the activities or operations of the undertaking;
(b) the specific loans or borrowings (including debentures) raised, incurred and utilised solely for the activities or operations of the undertaking; and
(c) in cases, other than those referred to in clause (a) or clause (b), so much of the amounts of general or multipurpose borrowings, if any, of the demerged company as stand in the same proportion which the value of the assets transferred in a demerger bears to the total value of the assets of such demerged company immediately before the demerger.

Explanation 3.—For determining the value of the property referred to in sub-clause (iii), any change in the value of assets consequent to their revaluation shall be ignored.

Explanation 4.—For the purposes of this clause, the splitting up or the reconstruction of any authority or a body constituted or established under a Central, State or Provincial Act, or a local authority or a public sector company, into separate authorities or bodies or local authorities or companies, as the case may be, shall be deemed to be a demerger if such split up or reconstruction fulfils [such conditions as may be notified in the Official Gazette, by the Central Government”(Singhania, 2012).

Important points relating to interpretation of definition stated above are discussed further:-

The conditions specified in the definition ensure that demerger does not lead to merely transfer of assets but also ensures related liabilities also to be transferred to resulting companies.
The condition of going concern ensures that operations or business is intended to be continued by the resulting company without any possibility of curtailing the operations or liquidating it in near future.

The condition stated in definition is that all properties belonging to an undertaking being demerged are required to be transferred to the resulting company. It is interesting to note that the section does not say that nothing more can be transferred. So if some asset which is not directly belonging to that undertaking is transferred to the resulting company over and above all the assets of the undertaking then the condition is not violated. Also in case of assets that are used partly for the undertaking that is being demerged and partly for the remaining undertaking, the same may not be transferred compulsorily. Some companies take advantage of this and do not transfer assets that are jointly used by undertaking to be demerged and the remaining undertaking to be continued in the transferor company.

The explanation 1 clearly states that what shall constitute to be an undertaking and also lists the exclusions from the term undertaking. It no where states that what is demerged needs to be an industrial activity or an industrial underlying. Hence anything would be taken as an undertaking that is not falling within the exclusion clauses.

The explanation 2 in relation to liabilities states that specific loans are those which are raised, incurred and utilised solely for the undertaking being transferred. Hence it is important that all these three conditions of raising it, incurring and utilising should be fulfilled to call it as specific loan. But a loan may be intended to be used for the purchase of raw material when it is negotiated, but the company may, after raising the loan, change its mind and spend it on securing capital assets. There is no clarity on whether the purpose at the time the loan is negotiated to be taken into consideration or the purpose for which it is actually used. Further there is no clarity on whether what happened in the accounting year is to be considered or what happened in the Assessment year.

The explanation 2 in relation to condition of liabilities to be transferred states that common loans are to be apportioned in the ratio of assets transferred to the total value of assets of
the demerged company prior to demerger. Following formula is to be used for such apportionment:

\[ \frac{\text{General purpose borrowings} \times \text{Value of the assets of the demerged Undertaking}}{\text{Value of the assets of the demerged company immediately before the demerger}} \]

Many experts feel that the term value of assets indicated above denotes the total value of assets comprising of fixed assets, investments and current assets. Such apportionment leads to complexities in calculating such ratio in many cases. For example, the cash credit account or an overdraft facility from a bank is generally taken for the company as a whole. There can be a case where the undertaking being demerged may have proportionately much bigger investment in the fixed asset than the retained undertaking but relatively very low investment in the current assets as compared to the retained undertaking. Therefore, in reality, the cash credit account or the bank overdraft would have been mainly used by the retained undertaking; but the peculiar method of apportionment prescribed by calculating such ratio of assets transferred will result into unfair apportionment of cash credit or overdraft liability to the resulting company. Therefore while taking decision of apportionment of common loans it is necessary to consider all the internal ground realities and apply commercial wisdom. Hence it is appropriate to leave such decision to the board of directors of the company.

The condition relating to transfer of properties and liabilities at book value calls for restating the earlier revalued assets at book values i.e. cost less accumulated depreciation in case of fixed assets. The effect of this is given by adjusting the revaluation reserves outstanding in the balance sheet in respect of these assets. But there can be a situation where the company has already capitalized these reserves by the issue of bonus shares. In such a case, the transferor company would end up adjusting the diminution in the value of assets against its general reserves which is not in the favour of shareholders. The point of concern here is that such restatement of assets and liabilities at book value leads to contradiction of fair value accounting. As per the taxation rule, the depreciation is not linked to the book value and is allowed on the revalued amounts. Since benefit of tax
neutrality for fair value accounting is allowed in cases of amalgamations it should also be extended to cases of demerger. Also, a land forming part of the undertaking, when transferred to the resulting company in terms of the court approved scheme can instigate companies to avoid payment of stamp duty on revalued amount. But it is to be noted that the revaluation is to be ignored for the purpose of demerger and not for the levy of stamp duty. Therefore company needs to pay stamp duty on the revalued amounts of the assets transferred.

As per the condition number (iv) given in the above definition, the resulting company must issue its shares to the shareholder of the demerged company in proportionate basis as a consideration for demerger. It should be noted that as per amendment made with effect from 1st April 2013, where the resulting company itself is the shareholder of the demerged company, there is no need to issue shares. Therefore, it shall not be necessary for the resulting company to issue shares to itself. The word proportionate basis implies that shareholders of a class of shares are given shares of the same class in proportion to their holding. A peculiar issue was witnessed in the case of Tata Telecom when it undertook to demerge the Tata phone division to a separate company and at the time of demerger no shares were allotted to the shareholders as the net-worth of the division was nil.

The condition also states that central government has powers to notify any further conditions to ensure the genuine nature of the demerger case. Till date no notifications have been issued by government under section 72A (5) in this regard.

Budget for the financial year 1999-2000 suggested lot of amendments to extend tax benefits to the companies undertaking demerger. The benefits were not only for demerged company but were also extended to resulting companies and to shareholders. The CBDT circular 779 explains all provisions in detail to avoid all ambiguities in relation to interpretation of the tax provisions relating to demerger. Extensive amendments in the Income-tax Act have been carried out on the basis of the following broad principles:- (a) The restructuring shall not attract additional liability to tax and also not result in the withdrawal of relief and concessions available to the existing unit, (b) The tax benefits and
concessions available to an undertaking of a company shall continue to be available to the
undertaking on transfer or the same while concessions and benefits that are available to the
transferor company as an entity and not to the undertaking of the company proposed to be
transferred, should remain with the transferor company, (c) Tax benefits to such business
reorganizations should be limited to the transfer of business as a going concern and not to
the transfer of specific assets which would amount to sale of assets and not a business
reorganization.

A sub-clause (v) has been inserted in clause (22) of the Income-tax Act to specify that
dividends shall not include any distribution of shares pursuant to a demerger by the
resulting company to the shareholders of the demerged company whether or not there is a
reduction of the capital in the demerged company.

**Clause (42A) of section 2** of the Income-tax Act defining short term capital asset has been
amended to provide that in respect of shares in an Indian company which have become the
property of the assessee in consideration of demerger, the period of holding of such shares
in the demerged company shall be included in computing the total period of holding of the
shares by the assessee.

A new clause **(42C)** has been inserted in section 2 of the Income tax act to define the
expression "slump sale". Slump sale shall mean the transfer by way of sale of one or more
undertakings for a lump sum consideration without assigning values for individual assets
and liabilities. Explanation 1 to the clause follows the meaning of "undertaking" given in
clause (19AA) of section 2. Explanation 2 to the clause has clarified that the determination
of the value of an asset or a liability for the sole purpose of payment of stamp duty,
registration fees or other similar taxes or fees shall not be regarded as assignment of values
to individual assets or liabilities.

**Section 32** of the Income-tax Act has been amended substituting the fourth proviso to
clause (ii) of sub-section (J). The existing provisions provided that the aggregate
depreciation allowable to predecessor and successor business entities in the case of
succession or amalgamation shall not exceed in any previous year, the deduction allowable
at prescribed rates, as if succession or amalgamation has not taken place. Further, the
deduction on account of depreciation shall be apportioned between the predecessor and the
successor entities in the ratio of number of days for which the assets were used by them. These provisions have now been extended to a demerger involving demerged and resulting companies.

4.3.2 Implications in terms of capital gains tax

In respect of those demergers which conform to their respective definitions, transfer of assets under scheme of demerger are not treated as transfer of a capital asset and therefore no capital gains tax is chargeable.

Section 47 (vi b) states that “Transfer of a capital asset in the scheme of demerger is not to be treated as transfer of capital asset and capital gains tax is not to be charged, if the resulting company is an Indian company”.

Explanation 7A to section 43(1) clarifies that subsequently, if the capital asset is sold or transferred by the resulting company, the cost of acquisition in the hands of the resulting company shall be the same as it would have been in the hands of the demerged company, had it continued to hold the asset, for the purpose of its own business (Gupta, 2010).

As per the guidelines issued by Reliance Industries Ltd after the consultation of experts the proportion in which original cost of acquisition of Reliance Industries Ltd’s shares will be apportioned to the new shares is as follows:

Table 4.1 Percentage of cost of acquisition

<table>
<thead>
<tr>
<th>Company</th>
<th>% of cost of acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>52.0</td>
</tr>
<tr>
<td>Reliance communication ventures Ltd</td>
<td>38.7</td>
</tr>
<tr>
<td>Reliance energy ventures Ltd</td>
<td>7.3</td>
</tr>
<tr>
<td>Reliance capital ventures Ltd</td>
<td>1.3</td>
</tr>
<tr>
<td>Reliance natural resources Ltd</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: RIL Demerger scheme document
The period for which the asset was held by the demerged company is to be included for determining whether capital gain is long term or short term. However, the indexation benefit, if applicable, will be available from the date the asset was transferred to the resulting company.

Section 47 (vi c) provides that transfer of shares held in an Indian company by a demerged foreign company to the resulting foreign company shall not be treated as transfer of capital asset and will not be charged capital gains tax if following conditions are satisfied:
(i) atleast 75 per cent of the share holders of the demerged foreign company continue to be the share holders of the resulting foreign company
(ii) such transfer attracts no capital gains tax in the country in which the demerged company is incorporated
Subsequently, when the shares of the Indian company are sold by the foreign amalgamated company, the cost in its hands would be considered the same as the cost was in the hands of the foreign amalgamating company. However, the period for which the shares in the Indian company were held by the foreign amalgamating company shall be excluded for determining whether the capital gains are short-term or long-term.

Another area to be noted is in sections 47 (vi a) and 47 (vi c) which provide exemptions in case of amalgamations or demergers of foreign companies in respect of Indian shares held by them but there is no such exemption available to amalgamations or demergers of Indian companies who hold shares in the foreign companies. Given that many Indian companies are acquiring companies abroad, it is necessary to extend similar benefit to their amalgamations and demergers in India (Koshi, 2008)

Illustration explaining the implications of capital gains tax in case of a demerger:

It is assumed that Mr X had purchased 1000 shares at Rs.160 per share on 15th January 2001 and 1000 shares at Rs 190 per share on 15th February 2006 of ABC Ltd. ABC Ltd got demerged in the year 2006-07 and issued shares of resulting company B Ltd to the shareholders of ABC Ltd in the ratio of 1:1. MrX sold all these shares in ABC Limited and
B Ltd on 27 January 2007 at Rs. 250 and Rs. 190 respectively. Researcher discusses further in respect of different lots of shares of ABC Limited purchased and consequential issue of shares of B Ltd, the nature of capital gain whether it is short-term or long-term and the amount of capital gain per share.

Cost inflation indices (CII) are as given below:

**Table 4.2 Cost Inflation Indices**

<table>
<thead>
<tr>
<th>Year</th>
<th>CII</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2001</td>
<td>406.00</td>
</tr>
<tr>
<td>FY 2002</td>
<td>426.00</td>
</tr>
<tr>
<td>FY 2003</td>
<td>447.00</td>
</tr>
<tr>
<td>FY 2004</td>
<td>463.00</td>
</tr>
<tr>
<td>FY 2005</td>
<td>480.00</td>
</tr>
<tr>
<td>FY 2006</td>
<td>497.00</td>
</tr>
<tr>
<td>FY 2007</td>
<td>519.00</td>
</tr>
<tr>
<td>FY 2008</td>
<td>551.00</td>
</tr>
<tr>
<td>FY 2009</td>
<td>582.00</td>
</tr>
<tr>
<td>FY 2010</td>
<td>632.00</td>
</tr>
<tr>
<td>FY 2011</td>
<td>711.00</td>
</tr>
<tr>
<td>FY 2001</td>
<td>785.00</td>
</tr>
<tr>
<td>FY 2002</td>
<td>406.00</td>
</tr>
</tbody>
</table>

Source: Singhania, 2012
The first step is to calculate the apportioned cost for the purpose of taxation

Mr X had purchased the shares of ABC Limited twice. First, he purchased 1000 shares at Rs 160 per share on 15\textsuperscript{th} January 2001 and thereafter 1000 shares at Rs. 190 per share on 15\textsuperscript{th} February 2006. He was allotted shares of B Ltd in the ratio of 1:1. The cost of Rs.160 and Rs.190 needs to be apportioned in the ratio of net book value of assets transferred to B Ltd divided by net worth of ABC Ltd before the demerger.

It is assumed that net assets transferred to B Ltd = Rs 80 crore.

Net worth of ABC Limited = Rs.200 crore.

Hence, 40 per cent of respective cost per share of ABC Limited will be apportioned to the shares of B Ltd and balance 60 percent of the respective cost per share of ABC Limited will be considered as apportioned cost of ABC Limited shares.

Hence, the apportioned cost for taxation purpose will be as follows:

- Cost of ABC Ltd shares purchased on 15\textsuperscript{th} January 2001 = Rs. 96 per share
- Cost of B Ltd shares allotted against these shares = Rs 64 per share
- Cost of ABC shares purchased on 15\textsuperscript{th} February 2006 = Rs. 114 per share
- Cost of B Ltd shares allotted against these shares= Rs. 76 per share

The next step is to ascertain the nature of capital gain i.e. whether it is short-term or long-term capital gains and indexation applicable.

In respect of shares of ABC Limited purchased on 15\textsuperscript{th} January 2001, the capital gain will obviously be of long term. Also indexation will be available from FY 2000-01.

Hence, indexed cost of these shares = Rs. 96 x (519/406)= Rs. 122.72 per share

In respect of shares of B Ltd allotted against these shares, the capital gain will be of long-term nature since the period for which shares of ABC Limited were held would be included. However, indexation will be available from FY 2006-07, and since the shares were sold in the same financial year, the ratio of indices will below.

Hence, indexed cost of these shares = Rs. 64 x (519/519)= Rs. 64 per share
In respect of ABC Limited shares purchased on 15\textsuperscript{th} Feb 2006, the capital gain will be of a short-term nature since the shares were held by Mr X for a period of less than twelve months. Hence, no indexation will be available and cost of these shares for capital gains tax computation purpose will be same as apportioned cost above, i.e., Rs. 114 per share.

In respect of B Ltd shares allotted against the ABC Limited shares purchased on 15\textsuperscript{th} Feb 2006, the capital gain will be of short-term nature since even after including the period for which ABC Limited shares were held by Mr X, the total holding period is less than twelve months. Hence, no indexation will be available and cost of these shares for capital gains tax computation purpose will be same as apportioned cost above, i.e., Rs. 76 per share.

The last step is calculation of capital gain per share which is tabulated as follows:

**Table 4.3 Capital gain per share and nature of capital gain**

<table>
<thead>
<tr>
<th></th>
<th>ABC Ltd</th>
<th>B Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase / Allotted</td>
<td>1000.00</td>
<td>1000.00</td>
</tr>
<tr>
<td>Original Cost Per Share</td>
<td>160.00</td>
<td>NIL</td>
</tr>
<tr>
<td>Apportioned Cost Per Share</td>
<td>96</td>
<td>64</td>
</tr>
<tr>
<td>Indexed Cost per Share</td>
<td>122.72</td>
<td>64</td>
</tr>
<tr>
<td>Sale Price (27 January 2007)</td>
<td>250.00</td>
<td>190.00</td>
</tr>
<tr>
<td>Capital Gain Per Share</td>
<td>127.28</td>
<td>126</td>
</tr>
<tr>
<td>Nature</td>
<td>Long term</td>
<td>Long term</td>
</tr>
</tbody>
</table>
In respect of the second lot of ABC Ltd shares purchased on 15th Feb 2006 and B Ltd shares allotted against them

<table>
<thead>
<tr>
<th></th>
<th>ABC Ltd</th>
<th>B Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchase / Allotted</td>
<td>1000.00</td>
<td>1000.00</td>
</tr>
<tr>
<td>Original Cost Per Share</td>
<td>190.00</td>
<td>NIL</td>
</tr>
<tr>
<td>Apportioned Cost Per Share</td>
<td>114</td>
<td>76</td>
</tr>
<tr>
<td>Indexed Cost per Share</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>Sale Price (27 January 2007)</td>
<td>250.00</td>
<td>190.00</td>
</tr>
<tr>
<td>Capital Gain Per Share</td>
<td>136</td>
<td>114</td>
</tr>
<tr>
<td>Nature</td>
<td>Short term</td>
<td>Short term</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher from illustration

4.3.3 Implications in terms of carry forward and set off of losses and unabsorbed depreciation

Section 72 of the Act provides that when a loss (including unabsorbed depreciation) under the head 'profits and gains of business or profession' cannot be set off against the income under the same head or under a different head in the same year, because of the absence or inadequacy of income of the same year, it may be carried forward and set off against the profits of any business in the subsequent years.

It is to be noted that the loss can be carried forward only for eight assessment years subsequent to the assessment year in which it was incurred but unabsorbed depreciation can be carried forward indefinitely.

However, one crucial condition for allowing such carry forward and set off is that the loss can be carried forward and set off by the same assessee. Since the assessee changes in any
sort of corporate restructuring as the transferee or resulting company has a separate legal identity, there would have been a problem. But the provisions of section 72A solve this difficulty as discussed below:

In case of demerger, section 72A allows/requires the resulting company to carry forward and claim the accumulated loss and unabsorbed depreciation to the following extent:

i. In case the loss/depreciation is directly related to the undertaking transferred to the resulting company, the whole of such loss/depreciation has to be carried forward,

ii. In case the loss/depreciation is common to the retained and transferred undertakings, then the loss apportioned on the basis of book value of assets transferred and retained, has to be carried forward.

Note: There is no lock-in period for demergers like in case of amalgamation.

Clause (iv) in Section 2(19AA) provides that the consideration should consist only of shares in the sub-resulting company and composite consideration in the form of shares and cash or shares and debentures, etc., are not covered for availing of the exemption.

Gujarat High Court, in CIT v. Gautam Sarabhani Trust, (1988) 173 ITR 216 held that exemption u/s.47 will not be available if there is composite consideration,

Madras High Court, in CIT v. MCTM Corporation Pvt. Ltd., (1996) 221 ITR 524 held that exemption u/s.47 shall be available even if composite consideration is given.

It is suggested that suitable amendments may be made to ensure that even if the resulting company issues composite consideration it would come within the scope of the definition of demerger. The difficulties arising in the case of odd lots should also be taken care of. Further, it is suggested that the consideration received in the form of cash may be required to be invested in approved securities with a suitable lock-in period.
Amortisation of Expenditure in Case of Demerger (Sec. J5DD)
Expenses by an Indian company incurred after 1-4-1999 for demerger of an undertaking, shall be amortised @20% each year starting from the year in which amalgamation or demerger takes place.

4.3.4 Tax Implications in case of slump sale:

The provisions of Section 50B of the Income Tax Act, 1961 provide for the computation of Capital Gains in case of slump sale in the hands of transferor. If the undertaking or division has been held by the transferee for more than 36 months then any profits or gains arising from the slump sale affected in the previous year shall be chargeable as long term capital gains and shall be deemed to be the income of the previous year in which the transfer took place.

If the undertaking has been owned and held by the transferor for not more than a period of 36 months, the capital gain arising out of such a slump sale shall be treated as short term capital gains.

In case of slump sale the unabsorbed depreciation or losses can be carried forward only in the hands of the transferor and unlike in the hands of the transferee in case of demerger.

The purchaser can claim depreciation post slump sale on the basis of fair apportionment of total consideration.

4.3.5 Case laws relating to taxation matters of demerger:(Ramanujam,2010)

1. In case of Sinclair v. Lee, (1993J 3 WLR 498 (Chancery Division) 211 ITR 671 the court had to decide the nature of the receipt derived in the form of shares by the trustees of a deceased shareholder in Zeneca PLC, especially in the context that the new shares are allotted to the ICI shareholders in satisfaction of a dividend being declared by ICI and whether it constitutes capital or income. It was held that the ICI transactions should be characterized as a company reconstruction with two capital assets namely shares in ICI and Zeneca Group in the trustees' hands are replaced by
one capital asset namely shares in ICI. Hence it is not be regarded as income and does not attract any tax payment.

2. In case of Oudh Sugar Mills Ltd v. ITO, 35 ITD 76, a public limited company transferred its unit Berar oil industries to another limited company Akola oil industries as per the scheme approved by the high court and the consideration was given by way of issue of shares in resulting company. Tribunal ordered that the provisions of Section 41(2) are not attracted in this case as there is no sale in this transaction as it is a tripartite agreement and the consideration is received by the shareholders of assessee company and not by the company itself.

3. In case of Rossel Industries Ltd. and Rossel Tea Ltd., In Re (1995) 19 CLA 196 (Cal), the shareholders objected the scheme on the ground that the transfer of the three tea gardens were made without consideration and it was a gift. The Calcutta High Court rejected the argument of the objectors.

4. In case of HCL Ltd. In re and HCL Hewlett-Packard Ltd., In Re (1995) 2 Comp LJ 314 (Del), it was not clear that how the transferee company will take over the business of the transferor company with effect from the appointed date when the transferee company HCL-Hewlette Packard Limited was not in existence. It was stated in the scheme that the transferor company is going to reduce its share capital and no petition before the High Court regarding the reduction of the said capital is said to be moved. The court pointed out that in reality there was no reduction in capital as the bifurcation involved both the assets and liabilities to go with the divisions which are being spin-off. The court further held that the two observations made in the Central Government's representation were insignificant.

5. The Calcutta High Court in the case of SREI Infrastructure finance Ltd held that such scheme does not amount to avoidance of capital gains tax.
6. In case of Avaya Global Connect Ltd. v/s. Assistant Commissioner of Income Tax, 26 SOT 397 (Mum), the Income Tax Appellate Tribunal held that since the conditions as per the definition of sec. 2(19AA) defining demerger are not satisfied, the transfer in the said case cannot be regarded as a demerger. It was stated that the transfer had taken place under a scheme of amalgamation and the same cannot be considered to be a slump sale. Also undertaking was transferred on a going concern basis so the provisions of capital gains tax u/s 45 cannot be applied.

In recent times tax changes in relation to corporate restructuring are considered to be one of the most comprehensive tax changes introduced. CBDT circular has ensured transparent manner of the tax neutrality status for demerger. Tax benefits cannot be taken away so long as the conditions are complied with even when there occurs a change in the corporate structure. In demergers, tax benefits and concessions available to any undertaking are made available to the undertaking on its transfer to the resulting company. The condition regarding continuity of the same business for the allowing of loss to an assessee under Section 72 of the Income-Tax Act, 1961 was dispensed with. The accumulated losses and unabsorbed depreciation in a demerger is allowed to be carried forward by the resulting company if these are directly relatable to the undertaking proposed to be transferred. Where it is not possible to relate these to the undertaking, such losses and depreciation will be apportioned between the demerged company and the resulting company in proportion of the assets coming to the share of each as a result of demerger. Tax benefit to such business reorganisation is limited to transfer of specific assets, which would amount to sale of assets and not business reorganisation. Those issues which were on debate amongst the tax experts like whether there is a deemed dividend implied in issuing shares as consideration or how to compute the cost of shares in the resulting company or regarding the claim of depreciation pre and post demerger – etc were resolved. It can be hence concluded that there has been considerable expertise in the framing of recently enacted provisions.
4.4 ACCOUNTING ASPECT OF DEMERGER:

Demerger is a process by which a company alters itself by realigning the resources. The process of demerger involves disintegration of assets and liabilities. Accounting for demerger means basically splitting up of books of accounts and Balance sheet of the demerged company into two or more depending on the number of resulting companies. The accounting treatment of demerger is very simple as there is no complexity of valuation of assets and liabilities transferred. As specifically mentioned in the definition of Demerger in Sec 2(19AA) of Income Tax Act 1961 that it is transfer pursuant to scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956 where in one of the important conditions is that assets and liabilities are transferred at book values. The section has also given guidance on accounting norms to be followed in case of demerger. Rather following this accounting treatment is the requisite for demerger to qualify as a tax neutral transfer under the Act. Though ICAI has not prescribed any treatment for accounting of demerger but if we study the conditions prescribed in accounting standard 14 for an amalgamation to qualify to be an amalgamation in nature of merger, then it can be found that those conditions are same as those mentioned in sec2 (19AA). Hence it would not be incorrect to say that Income Tax act prescribes accounting treatment in lines of pooling of interest method which is used in case of merger, to be followed for accounting of demerger.

Demerger is just a separation of a division of a company into a separate legal existence. It does not involve any purchase or sale; hence the accounting procedure is very straightforward involving no complications of valuation of assets and liabilities i.e. recording of the transfer of assets and liabilities appearing in the books of a division of demerged company into a resulting company’s books at book values appearing as on the appointed date. The assets and liabilities of the undertakings to be demerged as on the appointed date are to be transferred to the resulting company. The assets will also include all tangible and intangible assets and also assets held on lease, hire-purchase, assets used by the executives and key personnel in their residences etc. If any of the assets of the demerged undertaking have undergone revaluation then such revaluation is to be ignored. In other words if there was any prior revaluation done for any asset of demerged undertaking then it is required to restate the asset at cost less accumulated depreciation. To the extent of
revaluation restated at cost the adjustment is required to be made to the revaluation reserves in the balance sheet and in the absence of such revaluation reserve, in case it is already capitalized for issue of bonus shares then it would result in a special case where in adjustment in decrease in value of assets will have to be done through general reserves. The Gujarat High Court in Sutlej Industries Ltd. and Torrent Power AEC Ltd held that a company can create general reserve and it will not be contrary to the provision of the Companies Act and such created general reserve can be utilized for declaration of dividend, bonus shares and adjustment of losses.

If the demerger involves inclusion of fresh capital by fresh investors in the resulting company, then every single item of asset and liability will become crucial and will be of utmost importance. In the case of liabilities, it is better to record all the liabilities in the books of accounts so that those are transferred to resulting company while split is done. This is especially true for contingent liabilities. Liabilities have to be transferred in following manner:

Specific liabilities of the demerged undertaking as on the appointed date have to be transferred to the resulting company at book values.

Specific loans or borrowings including debentures raised specially for the purpose of utilization in the operations of demerged undertaking have to be transferred to the resulting company.

Common loans and borrowings which cannot be specifically related to demerged undertaking will have to be apportioned to resulting company in the ratio of book value of assets transferred to resulting company to the total book value of all the assets of the demerged company prior to demerger. The deferred revenue expenses appearing in the balance sheet of the demerged undertaking and demerged company are obviously to be ignored at the time of calculating such ratio of assets transferred to total assets for the purpose of apportioning the common liabilities.

There is no mention of accounting treatment to be followed during demerger in the International Financial Reporting Standards (IFRS)- 3 on Business Combinations. Also
Indian Accounting Standard -14 on Accounting for Amalgamations has not covered the aspect of demerger accounting procedure to be followed. Though there is no specific treatment suggested by any standards, the treatment of accounting demerger followed globally has remained uniform. “Accounting for demerger is uniform across the globe”. *(Bhattacharyya, 2007)*

Though there is no mention of demerger in accounting standard it is important to just know what accounting standard states for any of the restructuring activity. Accounting standard 14 deals with accounting for amalgamations. Accounting Standard 14 recognizes two types of amalgamation:

i) Amalgamation in the nature of merger which has been defined to mean an amalgamation which satisfies all the following conditions:-

1. All the assets and liabilities of the transferor company after amalgamation, become the assets and liabilities of the transferee company
2. Shareholders holding not less than 90% of the face value of the equity shares of the transferor company become equity shareholders of the transferee company by virtue of the amalgamation
3. The consideration for the amalgamation is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares
4. The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company
5. No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies

ii) Amalgamation not in the nature of merger which is the case of amalgamation where any of the above conditions are not fulfilled.

The accounting standard prescribes separate accounting treatment to be followed for each case of amalgamation. *(Bansal, 2013)*
Since India is on the verge of adopting converge International Financial Reporting Standards, it is worthwhile to discuss the position of restructuring activities given in IFRS. IFRS 3 – Accounting for Business Combinations prescribes acquisition method of accounting to be followed for business combinations. Business Combination is defined as “a transaction or other event in which an acquirer obtains control of one or more businesses”. One of the entities in business combination is identified as the acquirer. Assets acquired and liabilities assumed are measured at fair value on acquisition date. If consideration paid to acquire net assets exceeds fair value of net assets (assets - liabilities) acquired, it shall constitute goodwill. If consideration paid to acquire net assets is less than fair value of net assets acquired, the acquirer shall make a gain on bargain purchase. Gain on bargain purchase is recognized in profit or loss i.e. current period earnings on the acquisition date.(Dr. Ahmad and Prof. Khan,2010)

**Journal entries to be passed in case of demerger:(Kumar, 2010)**

**Accounting in books of Transferor Company:**

1. Entry for recording sale of undertaking – It is assumed that the amount of consideration is greater than the net assets transferred

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Entry for consideration due:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Resulting company a/c (Consideration)</td>
<td>Dr. XXX</td>
<td></td>
</tr>
<tr>
<td>Liability a/c</td>
<td>Dr. XXX</td>
<td></td>
</tr>
<tr>
<td>To Assets a/c</td>
<td></td>
<td>XXX</td>
</tr>
<tr>
<td>To Capital reserve a/c</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>

[Profit is credited to Capital Reserve while loss is debited to Profit and Loss a/c]
b. Entry for receipt of consideration:

Shares in resulting company a/c Dr. XXX
To Resulting company a/c XXX

2. Scheme of arrangement – Transfer of business

a. Net assets taken over by Purchasing company – assuming consideration greater than net assets transferred

Purchasing company a/c (Consideration) Dr. XXX
Liability a/c Dr. XXX
To Assets a/c XXX
To Capital Reserve a/c XXX
[ Profit is credited to Capital Reserve while loss is Debited to Profit and Loss a/c]

b. Cancellation of amount receivable from purchasing company

Since the purchasing company discharges consideration directly in favor of members of selling company.

Capital reserve a/c Dr. XXX
To Purchasing company a/c XXX
**Accounting is books of Transferee Company**

The accounting is similar to accounting for acquiring business on amalgamation. The provisions of AS 14 are however not applicable.

1. Due entry for consideration.

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business purchase a/c</td>
<td>Dr</td>
<td>XXX</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Transferor company / members of transferor company a/c</td>
<td>XXX</td>
<td></td>
</tr>
</tbody>
</table>

2. Incorporation of assets and liabilities taken over

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets a/c (Agreed Values)</td>
<td>Dr</td>
<td>XXX</td>
</tr>
<tr>
<td>Goodwill a/c (Balancing Figure)</td>
<td>Dr</td>
<td>XXX</td>
</tr>
<tr>
<td>To Liabilities a/c (Amount taken over)</td>
<td></td>
<td>XXX</td>
</tr>
<tr>
<td>To Business purchase a/c (Consideration)</td>
<td></td>
<td>XXX</td>
</tr>
<tr>
<td>To Capital reserve a/c (Balancing Figure)</td>
<td></td>
<td>XXX</td>
</tr>
</tbody>
</table>
3. Discharge of Consideration

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Debit</th>
<th>Credit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferor company / Member of transferor</td>
<td>Dr. XXX</td>
<td>XXX</td>
</tr>
<tr>
<td>company a/c</td>
<td></td>
<td></td>
</tr>
<tr>
<td>To Equity share capital A/c</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

4. Other Items

A. Cancellation of Intercompany owing

B. Creation of stock reserve

C. Realisation expenses

{ Against Goodwill or Capital reserve as the case may be

Considering the above journal entries it can be concluded that accounting treatment though not prescribed by any accounting standard seems to be very simple and without any complications. It is merely transfer of assets and liabilities related to undertaking being demerged into the books of resulting company.

4.5 CONCLUSION:

The various dimensions of the framework in which demerger process is undertaken have been explained in this chapter. It has generated clarity on what legal procedure is to be followed for demerger and what accounting treatment is to be given to give effect of demerger. The researcher has listed step by step procedure involved in demerger process. The various compliances required for demerger are explained to serve as guidance for companies opting for demerger. Tax benefits to demerged company, resulting companies
and shareholders help to understand the tax neutral nature of demerger. Transactions relating to demerger are carried out majorly in light of provisions of Companies Act, Income Tax Act, Accounting Standard, SEBI, Stamp duty. Circulars and notifications are also released from time to time by SEBI and other authorities which is also required to be taken into consideration. The discussion on various case laws helps in better interpretation of the legal and taxation matters of demerger. Thus, this chapter helps us to understand the essential implications of all the provisions under various laws in relation to demerger, taxation impact and the accounting treatment to be followed. Having discussed about procedural aspects of demerger, the next chapter focuses on the shareholders perspective to the demerger of Reliance Industries Ltd.
REFERENCES


CHAPTER 5

SHAREHOLDERS PERSPECTIVE TO THE DEMERGER OF RELIANCE INDUSTRIES LTD
CHAPTER 5
SHAREHOLDERS PERSPECTIVE TO THE DEMERGER OF RELIANCE INDUSTRIES LTD

5.1 INTRODUCTION:

Shareholders are the owners of a company and hence are the most important stakeholders. Improving valuation, attracting investors, increasing performance efficiency, removing negative synergy are the various reasons for demerger but the most crucial one is increasing shareholders wealth. This chapter highlights the change in the level of shareholder’s wealth pre and post demerger of Reliance Industries Ltd. The researchers have analyzed the impact in long run, short run and its immediate impact.

The term analysis refers to the computation of certain measures along with searching for patterns of relationship that exist among data groups. Analysis particularly in case of surveys involves estimating the values of unknown parameters of the population and testing of hypothesis for drawing inferences. Analysis therefore may be categories as descriptive analysis and inferential analysis which is often known as statistical analysis. For analysis we may use primary or secondary data.

In present study to understand Shareholders Perspective to the Demerger of Reliance Industries Ltd. we use both primary and secondary data. Hence the study is divided in two parts

1. Descriptive analysis and Inferential analysis using primary data collected through survey
2. Only Descriptive analysis using secondary data.
5.2 DESCRIPTIVE ANALYSIS USING PRIMARY DATA:

Since one of the objectives of the study is to analyze perspective of shareholders in the demerger of Reliance Industries Ltd, researcher after undertaking sufficient review of past studies drafted a questionnaire to be filled up by the shareholders. Out of the millions of shareholders of Reliance Industries Ltd spread all over the country and abroad as well, researcher selected to conduct survey on top 5000 shareholders out of which 2000 were selected on random basis but only 1400 respondents responded to the questionnaire but 400 were rejected on the basis of incomplete entries. Therefore the 1000 complete questionnaires considered for analysis along with statistical tools like mean, standard deviation and graphs used for analysis of primary data are given below. The researcher has analyzed the perspective of shareholders to the demerger of Reliance Industries Ltd through this survey.

Table 5.1: Profile of respondents (shareholders)

<table>
<thead>
<tr>
<th>Point of respondents profile</th>
<th>Sub points</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>760</td>
<td>76.0</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>240</td>
<td>24.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
<tr>
<td>Age</td>
<td>Below 35</td>
<td>80</td>
<td>8.0</td>
</tr>
<tr>
<td></td>
<td>36-50</td>
<td>620</td>
<td>62.0</td>
</tr>
<tr>
<td></td>
<td>Above 50</td>
<td>300</td>
<td>30.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
<tr>
<td>Annual income</td>
<td>upto 6,00,000</td>
<td>100</td>
<td>10.0</td>
</tr>
<tr>
<td></td>
<td>6,00,000 to 12,00,000</td>
<td>480</td>
<td>48.0</td>
</tr>
<tr>
<td></td>
<td>above 12,00,000</td>
<td>420</td>
<td>42.0</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire
Out of the total respondents 76% were male and females constituted 24% which implies that top holding of reliance shares is more with the males. For further analysis graphical representation of respondent’s gender is given below

Graph 5.1: Respondent’s gender

62% of the respondents belong to the age category of 36-50 yrs and 30% are of the age above 50 yrs and only 8% are from below 35 yrs. It can be concluded that maximum of the shareholders belong to the middle age group. For further analysis graphical representation of respondent’s age is given below.

Graph 5.2: Respondent’s age
Only 10% of the respondents belong to the category of annual income below 6,00,000 which also highlights the fact that since the reliance shares are traded at high prices only the ones with higher income can afford to hold these shares in good numbers. It can also be related to the age group that middle age group or higher age group persons are generally in the high income group. For further analysis graphical representation of respondent’s Annual income is given below.

**Graph 5.3: Respondent’s annual income**

![Graph 5.3: Respondent’s annual income](image-url)
Purchase of Reliance shares:

The respondents were asked about the year of purchase of Reliance shares and following responses were obtained:

Table 5.2: Year of purchase of RIL shares

<table>
<thead>
<tr>
<th>Category</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Before 2005-06</td>
<td>480</td>
<td>48.0</td>
</tr>
<tr>
<td>Before 2005-06 and In the year 2005-06 (year of demerger)</td>
<td>60</td>
<td>6.0</td>
</tr>
<tr>
<td>Before 2005-06, In the year 2005-06 (year of demerger) and Post 2005-06</td>
<td>80</td>
<td>8.0</td>
</tr>
<tr>
<td>Before 2005-06 and Post 2005-06</td>
<td>20</td>
<td>2.0</td>
</tr>
<tr>
<td>In the year 2005-06 (year of demerger)</td>
<td>200</td>
<td>20.0</td>
</tr>
<tr>
<td>Post 2005-06</td>
<td>160</td>
<td>16.0</td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

Since the multiple ticks were allowed researcher has tabulated the data in categories like before 2005-06 (pre demerger period), before 2005-06 and in 2005-06 (year of demerger), before 2005-06 and in 2005-06 (year of demerger) and also after 2005-06 (post demerger period)

The sample for the study should be the respondents who were the shareholders of Reliance Industries Ltd at the time of demerger. The above table helps us to identify whether the respondents were shareholders at the time of demerger and it also implies the action taken (further purchase of shares, retaining of existing shares, selling of existing shares) by the shareholders after the news of demerger. The 48% of the respondents were already shareholders of Reliance Industries Ltd prior to demerger and 6+8+20 = 34% purchased shares in the year of demerger. From this it can be concluded that respondents selected are
apt for collecting their perspective relating to demerger as they were the shareholders during the process of demerger. It is interesting to note that these shareholders also purchased shares of Reliance Industries in the post demerger period.

The state of shareholders during demerger:

The shareholders were asked about their state with respect to the news of Reliance demerger and following viewpoint was received:

Table 5.3: State of shareholders during demerger

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Happy</td>
<td>200</td>
<td>20.0</td>
</tr>
<tr>
<td>Hopeful</td>
<td>500</td>
<td>50.0</td>
</tr>
<tr>
<td>Optimistic</td>
<td>280</td>
<td>28.0</td>
</tr>
<tr>
<td>Nervous</td>
<td>20</td>
<td>2.0</td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

It can be seen from the above table that 20% of the respondents were happy, 50% were hopeful and 28% were optimistic and only 2% were nervous which implies that most of the shareholders had a positive approach towards the news of demerger of Reliance Industries Ltd and were expecting demerger to result benefits to them. Though the reason for demerger considered by respondents is family dispute, it has been taken positively by the shareholders in a sense that this demerger also has other rationales behind it which would raise company valuation and shareholders wealth in future. For further analysis graphical representation of state of employees with respect to the news of demerger is given below.
The reason behind the demerger:

The researcher inquired about the shareholders opinion about the reason behind the demerger of Reliance Industries Ltd and responses are tabulated as follows:

**Table 5.4: Reason for demerger**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family dispute</td>
<td>520</td>
<td>52.0</td>
</tr>
<tr>
<td>Diversification of business</td>
<td>120</td>
<td>12.0</td>
</tr>
<tr>
<td>Unrealized synergies of different sectors</td>
<td>60</td>
<td>6.0</td>
</tr>
<tr>
<td>Increasing shareholders wealth</td>
<td>180</td>
<td>18.0</td>
</tr>
<tr>
<td>Lack of ability to manage expanded business under one name</td>
<td>120</td>
<td>12.0</td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire
The above table states that 52% of the respondents consider family dispute to be the reason for demerger and only 6% feel that unrealized synergies of different sectors was the reason behind demerger. Amongst the other reasons considered by the respondents were increasing shareholders wealth opted by 18%, followed by diversification of business by 12% and lack of ability to manage expanded business also by 12%. The survey hence concludes that family dispute was the prime reason behind the demerger of Reliance Industries Ltd. But it should be noted that increasing shareholders wealth is also considered by shareholders as a reason for demerger which is reflected in the response to previous question where in most of the shareholders are having positive outlook towards demerger of Reliance Industries Ltd. For better understanding the frequency of response for reason for demerger is graphically presented as follows.

Graph 5.5 Reason for demerger

<table>
<thead>
<tr>
<th>Reason behind the demerger of Reliance Industries Ltd</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lack of ability to manage expanded business under one name</td>
</tr>
<tr>
<td>Increasing shareholders wealth</td>
</tr>
<tr>
<td>Unrealized synergies of different sectors</td>
</tr>
<tr>
<td>Diversification of business</td>
</tr>
<tr>
<td>Family dispute</td>
</tr>
</tbody>
</table>

Reaction on RIL demerger announcement:

The information regarding immediate action of shareholders whether to buy more shares of Reliance Industries Ltd or to sell the existing or to just retain the shares was sought through one of the questions in the survey; the responses for the same are tabulated as follows:
Table 5.5 Reaction of shareholders on news of RIL demerger

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchased more RIL shares</td>
<td>520</td>
<td>52.0</td>
</tr>
<tr>
<td>Sold RIL shares</td>
<td>160</td>
<td>16.0</td>
</tr>
<tr>
<td>Just retained existing RIL shares</td>
<td>320</td>
<td>32.0</td>
</tr>
<tr>
<td>Total</td>
<td>1000</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

As we have seen earlier that most of the respondents had a positive expectation from demerger, it is further emphasized by the data from above table which indicates that 52% purchased further shares and 32% retained existing shares with the expectation of share prices to go up and only 16% sold out shares may be due to fear of future performance of resulting companies or may be to take advantage in the short run of the increased prices due to volatility on stock exchanges with the outburst of demerger news. Following graphical presentation facilitates further analysis.

Graph 5.6 Reaction on RIL demerger

[Graph showing the reaction of shareholders: 52 purchased more RIL shares, 16 sold RIL shares, 32 just retained existing RIL shares]
Satisfaction of shareholders in relation to demerger:

Various factors leading to satisfaction of shareholders were asked to respondents in the likert scale of five points where in SD means strongly disagree with weightage of 1 point, D means disagree with weightage of 2, N means neutral with weightage of 3, A means agree with weight of 4 and SA means strongly agree with weight of 5. The important factors leading to satisfaction of shareholders shortlisted by researcher are Exchange ratio under demerger scheme, increase in share market price, dividend payout, Price Earnings ratio, performance of the company, shareholders wealth. The responses of these are tabulated as follows:

**Table 5.6 Satisfaction of shareholders in relation to demerger**

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>The exchange ratio given in the scheme of demerger was satisfactory</td>
<td>40</td>
<td>200</td>
<td>100</td>
<td>480</td>
<td>180</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>4</td>
<td>20</td>
<td>10</td>
<td>48</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Increase in share market price of RIL shares post demerger was satisfactory</td>
<td>20</td>
<td>60</td>
<td>180</td>
<td>600</td>
<td>140</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>2</td>
<td>6</td>
<td>18</td>
<td>60</td>
<td>14</td>
<td>100</td>
</tr>
<tr>
<td>Dividend payout was satisfactory</td>
<td>60</td>
<td>180</td>
<td>160</td>
<td>520</td>
<td>80</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>6</td>
<td>18</td>
<td>16</td>
<td>52</td>
<td>8</td>
<td>100</td>
</tr>
<tr>
<td>Price Earnings ratio improved post demerger</td>
<td>0</td>
<td>180</td>
<td>400</td>
<td>320</td>
<td>100</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>0</td>
<td>18</td>
<td>40</td>
<td>32</td>
<td>10</td>
<td>100</td>
</tr>
<tr>
<td>Performance of the company improved post demerger</td>
<td>0</td>
<td>180</td>
<td>140</td>
<td>460</td>
<td>220</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>0</td>
<td>18</td>
<td>14</td>
<td>46</td>
<td>22</td>
<td>100</td>
</tr>
<tr>
<td>Demerger has proved to be effective tool for maximisation of shareholders wealth</td>
<td>0</td>
<td>220</td>
<td>180</td>
<td>420</td>
<td>180</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>0</td>
<td>22</td>
<td>18</td>
<td>42</td>
<td>18</td>
<td>100</td>
</tr>
<tr>
<td>Retaining RIL shares post demerger proved to be beneficial to shareholders</td>
<td>0</td>
<td>140</td>
<td>120</td>
<td>460</td>
<td>280</td>
<td>1000</td>
</tr>
<tr>
<td>%</td>
<td>0</td>
<td>14</td>
<td>12</td>
<td>46</td>
<td>28</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire
Graphical representation of respondent’s Satisfaction of shareholders in relation to demerger is given below.

**Graph no. 5.7 Satisfaction of shareholders in relation to demerger**

**Exchange ratio:**

48% of the respondents agree and 18% strongly agree to the fact that exchange ratio given under the scheme of demerger was satisfactory which means majority of the shareholders were happy with exchange ratio. Hence the mean value for this statement is more than 3. This response is justified as it can be seen from the secondary data calculations that the portfolio owned by a shareholder pre demerger and consequential portfolio due to exchange ratio given under demerger has resulted in increased shareholders wealth. The standard deviation shown by the data is not very high implying there are no high variations from the mean value. The skewness value being negative indicates that distribution is left skewed means more of the data values are towards left i.e. less than the mean value. But
the negative value is very less so it can be said that values are near mean score only. Hence the mean score is just above 3 and not very high. The value being between 0.5 and 1 implies it is moderately skewed. The kurtosis value is less than 3 implying platykurtic distribution i.e. variability is not due to few extreme values from mean.

**Graph 5.8 Exchange ratio**

## Increase in share price:
The survey reveals that 60% of the respondents agree and 14% strongly agree that increase in share prices of Reliance Industries Ltd post demerger was satisfactory. The mean score being 3.78 for this statement implies that expected increase in share prices was achieved. Obviously there was a temporary downfall in share prices as seen in the stock market data but it was recovered. Also the increase in prices meant here is increase after the restated price post demerger. The standard deviation value is less than 1 indicating that the values do not vary much from the mean value. For better understanding graphical representation of the same is give below.
Dividend payout:

52% of the respondents agree and 8% strongly agree that dividend payout ratio of Reliance Industries Ltd was satisfactory i.e. most of the shareholders were satisfied with the dividend given by the company. The mean score being 3.38 for this statement implies that shareholders were satisfied by the dividend payout ratio of the company. This response is also counter justified by the ratio analysis done by the researcher which reveals that dividend payout ratio has increased post demerger which will definitely result in satisfied shareholders. The graph below explains it further.

**Graph 5.9 Increase in share price**

![Increase in share price graph]

**Graph 5.10 Dividend payout**

![Dividend payout graph]
Price Earnings ratio:
32% of the respondents agreed and 10% strongly agreed that price earnings ratio has improved post demerger. It is to be noted that 40% of the respondents were neutral about this statement which may imply that they are not much aware of the concept of price earnings ratio. 18% of the respondents disagreed to this statement which means they were expecting price earnings to improve more. The mean score being 3.31 for this statement implies that shareholders were satisfied by the Price Earnings ratio of the company. This response is also counter justified by the ratio analysis done by the researcher which reveals that Price Earnings ratio has increased post demerger which will definitely result in satisfied shareholders. It is interesting to note that no respondents strongly disagreed to this statement. Graphical representation of the same is given below.

Graph 5.11 Price Earnings ratio

Performance of the company:
46% of the respondents agreed and 22% strongly agreed that performance of the company has improved post demerger. It is to be noted that no respondents strongly disagreed to this statement. The performance of the company can be measured by various tools like profitability ratios, share prices at stock exchange and valuation of the company. This statement has high mean score of 3.78 indicating higher level of satisfaction among the shareholders with respect to performance of the company.
Shareholders wealth:

42% of the respondents agreed and 18% strongly agreed that demerger has resulted in maximization of shareholders wealth. The researcher has also supported such response by secondary data calculations of pre and post demerger shareholders wealth in short term as well as in long run. The 3.56 mean score for this statement concludes that shareholders are of the opinion that demerger has proved to increase shareholders wealth. No respondents strongly disagreed to the fact that demerger was instrumental in maximizing shareholders wealth. For better understanding it is graphically presented below.
Retaining shares was beneficial:

Retaining the shares of Reliance Industries Ltd post demerger proved to be beneficial was agreed by 46% of the respondents and strongly agreed by 28% of the respondents. This also indicates that most of the shareholders preferred to retain the shares of the company in spite of uncertainties about the performance of company post demerger on the stock exchange which implies they were expecting the prices to go high post demerger and were satisfied by the benefit achieved by holding the shares.

Graph 5.14 Retaining shares was beneficial

For further analysis the descriptive statistics parameter values related to the responses of the shareholders are tabulated as follows:
Table 5.7 Descriptive statistics related to satisfaction of shareholders

<table>
<thead>
<tr>
<th>Parameter</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>The exchange rate given in the scheme of demerger was satisfactory</td>
<td>3.56</td>
<td>1.128</td>
<td>-.644</td>
<td>-.552</td>
</tr>
<tr>
<td>Increase in share market price of RIL shares post demerger was satisfactory</td>
<td>3.78</td>
<td>.840</td>
<td>-1.063</td>
<td>1.844</td>
</tr>
<tr>
<td>Dividend payout was satisfactory</td>
<td>3.38</td>
<td>1.067</td>
<td>-.723</td>
<td>-.337</td>
</tr>
<tr>
<td>Price Earnings ratio improved post demerger</td>
<td>3.31</td>
<td>.871</td>
<td>.137</td>
<td>-.612</td>
</tr>
<tr>
<td>Performance of the company improved post demerger</td>
<td>3.72</td>
<td>1.011</td>
<td>-.511</td>
<td>-.757</td>
</tr>
<tr>
<td>Demerger has proved to be effective tool for maximization of shareholders wealth</td>
<td>3.56</td>
<td>1.033</td>
<td>-.283</td>
<td>-1.058</td>
</tr>
<tr>
<td>Retaining RIL shares post demerger proved to be beneficial to shareholders</td>
<td>3.88</td>
<td>.982</td>
<td>-.693</td>
<td>-.391</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 5.6

Interpretations:

The mean score for all the above statements is more than 3 implying that most of the respondents agree to the above statements. The above statements are the factors which signify that shareholders were benefited by the process of demerger and shareholders were satisfied with the demerger. From the above table it is observed that,

i. Mean value for parameter satisfactory exchange rate is 3.56 which is more than score 3 indicates that most of the respondents agree with statement that the exchange rate given in the scheme of demerger was satisfactory. It is also observed that the value of Skewness for this parameter is -0.644 which support the above. But Standard deviation is 1.128 is on the higher side.
ii. Mean value for parameter increase in market price is 3.78 which is more than score 3 indicates that most of the respondents agree with statement that the increase in market price post demerger was satisfactory. It is also observed that the value of Skewness for this parameter is -1.063 which supports the above. Standard deviation is 0.840 which is not very high.

iii. Mean value for parameter dividend payout is 3.38 which is more than score 3 indicates that most of the respondents agree with statement that the dividend payout was satisfactory. It is also observed that the value of Skewness for this parameter is -0.723 which supports the above. Standard deviation is 1.067 which is on the higher side.

iv. Mean value for parameter price earnings ratio is 3.38 which is more than score 3 indicates that most of the respondents agree with statement that the price earnings ratio post demerger was satisfactory. It is also observed that the value of Skewness for this parameter is -0.137 which supports the above. Standard deviation is 0.871 which is not very high.

v. Mean value for parameter performance of the company is 3.72 which is more than score 3 indicates that most of the respondents agree with statement that the performance of the company post demerger was satisfactory. It is also observed that the value of Skewness for this parameter is -0.511 which supports the above. Standard deviation is 1.011 which is on the higher side.

vi. Mean value for parameter maximisation of shareholders wealth is 3.56 which is more than score 3 indicates that most of the respondents agree with statement that Demerger has proved to be effective tool for maximisation of shareholders wealth. It is also observed that the value of Skewness for this parameter is -0.283 which supports the above. Standard deviation is 1.033 which is on the higher side.

vii. Mean value for parameter retaining RIL shares is 3.88 which is more than score 3 indicates that most of the respondents agree with statement that Retaining RIL shares proved to be beneficial to shareholders. It is also observed that the value of Skewness for this parameter is -0.693 which supports the above. Standard deviation is 0.982 which is on the higher side.
For better analysis graphical representation of mean score of above statements is given below

**Graph 5.15 Comparison of mean**

It is evident from graph 5.15 that all statements have mean above 3 but it is to be noted that highest mean score is obtained for the statement retaining shares proved to be beneficial followed by mean for increase in share price. The lowest mean is seen for price earnings ratio.

The shareholders were also asked to respond on their views in relation to effect of demerger news on the movement of prices and volume at stock exchanges with specific questions on speculators, volatility and also about anxiety among the shareholders. The responses for the same are tabulated as follows:
Table 5.8 Opinion of shareholders in relation to speculators, volatility and anxiety

<table>
<thead>
<tr>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speculators gained immensely with the news of RIL demerger</td>
<td>F</td>
<td>40</td>
<td>220</td>
<td>220</td>
<td>380</td>
<td>140</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>4</td>
<td>22</td>
<td>22</td>
<td>38</td>
<td>14</td>
</tr>
<tr>
<td>High volatility was noticed on stock exchanges due to RIL demerger.</td>
<td>F</td>
<td>20</td>
<td>20</td>
<td>240</td>
<td>600</td>
<td>120</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>2</td>
<td>2</td>
<td>24</td>
<td>60</td>
<td>12</td>
</tr>
<tr>
<td>Shareholders were anxious during the period of demerger</td>
<td>F</td>
<td>0</td>
<td>60</td>
<td>180</td>
<td>400</td>
<td>360</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>6</td>
<td>18</td>
<td>40</td>
<td>36</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

Speculators gain on news of RIL demerger:

Out of the total respondents 38% agreed and 14% strongly agreed that speculators could gain immensely from the news of demerger of Reliance Industries Ltd. 22% gave neutral response to this statement whereas 22% disagreed to this fact. The studies have proved that any outburst of corporate news especially news of restructuring has huge impact on its stock prices. In case of Reliance Industries Ltd since it has a high weightage in the NIFTY and SENSEX indices, the news of its demerger not only affected the company’s stock price but had a huge impact on overall stock market through the indices value. Taking advantage of this impact speculators gained by playing at stock market. The mean score of the responses to this statement comes to 3.36 and since it is more than 3 it can be concluded that according to the opinion of shareholders speculators gained immensely from the news of RIL demerger. To generate better understanding the graph of responses for the statement speculators gained on news of RIL demerger is given below.
Speculators gain on news of RIL demerger

Volatility on stock exchange:

Respondents were asked to give their opinion about volatility on stock exchanges due to RIL demerger for which 60% of the respondents agreed and 12% strongly agreed that high volatility was found on stock exchanges. 24% of the respondents were neutral about this statement implying may be they were not aware about the overall scenario on the stock exchange. The mean score of 3.78 helps to conclude that there was high volatility noticed on stock exchanges due to RIL demerger. The response for volatility on stock exchange during demerger is graphically presented below for better analysis.
Anxiety among shareholders:

The overall state of shareholders during the process of demerger was tried to be assessed by this statement that whether shareholders were anxious during demerger. 40% of the respondents agreed and 36% strongly agreed that shareholders were anxious during demerger. 18% gave neutral response and only 6% disagreed to this statement. Interesting to note is that there were no respondents strongly disagreeing that shareholders were anxious. There is very high mean score of 4.06 found for this statement which leads to a strong conclusion that shareholders were anxious during demerger. Right from the outburst of the news of conflict between Ambani brothers there was lot of anxiousness found amongst the shareholders. Even after resolvement of conflict with the decision of demerger the anxiety among shareholders continued with respect to the terms and conditions of the demerger scheme. After court approval to the scheme shareholders were anxious about the uncertainties regarding the performance of the companies post demerger. Graphical representation of opinion of respondents about anxiety among shareholders during demerger is presented below.
For further analysis the descriptive statistics parameter values related to the responses of the shareholders for speculators, volatility and anxiety are tabulated as follows:

**Table 5.9 Descriptive statistics for speculators, volatility and anxiety:**

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Speculators gained immensely with the news of RIL demerger</td>
<td>3.36</td>
<td>1.102</td>
<td>-.296</td>
<td>-.790</td>
</tr>
<tr>
<td>High volatility was noticed on stock exchanges due to RIL demerger.</td>
<td>3.78</td>
<td>.764</td>
<td>-1.031</td>
<td>2.745</td>
</tr>
<tr>
<td>Shareholders were anxious during the period of demerger</td>
<td>4.06</td>
<td>.890</td>
<td>-.663</td>
<td>-.273</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 5.8
It can be seen from above graph that the statement – shareholders were anxious during the period of demerger has got the highest mean score which strongly indicates the human behavior of being anxious of the unknown change. Lot of speculation had happened on the stock exchanges with the news of reliance demerger which resulted in high volatility.

5.3 TESTING OF HYPOTHESIS

The results obtained through analysis and decisions regarding the acceptance or rejection of the hypotheses are presented as follows:

HYPOTHESIS 1:

Null hypothesis: (H0): Demerger of Reliance Industries Ltd had no significant positive impact on the shareholders wealth.

Alternative Hypothesis: (H1): Demerger of Reliance Industries Ltd had significant positive impact on the shareholders wealth.
For testing purpose respondents are asked to give their opinion on five point agreement scale regarding different characteristics related to significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd. The codes were as follows

1. Strongly Disagree
2. Disagree
3. Neither agree nor disagree
4. Agree
5. Strongly Agree

For testing above hypotheses we compare mean rating scores with score 3 (which gives positive agreement/ opinion rating score).

For statistical testing purpose, above hypothesis can be expressed as below

**Null Hypothesis:** Mean rating scores for different characteristics related to significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd. is less than or equal to 3

**Alternative hypothesis:** Mean rating scores for different characteristics related to significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd. is greater than 3

For testing above null hypothesis we use one sample ‘t’ test with hypothesized mean value three. The details of which are tabulated as follows.
Table No. 5.10  One sample ‘t’ test of mean vs hypothesized score 2 for significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd.

<table>
<thead>
<tr>
<th>Hypothesized scores for different characteristics related to significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd.</th>
<th>Mean score</th>
<th>Sample size</th>
<th>Degree of freedom</th>
<th>Calculated ‘t’ value (one tailed, upper )</th>
<th>Significant P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\mu_0 = 3$</td>
<td>n= 50</td>
<td>d.f.= 49</td>
<td>$t = +7.30$</td>
<td>p = 0.000</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Observed Mean rating scores for different characteristics related to significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd.</th>
<th>Mean score</th>
<th>Sample size</th>
<th>Degree of freedom</th>
<th>Calculated ‘t’ value (one tailed, upper )</th>
<th>Significant P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>$\mu_1= 3.597$</td>
<td>n= 50</td>
<td>d.f.= 49</td>
<td>$t = +7.30$</td>
<td>p = 0.000</td>
<td></td>
</tr>
</tbody>
</table>

**Critical t values:**

1. At 5% level of significance the corresponding value $t$ with d.f. 49 is +1.645
2. At 1% level of significance the corresponding $t$ value with d.f. 49 is +2.326

Source: Statistical analysis prepared by researcher using data from table 5.6 & 5.8

**Observation:**

From the above table it is observed that ‘$t$’ value for null hypothesis is +7.30 which is greater than +1.645 (also greater than +2.326). Also p value is 0.000 which is less than 0.01. Hence the null hypothesis is rejected at 5% & 1% level of significance.
**Interpretation:**

On the basis of above data it can be inferred that Mean rating scores for different characteristics related to significant positive impact on the shareholders wealth of demerger of Reliance Industries Ltd. is greater than 3.

**Findings:**

Demerger of Reliance Industries Ltd had significant positive impact on the shareholders wealth.

5.4 **IMPORTANT RATIOS AND ITS INTERPRETATIONS:**

The performance of the company can be assessed by various ways. One of the very widely used tools is ratio analysis to assess the performance of the company. Ratio analysis is an important tool for analyzing the company's financial performance. It helps in analyzing financial statement of the company. The various concern parties use different ratios to judge the situation of a company. Even efficiency of the company can be judged by the ratio analysis and it helps company to overcome its weaknesses take corrective measures and make a better planning for future. Comparisons can be in two different manner one is to compare company’s current year’s performance with past year’s performance and secondly to compare company’s performance with industries standards. The researcher has also undertaken the ratio analysis as the tool to assess the performance of the company. There are various ratios available to analyze various aspects of company performance. The researcher has selected few important ratios from the point of view of shareholders to access the performance of company pre and post demerger period. The various ratios are calculated for five years from 2003-04 to 2007-08. The two years 2003-04 and 2004-05 represent the pre demerger period, 2005-06 is the year of demerger and the two years 2006-07 and 2007-08 represent the post demerger period. (Khan & Jain, 2005)

5.4.1 **Current ratio:** current ratio of a company shows the short term solvency of a company. It shows the ability of company to settle its liabilities in the short run. This ratio is useful for the creditor, parties in bills of exchange and employees who are paid salary
after a lag of a month in majority of organizations. Standard current ratio is considered to be 2:1. If ratio is above this standard then company is considered to be sound in short run. However according to Tandon committee’s recommendations 1.33:1 should be considered as standard. (Morley, 2010)

Table 5.11 Current ratio

<table>
<thead>
<tr>
<th>Current Ratio</th>
<th>Mar '08</th>
<th>Mar '07</th>
<th>Mar '06</th>
<th>Mar '05</th>
<th>Mar '04</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>1.06</td>
<td>0.98</td>
<td>0.77</td>
<td>0.83</td>
<td>1.07</td>
</tr>
<tr>
<td>REVVL</td>
<td>1.06</td>
<td>1.51</td>
<td>2.09</td>
<td>3.58</td>
<td>1.68</td>
</tr>
<tr>
<td>RCOM</td>
<td>1.45</td>
<td>0.95</td>
<td>1.77</td>
<td>742.81</td>
<td>6.26</td>
</tr>
<tr>
<td>GFMS</td>
<td>14.29</td>
<td>17.04</td>
<td>25.77</td>
<td>131</td>
<td>2.91</td>
</tr>
<tr>
<td>RCVL</td>
<td>10.18</td>
<td>19.36</td>
<td>11.6</td>
<td>0.68</td>
<td>0.8</td>
</tr>
</tbody>
</table>

Source: Annual reports of above companies for relevant years

In the above table current ratio of Reliance Industries ltd and the current ratio of the resulting companies are given. In case of RIL it was never sound in short run if judged on the basis of industries standards. It was relatively better in the year 2004 then it falls to the minimum in the year of demerger i.e. 2006 but gradually it recovered within 2 years of demerger and became 1.06 which doesn’t match industry standards but still it had recovered and improved on its short term solvency. In case of REVVL it had better short term solvency as a standalone unit of RIL. Current ratio was quite sound before the demerger. However in the next two years of demerger it had drop down by almost 25% as a result of which short run solvency picture doesn’t give desired results. RCOM started establishing as potential individual unit in the year 2005 as current ratio shows extraordinary at 742.81 as its business operations started only after 2006. In the year of demerger its short term solvency was realistic at 1.77 but had fallen in the year after demerger but shows recovery immediately. GFMS was always sound in terms of short term solvency as current ratio of it is always above standard as standalone subsidiary or separate unit after demerger. RCVL however has a different story as a standalone unit it was not sound in short run as its current ratio was 0.8 and 0.68 2 years consecutively.
before demerger. But after demerger as separate entity it has done well and it was sound and solvent in short run as its current ratio improved to 19.36 and 10.18 after demerger.

* [Before demerger Reliance Energy venture Ltd (REVL), Reliance communication ltd (RCOM), Global fuel management service (GFMS), and Reliance Capital Venture Ltd (RCVL) were the subsidiary of Reliance Industries Ltd. Hence before demerger, ratio of subsidiary as a unit is taken.]

5.4.2 Debt equity ratio: Debt equity ratio of a company shows the capital structure of a company. Company having less debt and more of own funds are considered to be sound and safe in long run. Standard debt equity ratio depends on ROI of company. If ROI of a company is more than average rate of rate of return of industry then the company can afford to borrow more and it is justified to have more debts than equity. Company can take the advantage of trading on equity in that case. (Morley, 2010)

Table 5.12 Debt equity ratio

<table>
<thead>
<tr>
<th>Debt Equity ratio</th>
<th>Mar ’08</th>
<th>Mar ’07</th>
<th>Mar ’06</th>
<th>Mar ’05</th>
<th>Mar ’04</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>0.65</td>
<td>0.46</td>
<td>0.45</td>
<td>0.48</td>
<td>0.5</td>
</tr>
<tr>
<td>REVL</td>
<td>0.49</td>
<td>0.68</td>
<td>0.61</td>
<td>0.74</td>
<td>0.47</td>
</tr>
<tr>
<td>RCOMM</td>
<td>0.6</td>
<td>0.82</td>
<td>0.71</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>GFMS</td>
<td>0.85</td>
<td>0.7</td>
<td>1.04</td>
<td>--</td>
<td>0.9</td>
</tr>
<tr>
<td>RCVL</td>
<td>1.55</td>
<td>0.27</td>
<td>0.04</td>
<td>0.86</td>
<td>1.11</td>
</tr>
</tbody>
</table>

Source: Annual reports of above companies for relevant years

In the above table it can be seen that Debt equity ratio of Reliance Industries ltd has always remained less than 1. Which means company relies more on own funds and less on borrowed funds. However ROI of Reliance industries ltd (refer to the table below) is always better than industries’ standard leaving March 2008 as exception. Before the demerger and in the year there wasn’t any significant difference in composition of debt and equity of a company. Borrowed funds are approx. 50% of the own fund. But immediately
after demerger portion of borrowing started increasing and reach up to 65% within 2 years. So two conclusions can be derived, firstly company is very much sound in long run as borrowings are less and secondly even though ROI of a company is better company is not taking advantage of trading on equity. In case of REVL also Debt equity ratio is always in the favor of owners. Borrowing increased year before the demerger but within two years borrowings were repaid so it brings down the debt equity ratio and this capital structure is justified as ROI of the company is below industry standard in all the years taken into consideration above. RCOM also had high borrowing relatively. It increased marginally but soon after a year it was controlled and reduces by 25%. Like REVL, ROI of Reliance communication is also lower than industry standard so the policy of company is justified. GFMS had more borrowings than its own funds in the year of demerger. But slowly the share of borrowers have been reduce unlike RCVL whose debt were more than owners funds year before demerger and then it reduces to almost nil but a year after demerger it had gone significantly up. In case of GFMS borrowings are too high as compared to its ROI so long term solvency of a company is at stake similarly in case of RCVL because of high borrowings of company long term solvency is endangered.

5.4.3 ROI (Return on Investment): One of the most important ratios to be considered is ROI which indicates the profitability of company. More the ROI better the company’s earnings and that proves company has long term future, proper planning and its execution and also it is well organized. It’s a prime indicator of company’s performance. It is also termed as Return on Capital employed, Return on Net worth or Return on Total investments. (Morley, 2010)

Table 5.13 Return on Investment

<table>
<thead>
<tr>
<th></th>
<th>Mar '08</th>
<th>Mar '07</th>
<th>Mar '06</th>
<th>Mar '05</th>
<th>Mar '04</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>10.96</td>
<td>15.68</td>
<td>18</td>
<td>17.37</td>
<td>18.26</td>
</tr>
<tr>
<td>REVL</td>
<td>6.56</td>
<td>6.56</td>
<td>7.91</td>
<td>5.41</td>
<td>5.05</td>
</tr>
<tr>
<td>RCOMM</td>
<td>4.8</td>
<td>9.65</td>
<td>10.96</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>GFMS</td>
<td>5.69</td>
<td>4.41</td>
<td>2.18</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>RCVL</td>
<td>10.83</td>
<td>11.84</td>
<td>13.86</td>
<td>9.23</td>
<td>10.23</td>
</tr>
</tbody>
</table>

Source: Annual reports of above companies for relevant years
In the above table ROI of different entities of Reliance (whichever existed in pertaining years) 2 year before the demerger in the year of demerger and 2 years after the demerger is shown. RIL is well established company more than a decade old so its ROI is better than industry standard before the demerger in the year of demerger and even after the demerger. While other subsidiary companies of reliance (separate entities after demerger) does not had impressive ROI before or after demerger RCVL to be kept as exception. But comparatively none of them had reach up to the mark of RIL so it can be interpreted that after demerger resulting companies are in the nascent stage of growth. Though the ROI of only RIL has been gradually reducing from shareholders point of view it is a winning situation as post demerger when we add up the ROI of all resulting companies with RIL it has increased many folds as compared to pre demerger. So the strategy of demerger has helped in enhancing the overall returns to the stakeholders.

5.4.4 **EPS (Earnings per Share):** EPS shows the earnings for equity share holder on their unit of share. ROI indicates profit earned for all stake holders (equity share holders, preference shareholders, debenture holders or any lender or any other person that holds any kind of security of the company) whereas EPS shows profit earned for Equity shareholders only. This ratio is very important for shareholders especially at the time of any kind of reconstruction in the company so that shareholder can easily compare their earnings before and after the reconstruction. *(Morley, 2010)*

**Table 5.14 Earnings per Share**

<table>
<thead>
<tr>
<th>EPS (Rs. Per share)</th>
<th>Mar ‘08</th>
<th>Mar ‘07</th>
<th>Mar ‘06</th>
<th>Mar ‘05</th>
<th>Mar ‘04</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>97.28</td>
<td>133.86</td>
<td>85.71</td>
<td>65.08</td>
<td>54.34</td>
</tr>
<tr>
<td>REVL</td>
<td>45.86</td>
<td>35.07</td>
<td>30.63</td>
<td>28.04</td>
<td>21.36</td>
</tr>
<tr>
<td>RCOMM</td>
<td>23.27</td>
<td>12.53</td>
<td>11.78</td>
<td>565.39</td>
<td>--</td>
</tr>
<tr>
<td>GFMS</td>
<td>0.43</td>
<td>0.42</td>
<td>0.2</td>
<td>-290.95</td>
<td>-0.89</td>
</tr>
<tr>
<td>RCVL</td>
<td>41.75</td>
<td>26.31</td>
<td>24.12</td>
<td>8.31</td>
<td>8.31</td>
</tr>
<tr>
<td>TOTAL</td>
<td>111.31</td>
<td>74.33</td>
<td>66.73</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Annual reports of above companies for relevant years
In the above table Earning for a share in the various companies are given. To begin with RIL as stated earlier well established company earns more than 5 to 6 times every year compared to its face value. Earnings have been little on lower side before the demerger but constantly showed the increasing trend in the year and even a year after demerger. However it has reduced slightly by the end of second year. REVL has also able to maintain uniform earnings higher than the face value of its share. RCOMM and RCVL also picking up slowly after demerger but GFMS is not earning enough for their share holder. However shareholder in RIL before demerger got shares of each of the subsidiary company which became independent resulting companies after demerger. If we add up the earnings per share of all the resulting companies with RIL then it can be clearly seen that shareholder is at much better position as regards to earnings per share.

5.4.5 Dividend Payout Ratio: Dividend payout ratio is important from the point of view of shareholders as this ratio shows the long term vision of a company. In layman language we can understand this ratio as “how much person saves out of earning”. Person with good saving habits has a long term plans brighter future and that shows he is working upon fulfillment of that long term goal. “Do not save what is left after spending; spend what is left after saving.”- Warren Buffet (one of the richest person in world). Here for the purpose of interpretation of ratio, this ratio shows how much company spends on paying dividend out of Earnings per share (EPS).(Morley, 2010)

Table 5.15 Dividend Payout Ratio

<table>
<thead>
<tr>
<th>DPR (%)</th>
<th>Mar ‘08</th>
<th>Mar ‘07</th>
<th>Mar ‘06</th>
<th>Mar ‘05</th>
<th>Mar ‘04</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>12.39</td>
<td>8.38</td>
<td>12.06</td>
<td>15.36</td>
<td>13.8</td>
</tr>
<tr>
<td>REVL</td>
<td>15.93</td>
<td>17.68</td>
<td>18.37</td>
<td>19.01</td>
<td>21.25</td>
</tr>
<tr>
<td>RCOMM</td>
<td>4.02</td>
<td>7</td>
<td>4.96</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>GFMS</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>RCVL</td>
<td>15.41</td>
<td>15.56</td>
<td>15.12</td>
<td>41.24</td>
<td>39.37</td>
</tr>
</tbody>
</table>

Source: Annual reports of above companies for relevant years
In the above table dividend payout ratios of companies are given in forms of percentage. Dividend payout ratio of RIL is on an average 12%. With minor variation on negative side immediately a year after demerger and little on higher side a year before the demerger. That signifies that strategy of RIL could have been to attract the shareholders by giving them more then expectation. Secondly year after demerger they had to rebuilt their reserve content so dividend was paid less than average. But all in all their dividend payout ratio gives the picture that approx. 88% of the earnings of the shareholders transferred to reserves. In case of REVL again dividend payouts ratios of various years are better and slightly more than of RIL. Again this shows the strategy to attract shareholders. RCOMM has very thin dividend payout ratio this can discourage short term investor who invest for the sake of dividend but it can be taken as their teething problems for newly formed (resulting) company. GMFS has not declared dividend before or after (2 years) the year of demerger. As their earning per share (refer to the table under EPS ratio) was not as much to pay dividend out of it. RCVL on the other hand had paid dividend handsomely 2 years before demerger; as good as 40% of their earnings were distributed as dividends. But in the year of demerger and immediately 2 years after demerger their dividend payout has reduce to 15% (average, rounded off) this shows that after demerger they are building up their reserve to have an edge in long run.

5.4.6 Book value per share: Market price of share is driven by demand and supply of a particular company’s shares. But book value is intrinsic value of share of a company that shows the actual valuation on each share of a company. On the basis of the assumption that company is going in to liquidation, all the assets are revalued at market price and they are adjusted against the revised values of all external liabilities to find out funds available for all shareholders. Then preference shareholders stake in the company is deducted to find out worth for equity shareholders and on dividing the same by number of shares book value is derived. At the time of demerger ratio of allotment of shares in resulting company is derived by taking book value in to consideration. If sum of the book values of the shares of resulting companies along with demerged company is more than book value of the demerged company pre demerger then shareholders are said to be benefited. (Morley, 2010)


<table>
<thead>
<tr>
<th>BOOK VALUE (Rs.)</th>
<th>Mar ‘08</th>
<th>Mar ‘07</th>
<th>Mar ‘06</th>
<th>Mar ‘05</th>
<th>Mar ‘04</th>
</tr>
</thead>
<tbody>
<tr>
<td>RIL</td>
<td>727.66</td>
<td>542.74</td>
<td>439.57</td>
<td>324.03</td>
<td>270.35</td>
</tr>
<tr>
<td>REVL</td>
<td>433.76</td>
<td>378.13</td>
<td>331.24</td>
<td>270.5</td>
<td>248.85</td>
</tr>
<tr>
<td>RCOMM</td>
<td>250.43</td>
<td>120.35</td>
<td>100.39</td>
<td>NA</td>
<td>NA</td>
</tr>
<tr>
<td>GFMS</td>
<td>11.02</td>
<td>10.6</td>
<td>8.49</td>
<td>NA</td>
<td>5.66</td>
</tr>
<tr>
<td>RCVL</td>
<td>245.29</td>
<td>210.12</td>
<td>182.75</td>
<td>112.95</td>
<td>109.95</td>
</tr>
<tr>
<td>TOTAL</td>
<td>940.5</td>
<td>719.2</td>
<td>622.87</td>
<td>NA</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: Annual reports of above companies for relevant years

In the above table book value of all the companies is taken. To begin with RIL as mentioned many times in the earlier interpretations its well established company so its book value is pretty strong and its showing increasing trend throughout the period mentioned above (year of demerger and 2 years before and after demerger). Even book values of all the demerged company is showing increasing trend. This is a good sign for the shareholders. It signifies that net worth per share is increasing day by day and effect of the same is directly reflected on the market price of the shares.

By the end of the year of demerger (March 2006) sum of the book value of demerged company was above the book value of parent company and the same kept on increasing for the next two years after demerger. So the shareholders of the demerged company benefitted from the process of demerger substantially. It is interesting to note that though assets and liabilities relating to undertakings demerged were transferred from RIL to resulting companies, the book value of RIL shares has still been increasing.

5.5 SHAREHOLDERS WEALTH:

To analyze the impact of demerger on shareholders wealth, market value of shares pre and post demerger are taken at different point of time. That will give the clear picture whether shareholders are benefited from the demerger in short run and long run. For the purpose of analysis, researcher has considered shareholder having portfolio of 1000 shares of Reliance
Industries Ltd (RIL) before demerger. Shareholders wealth is calculated as no. of shares held multiplied by market price of shares as on that date (Singh, 2009). As per demerger scheme, shareholders of Reliance Industries Ltd got proportionate shares in the resulting companies. According to the exchange ratio given in scheme of demerges and subsequent two mergers the effective exchange ratio was that every shareholder of Reliance Industries Ltd having 1000 share of Reliance Industries Ltd would be issued 50 shares of Reliance Capital Ltd, 75 shares of Reliance Energy Ltd, 1000 shares of Global Fuel Management Services Ltd, 1000 shares of Reliance Communication Ventures Ltd.

5.5.1 Shareholders wealth one year prior and post demerger using BSE prices

Demerger took place in January 2006 so to analyze long run benefit to share holder, market value of share one year prior to demerger (31st March 2005) and a year after demerger (31st March 2007) is taken in the following table

Table 5.17 Shareholder’s wealth using BSE prices (1 year pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on BSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 31-03-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>272.98</td>
<td>272980.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 31-03-2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>684.18</td>
<td>684180.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>50</td>
<td>668.05</td>
<td>33402.50</td>
</tr>
<tr>
<td>Reliance Energy Ltd(Rel infra after 24th July 2006)</td>
<td>75</td>
<td>394.6</td>
<td>29595.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>22.10</td>
<td>22100.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>420.00</td>
<td>420000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1189277.50</td>
</tr>
</tbody>
</table>

Source: www.bseindia.com
For quick comparison of pre and post shareholders wealth following graphical presentation has been given.

**Graph 5.20 Shareholder’s wealth using BSE price (1 year pre-post)**

It can be seen from the table no. 5.17 and graph no. 5.20 that shareholders wealth on 31st March 2005 (a year prior to demerger) was Rs. 272,980 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 11,89,277.50 As On 31st March 2007 (one year after demerger). So it is observed from the table that shareholders wealth increased by 335.66% (in absolute figures Rs 9,16,297.50). This is remarkable increase in wealth within a year. Shareholder’s wealth had almost become quadruple fold. So it can be concluded that shareholders of Reliance Industries Ltd are benefitted because of demerger. For further analysis the composition of post demerger wealth is given in the following table.

Total shareholders wealth post demerger is further analyzed to know the proportion of contribution of each resulting companies to the total post demerger shareholders’ wealth which is presented in the following table.
Table 5.18 Composition of post demerger shareholder’s wealth as on 31-03-2007

<table>
<thead>
<tr>
<th>Company</th>
<th>Shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>684180.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>33402.50</td>
</tr>
<tr>
<td>Reliance Energy Ltd (Rel infra after 24th July 2006)</td>
<td>29595.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>22100.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>420000.00</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using data from table 5.17

For better understanding, the above data is presented graphically as follows

Graph 5.21 Composition of post demerger shareholder’s wealth as on 31-03-2007

From the table no. 5.18 and graph no. 5.21 it is observed that more than 50% of the shareholders wealth is contributed by Reliance Industries Ltd. (demerged co.) and second major contribution is from Reliance Communication Ltd. (35%). Rests of the resulting companies have contributed 7% in total.
5.5.2 **Shareholders wealth 6 months pre and post demerger using BSE prices**

As stated earlier demerger took place in January 2006 so market value of shares (for the purpose of shareholder’s wealth) are taken on 29\(^{th}\) July 2005 (pre) and 31\(^{st}\) July 2006 (post) in the table below.

### Table 5.19 Shareholder’s wealth using BSE prices (6 months pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on BSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 29-07-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>351.45</td>
<td>351450.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 31-07-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>489.50</td>
<td>489500.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>50</td>
<td>418.10</td>
<td>20905.00</td>
</tr>
<tr>
<td>Reliance Energy Ltd (Rel infra after 24th July 2006)</td>
<td>75</td>
<td>403.90</td>
<td>30292.50</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>20.50</td>
<td>20500.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>262.75</td>
<td>262750.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>823947.50</strong></td>
</tr>
</tbody>
</table>

Source: www.bseindia.com

To explain the data in above table in a simplified manner following graphical presentation is given.
It can be seen from the table no. 5.19 and Graph no. 5.22 that shareholders wealth on 29th July 2005 (6 month prior to demerger) was Rs. 351,450 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 823,947.50 As On 31st July 2006 (6 months after demerger). So it is observed from the table that shareholders wealth increased by 335.66% (in absolute figures Rs 472,497.50). Similar to the observations of table no. 5.17 this table also shows positive increase in shareholders wealth. Within six months of demerger it became more than double.

Further shareholders wealth post demerger is analyzed to know the percentage share of each resulting companies in the total post demerger shareholders wealth. The same is tabulated as follows.
Table 5.20 Composition of post demerger shareholder’s wealth as on 31-07-2006

<table>
<thead>
<tr>
<th>Company</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>489500.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>20905.00</td>
</tr>
<tr>
<td>Reliance Energy Ltd(Rel infra after 24th July 2006)</td>
<td>30292.50</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>20500.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>262750.00</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using data from table no. 5.19

For simplified understanding the data given in the above table is graphically presented below.

Graph 5.23 Composition of post demerger shareholder’s wealth as on 31-07-2006

It is seen from table no. 5.20 and graph no. 5.23 that 59% of the post demerger shareholders wealth is contributed by Reliance Industries Ltd, followed by 32% by Reliance communication and remaining resulting companies contribute 9%.
5.5.3 Shareholders wealth 3 month prior and post demerger using BSE prices:

To evaluate short term benefit of shareholders (generally speculators) market price three months prior and post demerger is taken in the following table. Since the merger of Reliance Capital Ventures Ltd with Reliance Capital Ltd and merger of Reliance Communication Ventures Ltd with Reliance Communication Ltd was not effected as on 29-04-2006, the exchange ratio applied in the following table is 1:1.

Table 5.21 Shareholder’s wealth using BSE prices (3 months pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on BSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 31-10-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>381.28</td>
<td>381280.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 29-04-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>510.85</td>
<td>510850.00</td>
</tr>
<tr>
<td>Reliance Capital Ventures Ltd</td>
<td>1000</td>
<td>27.15</td>
<td>27150.00</td>
</tr>
<tr>
<td>Reliance Energy Ventures Ltd</td>
<td>1000</td>
<td>43.25</td>
<td>43250.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>31.00</td>
<td>31000.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>320.00</td>
<td>320000.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>932250.00</td>
</tr>
</tbody>
</table>

Source: www.bseindia.com

Graph presenting the above data is prepared to facilitate better understanding and to give summarized pre and post demerger situation.
It can be seen from the table no. 5.22 that shareholders wealth on 31st October 2005 (3 months prior to demerger) was Rs. 381280.00 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 932250.00. As on 30th April 2006 (3 months after demerger), it is observed from the table that shareholders wealth increased by 144.51% (in absolute figures Rs 285,400). Percentage increase in shareholders wealth within 3 months is more than percentage increase in shareholders wealth in 6 months. This shows shareholders or speculators were hopeful after demerger because of which market price was more volatile.

Detailed analysis of composition of post demerger shareholders wealth is undertaken in the following table and graph.

**Table 5.22 Composition of post demerger shareholders wealth as on 29-04-2006**

<table>
<thead>
<tr>
<th>Company</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>510850.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>27150.00</td>
</tr>
<tr>
<td>Reliance Energy Ltd (Rel infra after 24th July 2006)</td>
<td>43250.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>31000.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>320000.00</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using data from table 5.21
Table no 5.22 and graph 5.24 explain the contribution of each resulting company in the post demerger shareholders wealth. As noticed in earlier long term analysis, the contribution of Reliance Industries Ltd is the highest followed by Reliance Communication Ltd and the remaining companies constitute for 11% of the total wealth.

5.5.4 Shareholders wealth one month prior and post demerger using BSE prices:

To evaluate the quick effect on shareholders wealth, market price pre and post one month is taken for calculating shareholders wealth. That is wealth as on 31-12-05 and as on 28-02-06 are compared.
Table 5.23 Shareholder’s Wealth using BSE prices (1 Month pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on BSE</th>
<th>Shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 31-12-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>444.83</td>
<td><strong>444830.00</strong></td>
</tr>
<tr>
<td>Post Demerger i.e. As on 28-02-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>354.38</td>
<td><strong>354380.00</strong></td>
</tr>
<tr>
<td>Reliance Capital Ventures Ltd</td>
<td>1000</td>
<td>23.95</td>
<td><strong>23950.00</strong></td>
</tr>
<tr>
<td>Reliance Energy Ventures Ltd</td>
<td>1000</td>
<td>42.80</td>
<td><strong>42800.00</strong></td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>18.55</td>
<td><strong>18550.00</strong></td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>290.55</td>
<td><strong>290550.00</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>730230.00</strong></td>
</tr>
</tbody>
</table>

Source: www.bseindia.com

For quick comparison of pre and post shareholders wealth, the above data is summarized in the following graph.

Graph 5.26 Shareholder’s wealth using BSE prices (1 month pre-post)
It can be seen from the table no.5.23 and graph 5.25 that shareholders wealth on 31\textsuperscript{st} December 2005 (one month prior to demerger) was Rs. 444830.00 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 730230.00. As On 28\textsuperscript{th} February 2006 (one month after demerger). So it is observed from the table that shareholders wealth increased by 64.16\% (in absolute figures Rs 285,400). Increase in shareholders wealth in very short run is also good enough to attract more shareholders.

Post demerger shareholders wealth as on 28-02-2006 is further studied to explain the composition of each resulting company’s share in the total wealth which is presented in the following table.

**Table 5.24 Composition of post demerger shareholders wealth as on 28-02-2006**

<table>
<thead>
<tr>
<th>Company</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>354380.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>23950.00</td>
</tr>
<tr>
<td>Reliance Energy Ltd (Rel infra after 24th July 2006)</td>
<td>42800.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>18550.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>290550.00</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using data from table 5.23

The data in the above table is graphically presented below to give clear understanding.

**Graph 5.27 Composition of post demerger shareholders wealth as on 28-02-2006**
It can be seen from the above graph that 48% of the one month post demerger shareholders wealth is contributed by Reliance Industries Ltd, 40% by Reliance Communication Ltd and the remaining companies constitute for 12% of the total wealth.

5.5.5 Shareholders wealth a day prior and post demerger using BSE prices:

To evaluate immediate effect on shareholders wealth, market value a day prior and one day after the demerger is taken in the following analysis. The market price of resulting companies not listed on stock exchange one day post demerger is not available and hence taken as zero in the following table.

Table 5.25 Shareholder’s wealth using BSE prices (1 day pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on BSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 24-01-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>346.68</td>
<td>346680.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 27-01-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>349.30</td>
<td>349300.00</td>
</tr>
<tr>
<td>Reliance Capital Ventures Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Reliance Energy Ventures Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: www.bseindia.com

The quick comparison of shareholders wealth one day pre and post demerger is facilitated in the following graph.
It can be seen from the table no. 5.25 and graph 5.28 that shareholders' wealth on 24th January 2006 (a day prior to demerger) was Rs. 346680.00 and shareholders' wealth with the post demerger portfolio resulted in total shareholders' wealth of Rs. 349300.00. As on 27th January 2006 (a day after demerger). So it is observed from the table that there is negligible increase in shareholders' wealth 0.76% (in absolute figures Rs 2620). This is because of two reasons. Firstly as 25th January was the day of demerger and 26th January being national holiday market was closed so there was not enough time for the price to change driven from demand and supply in the share market. Secondly due to uncertainty and anxiety due to demerger shareholders went into observation mode in the market rather than actually trading in the same.

Researcher has also undertaken similar analysis of pre and post shareholders' wealth using share prices at National Stock Exchange which is discussed in the following section of the chapter.

5.5.6 Shareholders' wealth one year prior and post demerger using NSE prices

Demerger took place in January 2006 so to analyze long run benefit to shareholder, market value of share on NSE one year prior to demerger (31st March 2005) and a year after demerger (31st March 2007) is taken in the following table.
Table 5.26 Shareholder’s wealth with NSE prices (1 year pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on NSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 31-03-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>546.05</td>
<td>546050.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 31-03-2007</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>1370.3</td>
<td>1370300.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>50</td>
<td>668.3</td>
<td>33415.00</td>
</tr>
<tr>
<td>Reliance Energy Ltd (Rel infra after 24th July 2006)</td>
<td>75</td>
<td>494.2</td>
<td>37065.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>22.15</td>
<td>22150.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>420.9</td>
<td>420900.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1883830.00</td>
</tr>
</tbody>
</table>

Source: www.nseindia.com

It can be seen from the table no. 5.26 that shareholders wealth on 31\textsuperscript{st} March 2005 (a year prior to demerger) was Rs. 546050 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 1883830 As On 31\textsuperscript{st} March 2007 (one year after demerger). So it is observed from the table that shareholders wealth increased by 244.99\% (in absolute figures Rs 1337780). This is remarkable increase in wealth within a year. Shareholder’s wealth had almost become almost two and half times. So it can be concluded that shareholders of Reliance Industries Ltd are benefitted because of demerger in long run.
5.5.7 Shareholders wealth 6 month prior and post demerger using NSE prices

As stated earlier demerger took place in January 2006 so market value of shares on NSE (for the purpose of shareholder’s wealth) are taken on 29th July 2005 (pre) and 31st July 2006 (post) in the table below.

Table 5.27 Shareholder’s Wealth with NSE prices (6 months pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on NSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 29-07-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>703.35</td>
<td>703350.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 31-07-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>978.8</td>
<td>978800.00</td>
</tr>
<tr>
<td>Reliance Capital Ltd</td>
<td>50</td>
<td>418.3</td>
<td>20915.00</td>
</tr>
<tr>
<td>Reliance Energy Ltd</td>
<td>75</td>
<td>452.75</td>
<td>33956.25</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>20.5</td>
<td>20500.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>263.25</td>
<td>263250.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1317421.25</td>
</tr>
</tbody>
</table>

Source: www.nseindia.com

It can be seen from the table no. 5.27 that shareholders wealth on 29th July 2005 (6 month prior to demerger) was Rs. 703350 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 1317421.25 As On 31st July 2006 (6 months after demerger). So it is observed from the table that shareholders wealth increased by 87.31% (in absolute figures Rs 614071.25). Similar to the observations of table no.—this table also shows positive increase in shareholders wealth. Within six months of demerger it became approx. double.
5.5.8 Shareholders wealth 3 month prior and post demerger:

To evaluate short term benefit of shareholders (generally speculators) market price on NSE 3 months prior and post demerger is taken in following table.

Table 5.28 Shareholder’s wealth with NSE prices (3 months pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on NSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 31-10-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>762.5</td>
<td>762500.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 29-04-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>1022.95</td>
<td>1022950.00</td>
</tr>
<tr>
<td>Reliance Capital Ventures Ltd</td>
<td>1000</td>
<td>27.20</td>
<td>27200.00</td>
</tr>
<tr>
<td>Reliance Energy Ventures Ltd</td>
<td>1000</td>
<td>43.4</td>
<td>43400.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>31.05</td>
<td>31050.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>320.6</td>
<td>320600.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1445200.00</td>
</tr>
</tbody>
</table>

Source: www.nseindia.com

It can be seen from the table no.5.28 that shareholders wealth on 31st October 2005 (3 months prior to demerger) was Rs. 762500 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 1445200 As On 30th April 2006 (3 months after demerger). So it is observed from the table that shareholders wealth increased by 89.53% (in absolute figures Rs 682700.00). Percentage increase in shareholders wealth within 3 months is more or less same as percentage increase in shareholders wealth in 6 months. This shows that after 3 month of demerger market price of shares got stabilized.
5.5.9 **Shareholders wealth one month prior and post demerger:**

To evaluate the quick effect on shareholders wealth market price on NSE prior and post one month is taken in following table for calculating shareholders wealth.

**Table 5.29 Shareholder’s wealth with NSE prices (1 month pre - post)**

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on NSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 31-12-2005</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>889.3</td>
<td>889300.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 28-02-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>708.85</td>
<td>708850.00</td>
</tr>
<tr>
<td>Reliance Capital Ventures Ltd</td>
<td>1000</td>
<td>24.00</td>
<td>24000.00</td>
</tr>
<tr>
<td>Reliance Energy Ventures Ltd</td>
<td>1000</td>
<td>42.9</td>
<td>42900.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>18.3</td>
<td>18300.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>291.5</td>
<td>291500.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td><strong>1085550.00</strong></td>
</tr>
</tbody>
</table>

Source: www.nseindia.com

It can be seen from the table no.5.29 that shareholders wealth on 31\textsuperscript{st} December 2005 (one month prior to demerger) was Rs. 889300 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 1085550 As On 28\textsuperscript{th} February 2006 (one month after demerger). So it is observed from the table that shareholders wealth increased by 22.07\% (in absolute figures Rs 196250). Increase in shareholders wealth in very short run is also good enough to attract more shareholders.
5.5.10 Shareholders wealth a day prior and post demerger:

To evaluate immediate effect on shareholders wealth market value day prior and one day after the demerger is taken in following table no.

Table 5.30 Shareholder’s wealth with NSE prices (1 day pre - post)

<table>
<thead>
<tr>
<th>Company</th>
<th>No. of shares</th>
<th>Market price on NSE</th>
<th>shareholders wealth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre Demerger i.e. As on 24-01-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>693.45</td>
<td>693450.00</td>
</tr>
<tr>
<td>Post Demerger i.e. As on 27-01-2006</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Reliance Industries Ltd</td>
<td>1000</td>
<td>698.65</td>
<td>698650.00</td>
</tr>
<tr>
<td>Reliance Capital Ventures Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Reliance Energy Ventures Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Global Fuel Management Services Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Reliance Communication Ventures Ltd</td>
<td>1000</td>
<td>0.00</td>
<td>0.00</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>698650.00</td>
</tr>
</tbody>
</table>

Source: www.nseindia.com

It can be seen from the table no. 5.30 that shareholders wealth on 24th January 2006 (a day prior to demerger) was Rs. 693450 and shareholders wealth with the post demerger portfolio resulted in total shareholders wealth of Rs. 698650 As On 27th January 2006 (a day after demerger). So it is observed from the table that there is negligible increase in shareholders wealth 0.75% (in absolute figures Rs 5200). This is because of two reasons. Firstly as 25th January was the day of demerger and 26th January being national holiday market was closed so there was not enough time for the price to change driven from
demand and supply in the share market. Secondly due to uncertainty and anxiety due to
demerger shareholders went in to observation mode in the market rather than actually
trading in the same. Thirdly resulting companies were not listed on NSE so those prices are
not taken into consideration.

5.6 CONCLUSION

Shareholders are the most important stakeholders in case of a company. They are the ones
most affected by any corporate restructuring strategy. Rather one of the rationales behind
demerger is to extend maximum benefit to shareholders. It is evident from the various
calculations done by the researcher in this chapter that the shareholders wealth has
significantly increased post demerger in short run as well as long run. Due to the demerger
the existing negative synergy is removed and the value is unlocked. The immediate impact
seen in the stock market price valuation could be due to certain volatility. However,
Investors should differentiate between genuine attempts at value creation and demergers
undertaken to create hype around the stocks. Investors must be cautious and should stay
away from such mal intentions of some companies that want to manipulate prices. It should
also be noted that analysis has considered share prices in a bullish market so the entire
increase cannot be attributed to demerger and there are several other reasons for increase in
prices. Investors should focus on the quality of management and corporate governance
record of the company. Researcher has also shown analysis of important ratios from the
point of view of shareholders which reveals favorable picture. Even the results of opinion
survey taken from shareholders reveal that shareholders were satisfied with the increase in
shareholders wealth. The benefits to shareholders in this chapter have been analyzed based
on feedback obtained from shareholders, increase in the value of portfolio, stock price
increase and performance of the company. Another important stakeholder is the human
resource of a company whose perspective is discussed in the following chapter.
References


7. www.bseindia.com surfed on December 2, 2013
8. www.indiabulls.com surfed on December 2, 2013
10. www.nseindia.com surfed on December 2, 2013
CHAPTER 6
EMPLOYEES
PERSPECTIVE TO THE
DEMERGER OF
RELIANCE INDUSTRIES
LTD
6.1 INTRODUCTION:

This chapter deals with objective five of the study which is to analyze the employees’ perspective to the demerger of Reliance Industries Ltd. Also the null hypotheses number 2 – ‘Employees of Reliance Industries Ltd were not significantly affected by the process of demerger’ have been tested in this chapter.

The process of demerger is a complicated process involving lot of formalities and hence generally takes months to complete the entire process. The process of demerger is a dynamic process affecting various elements of the company. It involves not only the disintegration of assets and liabilities relating to undertaking being demerged but it is also accompanied with disintegration of human capital, information technology and business processes. The entire process of demerger can be said to be in three phase’s namely initial phase, transition phase and closing phase. The initial phase involves secrecy of news, transition phase involves fear of unforeseen uncertainties and the closing phase involves time pressure and tension amongst employees to wrap up the process (Pierse, 2012). It is not that only legal or secretarial team is under pressure of legal formalities relating to demerger but even the other departments are affected. Especially the employees related to undertakings being transferred.

With the arcane increase in the dynamism of the business place today, both mergers and demergers are pretty much the norm de jour of the economy today and as such do not hurt the business sentiment of investors to a large extent if planned and executed in a financially transparent and feasible manner. The similar case is not found with internal stakeholders of organizations undergoing a demerger and employees more often greet a demerger situation with a fair amount of uncertainty and resentment.
In the subsequent sections of this chapter, the researcher has explored the human aspect of a demerger situation. The aim is to understand how employees deal with a demerger situation, their role in a demerger, and the impact of their perspective in the success or failure of a demerger situation. The chapter also elucidates in detail, the role of the HR department as communicators, change agents, facilitators, and as a key stakeholder in the demerger process as well as how it also touches upon the specific case of the Reliance industries demerger from an HR perspective.

**6.2 HUMAN RESOURCE PERSPECTIVE TO DEMERGER:**

In the case of mergers or paradoxically demergers, employees are a key cog to success. People synergies, people cultures within organizations, or the lack of change inertia within the organizations resources, are parameters of extreme importance while planning either a merger or a demerger. In the case of many mergers that fail and have to then undergo a demerger; people within the organization contribute significantly in bringing about this devastation.

“The primary cause of failure for most restructuring can be directly linked to people related factors such as; a lack of clear strategy, lack of attention to implementation, poor project management, loss of key talent, high levels of internal conflict, duplicate roles and over ambitious senior executives trying to meet aggressive targets” *(Brown, 2004).*

Even if a demerger is financially viable, the process may go completely awry when the management does not properly factor in the integration of people within the organization and the organizational culture from a broad perspective. “The main reason M&A fail is due to poor communication and when the cultural issues, attitudes, mission and values of both companies are not taken into consideration or, assumptions are made that they match and then they turn out to be incompatible” *(IRS, 2000).*

For a merger or a demerger to be successful, the pooling up or splitting up of the organizations / business units should be seamless and smooth. In a demerger situation, success is determined by how smoothly the units that have been split perform after the split. For this to happen, employees within the organization are the most crucial element.
While it is relatively easy to think that a split in the business will just create new organizations / close down a business unit / provide individual focus on a business area, with all other factors remaining pretty much the same, reality is quite the opposite. Corporate restructuring activities such as demergers are often very lengthy processes fraught with many complications. Besides, there is never a certainty of how the business might function after a demerger until after the demerger has actually happened. These factors lead to considerable stress and anxiety within the employees regarding job cuts, new working dynamics, management changes, taking on a business identity, moulding into a new work culture. Often, this anxiety manifests into resentment towards the restructuring activity and inadvertently leads to a demoralized workforce, which is a certain recipe for corporate disaster.

Like most other corporate activities, demergers go through defined pre demerger, demerger, and post demerger stages where a lot of different activities are carried out to ensure that the demerger is a success. During all of these stages, the management typically tends to focus on financial and legal metrics without giving much thought to the most important assets they have in hand – their employees.

Employees within an organization have different concerns and reactions towards a demerger situation in all the above stages of the demerger process and can influence the outcomes of the demerger in many adverse ways if not dealt with sensitivity. The entire process of demerger is divided in three stages namely pre demerger stage, execution stage and post demerger stage which are discussed below (Thomasson and Janusonis, 2012):

6.2.1 Pre demerger stage –

This is usually the phase where the management spends most of its time and resources in planning out the demerger from the financial, legal and operational standpoint. This is the planning phase for the execution of demerger and for conceptualizing how the demerged entities will operate once the demerger has been implemented. Most organizations undergoing a demerger tend to overlook their employees and their feelings towards the demerger at this stage, which sows the seeds for either a failed demerger or a very costly one requiring a lot of people based interventions at later stages of the cycle. Without clear
communication to the employees about the objectives of the demerger and the effect it will have on the employees, a sense of anxiety and resentment is created which dampens the morale and saps the performance. It might also lead to a lot of employees looking to find other avenues of employment thereby creating a bad presence in the market or rumors about internal instability which might dent investor and market confidence. In the worst case scenario, the employees may not cooperate with the demerger plan and might actually cause delays or impediments in the demerger process from progressing to the next stage.

6.2.2 Execution stage –

This is the phase where the demerger is actually taking place and the business units / businesses are actually splitting up. This is a crucial stage, where organizations typically expect the most out of their employees in order to make the demerger a grand success. Most organizations however, fail to communicate the action and involvement plans to their employees and focus on the financial success of the demerger thereby leaving employees feeling neglected and without any certainty of their future in the organization. This is also the time when role changes, structural changes, and operational changes get introduced within the demerged entities. If not on board with the demerger, most employees would present a strong resistance to change which could completely topple the demerger over its head. Corporate restructuring is a synonym for major change. Changing processes, strategies, direction, and management can be done any time when the business decided to do so. Changing the perception of employees and getting them on board to adopt new processes, cultures, and operations requires careful communication and factoring in of a lot of sensitivities.

6.2.3 Post Demerger stage –

This is the phase where the demerger is supposed to stabilize and the demerged entities have to either start operating independently or one of the demerged entities has to cease to exist. This is the stage where most of the financial and legal aspects of the demerger process have been sorted out and the maximum attention is on the operational aspects of the demerger – of which employees are the key component. The communication to the
employees and their perceptions towards the demerger is the key determinant to whether the demerger will fail or succeed. Studies have demonstrated that “50% of executives leave in the first year of a major corporate restructuring activity. This loss of key talent, which links with the concept of employee engagement, is also a significant reason why restructuring situations fail” (Schuler & Jackson, 2007). According to research, many demergers and corporate restructuring situations do not even demand a reduction in the labor force or a major reshuffling of employees, but simply because the employees have not been properly engaged during the demerger stage, anxiety among the employees leads many of them to lose interest in working with the organization and the organization ends up losing valuable resources on whom the organization actually based the demerger’s success on. Needless to say, the organization risks losing out to competitors when it is in a nascent stage post the demerger and has lost a significant number of valuable resources at a stage when they were needed the most. Immediately after a demerger, many situations might actually call for job cuts and a reduction in the workforce of some departments. In such a situation, organizations usually bleed more than they are cut. Layoffs of employees from within departments where redundancies are created, causes a major ripple effect in departments where there is no need for job cuts. Not only does the organization face flak for layoff of employees where redundancies exist, but it also loses a sizeable chunk of resources from areas where the demand has not been affected. Even in a situation where resource attrition does not pose a major worry, the morale of the resources may pose challenges in the success of a demerger. Processes, structures, and asset distributions may chart out how a demerger looks, but the employees are the ones who actually task it out and carry on working as demerged entities. While there might be quite a few reasons why demergers fail, the human factor is often at the heart of these failures.

Like is the case with any major corporate restructuring activity, a demerger is often a large scale activity and has proportionate large scale impact on the business of the demerging business. Every organization undergoing a demerger would ideally want for it to succeed and deliver the results intended from the process. As seen above in this section, the way employees perceive; the reasons for a demerger, the demerger process, and their future in the organization after the demerger has happened are crucial factors to the success of a demerger activity. Whether it is at the stage where a demerger is being planned and charted
out, at the stage where the demerger is actually taking place, or most importantly, at the stage when the demerger has happened and needs to be stabilized, the opinion and perceptions of the employees need to be considered by organizations in order to make the demerger process a success.

For organizations, to give thought to involve their employees in planning the demerger, to engage them during the demerger, and to keep transparent communication along with clear role definition, after the demerger is the single most important parameter to ensure that a demerger activity successfully takes place.

Research shows that “companies spend more than $2 trillion on acquisitions every year, however the failure rate of corporate restructuring activities is somewhere between 70% and 90%” (Clayton M. Christensen, 2011). Research also shows that senior management in most organizations undergoing restructuring do not fully understand the concept and importance of employee engagement and involvement during a demerger, hence not considering it as a vital part of their demerger plans.

Considering the above, it is clear that the perspective of employees within an organization is the most crucial element for the success of a demerger.

6.3 IMPACT OF DEMERGER ON EMPLOYEES:

A commonly held belief is that, demergers or divestitures have only one impact on the employees of a particular organization – job cuts and layoffs. While it is true that job cuts are a serious issue which senior management executives need to consider while planning out a demerger, it is certainly not the only key impact a demerger has on the employees of an organization. This section will aim to elucidate in broader detail, some of the key impacts which a demerger situation might have on the employees working within an organization and serve as “what not to” guide for senior management executives in planning out their demerger strategies and plans.

6.3.1 Demotivated Workforce

Understanding employee motivation is a crucial aspect for organizational success although most senior management executives tend to focus more on financial and operational
aspects but miss out on the most important asset they have – their employees. In the case of a demerger, there is always a certain amount of uncertainty regarding how the demerger will take effect, how it will be executed, and how it will impact the people working in the organization. This uncertainty is usually supplemented and aggravated by the senior management, which tends to completely divert focus to planning the financial and legal details of the demerger. When employees are not properly communicated to and are not involved in the planning of a demerger, they do not feel the importance and significance of the demerger from a strategic and financial standpoint, rather begin to resent it, thinking that the demerger is to rid the organization of non performing units / employees. This begins to create an atmosphere full of anxious and demotivated employees who lose interest in performing their jobs. Studies indicate that “a demoralized workforce can cause the productivity of an organization going through large scale change to decrease by 25-50%” (Tetenbaum, 1999). This decrease in productivity will most certainly hamper the performance of the organization, but it also ends up de-motivating the employees on a permanent basis. Whether such employees are laid off, retained, or find other places of employment, they lose focus from performing their job and end up only focusing on ways to stick around wherever they work.

6.3.2 Lack of Clarity and Focus

Demergers would most certainly be accompanied by changes or shuffling in roles, management teams, and sometimes even employee grades and designations. The chain of command is highly likely to be affected and this can seriously impact the working dynamics which employees within the organization have. It is a commonly accepted fact that employees leave managers not organizations. This means that changes in the reporting chain of command can cause many employees to lose the working dynamic they had within the organization as well as their team culture. This could cause employees to lose direction and focus in terms of their role within the organization and how they are supposed to achieve the goals set for them by the senior management.
6.3.3 Redundancy and Lay-offs

“It is common that many people are put at the risk of losing their jobs when companies combine or separate because of duplication of roles; as who needs two heads of HR working within the same organization, etc” (Personnel Today, October, 2007). “In most cases, the motivation for a merger or a demerger is the opportunity to pursue economies of scale. Eliminating jobs is difficult during tough economic times; however it is essential to capture economies of scale and to be productive, efficient and effective, as economies often go hand in hand with getting leaner as an organization, which generally requires a significant amount of job cuts” (Demovsek, 2011).

From both the statements above, it is quite evident that demergers come cursed with a lot of labour redundancies - where the organization can operate optimally with a fewer number of employees, or they end up with more than one employee on their payroll for a single job, or end up cutting out one or more non performing business units, thereby making employees working in these units no longer necessary to the organization’s success. As a natural result of these redundancies, organizations often cut jobs and lay off employees they no longer require.

While redundancies are quite natural in the case of a demerger or any corporate restructuring activity, their impact on employees is magnified further because of issues in communication channels within the organization. Redundancies arising from demergers take months if not years to materialize. Even considering a natural job change curve for many employees, this would give a lot of time to possibly redundant resources to find other avenues of employment. However, management executives within most organizations undergoing a demerger remain tight lipped as to the demerger plan and schedule. This lack of clear communication about what roles / services would become redundant in the future fuels the employees’ anxiety about their future leaving people demotivated and anxious as to the fate of their careers. Given a situation, where proper communication is made about the anticipated redundancies, the employees who might be at the risk of losing their jobs might have sufficient time to find themselves employment elsewhere and complete a smooth transition from their existing roles as well. In most cases however, the there is no timely communication about the progress and timelines of the demerger and redundancies.
as well as consequent job cuts often strike as a sudden blow to the employees thereby leaving everybody running amok trying to find themselves a safe spot when it comes to their careers. In some demerger situations, redundancies are unplanned and the senior management does not know well in advance about the redundancies that might occur after the demerger has happened. In such cases also, it is often the employees who suffer because of this, since they are not made aware in advance that their employment may be at risk. In many cases, the management intentionally does not convey clearly about the possible redundancies after the demerger since they want their employees to stick around till the demerger is completely executed. In this situation, it is again the employees who are most affected, since they support the organization throughout the demerger process only to end up losing their jobs after the demerger has been executed.

In each case, the threat of redundancies heightens the anxieties in a demerger situation and causes the workforce to become confused and demotivated thereby reducing their productivity and focus towards work. This causes the management to be highly secretive of their redundancy strategy and planning in order to not let the productivity dip during a time when even the investor confidence is not at its peak and everybody is looking for stronger numbers (Shook & Roth, 2010). In such situations also, it is the employees who are most impacted eventually, as they are the last ones to know about the redundancies and that too when they actually occur.

In case of situations where redundancy planning has been carefully done, senior management executives need to carefully consider justifications for every redundancy, so as to avoid giving out an impression that particular lay-offs have been personal. Care has to be taken to ensure that no redundancy is personal and has every valid business justification. If not planned out properly, this could lead to employees claiming unfair termination of employment, which could amount to considerable strain on the company’s legal department in a situation where they are already tied down with other issues of the demerger process. To avoid this sort of situation from arising, the management in most demerging companies tends to skip communicating with employees until they have wrapped up their redundancy planning process. This also impacts employees as, they are
made aware of the situation at the very end, leaving them with very little time and options on their hands.

6.4 ROLE OF HUMAN RESOURCE MANAGEMENT IN CASE OF DEMERGER:

Having seen from the preceding section, the crucial importance of the human element in a demerger situation, it becomes critical to understand the importance of the human resource department in a demerger situation.

In the most lucid sense, Human Resource Management can be defined as the “organizational function that deals with recruiting, managing, developing and motivating people, including functional and specialized support and systems for employee engagement and managing systems to foster regulatory compliance with employment and human right standards” (Ramadhan, 2015).

In most organizations however, the HRM function is valued only as a support function that assists with recruitment, training, and compensation management of employees, with senior management executives across the globe barely viewing it as a business partner on key strategic initiatives.

Human resource issues cannot be ignored during demerger. It is of core importance in case of highly people oriented businesses. During demerger employees become anxious which leads to the exit of some of the best talent and the competitors grab this opportunity to take away talent when they are most vulnerable. Also there could be a possible fall in productivity due to significant diversion in management leading to a change in culture and working environment. Hence it is very important for the human resource management department of new enterprise to take professional approach and move proactively and aggressively to address potential concerns of employees and in building the new brand of company as valued as earlier joint entity.
6.5 HUMAN RESOURCE STRATEGIES OF RELIANCE INDUSTRIES LTD AFTER ITS DEMERGER:

After a demerger an alarming issue for an organisation is related to its growth and integration over time. At first glance, reliance demerged group under Reliance Industries Ltd put its targets at vertical integration, expansion and diversification. While expanding or diversifying into new business, it is crucial to focus on retention of existing business. Reliance Industries Ltd’s growth came mainly through consolidation in backward integration.

From 2005 onwards, Reliance Industries Ltd strategic focus has primarily been on integral growth for venturing into new businesses. As Reliance Industries Ltd has its units in more than 36 countries all over the world, it offers global opportunities for its employees with multiple disciplines, multiple geographies, multiple functions.

The company continued the path of integral growth. Primary step for internal growth starts with retention of its competent employees with motivational factors like sharing of profits. Reliance Industries Ltd launched a scheme called ESOS (Employee Stock Option Scheme) offering eligible employees the option to purchase company’s shares. This would imply that employees shall have direct interest in the performance of company’s business and would see personal benefit from success of company.

In view of objective of internal growth, new recruits are given an accelerated training through an unique initiative called ‘Dronacharya scheme’. This scheme was launched at Jamnagar under which senior personnel (Dronacharya) takes charge of 2-3 youngsters each (Arrjunas) and vow to mentor them to take up independent positions in 3-6 months. Initial results have been extremely encouraging under this scheme and scheme was planned to be practiced at all other locations also. More than 1500 young people have been recruited from different industries under this scheme and are trained to meet the targeted plans.

Reliance Industries human resource motto is ‘Nurturing ordinary people to produce extra ordinary results.’ It conducts manufacturing leadership programs for its senior managers/executives. The company’s policy is providing responsibility and entrusting the young employees which is proved by the fact that average employee age is 34 years. The
company initiated various in-house training programs for learning and development. The company has focussed mainly on e-learning as a medium for upgrading skills and competencies so that employees can learn at their own convenience whenever needed. It is believed at Reliance that it is people who make the difference. Considering the multi divisional structure of the company, it started customized management programs to train employees in specific fields. The company also encouraged development of employees with highly scientific Key Result Area (KRA) based performance management system and career mapping exercises.

The company sponsors a certified management course for its engineers- MPRE (Management Program for Reliance Engineers) at IIT Bombay. It also has a tie-up with IIM Bangalore for an official reliance engineering course for graduates joining Reliance Industries Ltd.

With various such initiatives taken by human resource department of Reliance Industries Ltd the employees of the company were well managed after demerger and the objective of retaining the motivational level of employees was to a great extent achieved. (Corporate Sustainability report of Reliance Industries Ltd, 2006)

6.6 DESCRIPTIVE ANALYSIS USING PRIMARY DATA

Primary data collected with respect to Employees’ perspective to demerger of Reliance Industries Ltd:

Objective five of the study was to study the employees’ perspective to demerger of Reliance Industries Ltd and hence the researcher considered it apt to seek employees’ opinion relating to demerger. A well drafted questionnaire was given to employees of RIL and primary data relating to their perspective was collected through this. Out of the various employees of Reliance Industries Ltd spread all over the country, researcher selected to conduct survey on top 1000 employees out of which 750 were selected on random basis but only 600 respondents responded to the questionnaire but 100 were rejected on the basis of incomplete entries. Therefore the profile of the 500 completed questionnaires considered for analysis was as follows:
Table 6.1 Profile of respondents (employees)

<table>
<thead>
<tr>
<th></th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Gender</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>280</td>
<td>56.0</td>
</tr>
<tr>
<td>Female</td>
<td>220</td>
<td>44.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Age</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Below 35</td>
<td>10</td>
<td>2.0</td>
</tr>
<tr>
<td>36-50</td>
<td>290</td>
<td>58.0</td>
</tr>
<tr>
<td>Above 50</td>
<td>200</td>
<td>40.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
<tr>
<td><strong>Join Reliance</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Before 2005-06</td>
<td>290</td>
<td>58.0</td>
</tr>
<tr>
<td>In the year 2005-06 (year of demerger)</td>
<td>210</td>
<td>42.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Compiled by researcher from questionnaires.

Gender wise respondents profile: Out of the total respondents 56% were male and females constituted 44% which implies that top employees of RIL have almost equal composition of males and females. Graphical representation of the same is given below.
Age wise respondent's profile: 58% of the respondents belong to the age category of 36-50 yrs and 40% are of the age above 50 yrs and only 2% are from below 35 yrs. It can be concluded that maximum of the top employees belong to the middle age group. This is justified since generally an employee takes time to climb up the ladder of organisational hierarchy. For better understanding graphical representation of the same is given below.

Year of joining: Out of the 500 employees considered for survey, 290 employees had joined reliance before 2005-06 and 210 employees had joined reliance in the year of demerger.
Table 6.2 Response for still employee of Reliance and whether would leave the company:

<table>
<thead>
<tr>
<th></th>
<th>Are you still the employee of reliance?</th>
<th>Would you leave the job at Reliance if a better job opportunity was offered?</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequency</td>
<td>Percent</td>
</tr>
<tr>
<td>Yes</td>
<td>480</td>
<td>96.0</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>4.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

Out of the total respondents surveyed 96 % of the respondents were still the employee of reliance and only 4 % had left the company. This is represented in the following graph.
The respondents were asked whether they would leave the job at reliance if a better opportunity was offered and 68% of the respondents replied yes that they would do so and 32% replied no. The respondents replying no strongly imply that they are highly satisfied with their job at reliance.

Graph 6.5 Job switching preference
Table 6.3 Intimation of news of Reliance demerger:

<table>
<thead>
<tr>
<th>Source of Information</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Official HR department mail</td>
<td>160</td>
<td>32.0</td>
</tr>
<tr>
<td>Grapevine communication amongst employees</td>
<td>140</td>
<td>28.0</td>
</tr>
<tr>
<td>Social media websites</td>
<td>50</td>
<td>10.0</td>
</tr>
<tr>
<td>Newspaper</td>
<td>80</td>
<td>16.0</td>
</tr>
<tr>
<td>Television news</td>
<td>40</td>
<td>8.0</td>
</tr>
<tr>
<td>Family &amp; friends</td>
<td>30</td>
<td>6.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

The employees were asked about the source of information about news of Reliance demerger and 32% of the respondents said that they received official HR department mail informing the news of demerger and 28% of the respondents got to know about demerger news through grapevine communication in the company. Newspapers were the source of information for 16% of the respondents whereas 10% of the respondents got the news through social media websites. Remaining 8% and 6% attributed television news and family & friends to be the source of information for demerger news. For better analysis graphical representation of intimation of news is given below.
To ascertain the state of employees during the period of demerger, respondents were required to opt for options like happy, hopeful, optimistic, strained and nervous. It is interesting to note that 36% of the respondents were hopeful, 14% were happy and 22% were optimistic. This implies that majority of the employees had a positive perception
towards demerger. But it cannot be ignored that 12% were strained may be due to work pressure and 16% were nervous may be due to insecurity about uncertainties in future.

**Graph 6.7 State of employees during the period of demerger**

<table>
<thead>
<tr>
<th>State</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Happy</td>
<td>14</td>
<td>28.0</td>
</tr>
<tr>
<td>Hopeful</td>
<td>36</td>
<td>72.0</td>
</tr>
<tr>
<td>Optimistic</td>
<td>22</td>
<td>44.0</td>
</tr>
<tr>
<td>Strained</td>
<td>12</td>
<td>24.0</td>
</tr>
<tr>
<td>Nervous</td>
<td>16</td>
<td>32.0</td>
</tr>
</tbody>
</table>

**Table 6.5 Reason for demerger:**

<table>
<thead>
<tr>
<th>Reason</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family dispute</td>
<td>270</td>
<td>54.0</td>
</tr>
<tr>
<td>Diversification of business</td>
<td>80</td>
<td>16.0</td>
</tr>
<tr>
<td>Unrealized synergies of different sectors</td>
<td>50</td>
<td>10.0</td>
</tr>
<tr>
<td>Increasing shareholders wealth</td>
<td>50</td>
<td>10.0</td>
</tr>
<tr>
<td>Lack of ability to manage expanded business under one name</td>
<td>50</td>
<td>10.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** Prepared by researcher using questionnaire

As discussed earlier in introduction chapter there are various rationales for opting demerger strategy. Researcher attempted to know what was the reason for demerger in the
opinion of employees of reliance. 54% of the total respondents opined that family dispute was the prime reason for demerger. 16% of the respondents felt that diversification of business could be the reason for demerger. And each of reasons like unrealized synergies, increasing shareholders wealth and lack of ability to manage expanded business were opted by 10% of the respondents. Graphical representation of reason for demerger is given below.

**Graph 6.8 Reason for demerger**

Table 6.6 ESOP scheme

<table>
<thead>
<tr>
<th>Did you subscribe to ESOP scheme during demerger?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>480</td>
<td>96.0</td>
</tr>
<tr>
<td>No</td>
<td>20</td>
<td>4.0</td>
</tr>
<tr>
<td>Total</td>
<td>500</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** Prepared by researcher using questionnaire
Employee Stock Option Scheme was offered to employees as a motivating factor during demerger. 96% of the respondents had opted for ESOP and only 4% had not opted may be because they were not eligible for the scheme. Generally all eligible employees always opt for this scheme as they are offered shares of the company at a price lower that the market price prevailing at stock exchange.

**Graph 6.9: ESOP scheme**

**Table 6.7 Employees affected by demerger**

<table>
<thead>
<tr>
<th>In your opinion are employees anyway affected by demerger?</th>
<th>Frequency</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>310</td>
<td>62.0</td>
</tr>
<tr>
<td>No</td>
<td>190</td>
<td>38.0</td>
</tr>
</tbody>
</table>

**Source:** Prepared by researcher using questionnaire
62% out of the total respondents feel that employees are affected by demerger whereas 38% of the respondents opined that employees are not affected by demerger.

**Graph 6.10 Effect on employees**

**Effect of demerger on employees:**

The respondents were asked to give their opinion on five point Likert scale regarding different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd. The codes were as follows: SD - Strongly Disagree (1), D - Disagree (2), N - Neither agree nor disagree (3), A - Agree (4), SA - Strongly Agree (5). The responses relating to factors affecting employees are tabulated as follows:
Table 6.8 Frequency table for change in the composition of employees:

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Lot of inter department transfers were executed during the process of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>F</td>
<td>80</td>
<td>120</td>
<td>20</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>16</td>
<td>24</td>
<td>4</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>Many employees resigned during the process of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>F</td>
<td>40</td>
<td>200</td>
<td>120</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>8</td>
<td>40</td>
<td>24</td>
<td></td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>Many employees resigned immediately post demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>F</td>
<td>5</td>
<td>24</td>
<td>7</td>
<td>14</td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>10</td>
<td>48</td>
<td>14</td>
<td>28</td>
<td>100</td>
</tr>
<tr>
<td>4</td>
<td>Many employees were given termination letter immediately post demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>F</td>
<td>70</td>
<td>240</td>
<td>80</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>14</td>
<td>48</td>
<td>16</td>
<td>20</td>
<td>100</td>
</tr>
<tr>
<td>5</td>
<td>New recruits were added in your department immediately post demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>F</td>
<td>10</td>
<td>130</td>
<td>60</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>2</td>
<td>26</td>
<td>12</td>
<td>48</td>
<td>100</td>
</tr>
<tr>
<td>6</td>
<td>Employees tried to search alternate job opportunities during the period of</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>demerger</td>
<td>F</td>
<td>40</td>
<td>120</td>
<td>100</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>8</td>
<td>24</td>
<td>20</td>
<td>40</td>
<td>100</td>
</tr>
<tr>
<td>7</td>
<td>Competitors took advantage of anxiety amongst employees and pulled away</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>talent during the period of demerger</td>
<td>F</td>
<td>80</td>
<td>70</td>
<td>60</td>
<td></td>
<td>500</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>16</td>
<td>14</td>
<td>12</td>
<td>50</td>
<td>100</td>
</tr>
</tbody>
</table>

**Source:** Prepared by researcher using questionnaire

The frequency distribution of the responses obtained for variables reflecting change in composition of employees is graphically represented below for further analysis.
Graph 6.11 Change in composition of employees

Transfers:

52% of the respondents agreed that lot of inter department transfers were executed during the process of demerger but there were 24% who disagreed and 16% who strongly disagreed about lot of inter department transfers. Mean score for the responses to this statement was 3.04 which is merely more than 3 hence it cannot be strongly concluded that there were lot of transfers implemented but the fact remains that inter department transfers were done so it would be correct to say that some transfers were made which were very much required for the implementation of demerger.

Resignation of employees during demerger:

40% of the respondents disagreed and 8% strongly disagreed that many employees resigned during the period of demerger and 24% gave neutral response. The mean score is 2.74 which is also less than 3 implying that not many employees resigned during the period of demerger. 26% respondents have agreed also which means there must be some resignations given by employees during the period of demerger. Uncertainties about future or better opportunities could be the reason for such resignations.
Resignation of employees post demerger:

48% of the respondents disagreed and 10% strongly disagreed that many employees resigned immediately post demerger and 14% gave neutral response. The mean score is 2.60 which is less than 3 implying that not many employees resigned immediately post demerger. 28% respondents have agreed also which means there must be some resignations given by employees post demerger but it could be just part of normal attrition due to better job opportunities and nothing to do with demerger.

Termination post demerger:

48% of the respondents disagreed and 14% strongly disagreed that many employees were terminated immediately post demerger and 16% gave neutral response. The mean score is 2.48 which is much less than 3 implying that not many employees were terminated immediately post demerger. 20% respondents have agreed also which means there must be some terminations done post demerger; the reason for which can be that due to demerger requirement of labour must have reduced.

New recruitment post demerger:

While considering the change in composition of employees, researcher has considered both exit of employees and additions of employees. 48% of respondents agreed and 12% strongly agreed that new recruits were added post demerger. Mean score for the responses to this statement comes to 3.42 which is more than 3 implying that the new recruits were added post demerger. This conclusion is not very justified as generally it is expected to either reduce or just retain the existing work force when there is a demerger. But such response also indicates that there were some plans of expansion in pipeline or there was underemployment prior to demerger which was corrected with new human resource policy.

Search for alternate job opportunities:

40% of the respondents agreed and 8% strongly agreed that employees were trying to search alternate job opportunities during the period of demerger. Mean score for the
responses to this statement comes to 3.16 which is more than 3, hence it can be concluded that employees were looking for job opportunities and wanted to exit the company. There can be various reasons for this but since it is seen during the period of demerger, it can be said that employees may be feeling insecure about their job or were not very positive about inter department transfers happening in the company.

**Competitors pulling the talent from company:**

It is a usual phenomenon that competitors take advantage of the anxiety of employees during the period of demerger and pull away talent from the company. 50% of the respondents agreed and 8% strongly agreed to this fact. This is also supported by a mean score being higher than 3. It is here where comes the role of HR department to retain the talent during demerger.

### Table 6.9 Statistical summary for change in the composition of employees:

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot of inter department transfers were executed during the process of demerger</td>
<td>3.04</td>
<td>1.261</td>
<td>-.460</td>
<td>-1.330</td>
</tr>
<tr>
<td>Many employees resigned during the process of demerger</td>
<td>2.74</td>
<td>1.006</td>
<td>.179</td>
<td>-.908</td>
</tr>
<tr>
<td>Many employees resigned immediately post demerger</td>
<td>2.60</td>
<td>1.010</td>
<td>.272</td>
<td>-1.202</td>
</tr>
</tbody>
</table>
Many employees were given termination letter immediately post demerger  
| | 2.48 | 1.035 | .516 | -.596 |

New recruits were added in your department immediately post demerger  
| | 3.42 | 1.071 | -.407 | -.956 |

Employees tried to search alternate job opportunities during the period of demerger  
| | 3.16 | 1.131 | -.328 | -.875 |

Competitors took advantage of anxiety amongst employees and pulled away talent during the period of demerger  
| | 3.20 | 1.262 | -.648 | -.879 |

Source: Prepared by researcher using data from table 6.8

For better analysis and interpretation graphical representation of mean scores for various statements reflecting change in composition of employees is given below.

Graph 6.12 Mean scores for change in composition of employees

![Graph 6.12 Mean scores for change in composition of employees](image)
Table 6.10 Frequency table for impact of demerger on the state of employees

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Employees were anxious during the period of demerger</td>
<td>F</td>
<td>0</td>
<td>140</td>
<td>60</td>
<td>210</td>
<td>90</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>0</td>
<td>28</td>
<td>12</td>
<td>42</td>
<td>18</td>
</tr>
<tr>
<td>2</td>
<td>Employees develop feeling of disengagement during demerger.</td>
<td>F</td>
<td>60</td>
<td>170</td>
<td>100</td>
<td>130</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>12</td>
<td>34</td>
<td>20</td>
<td>26</td>
<td>8</td>
</tr>
<tr>
<td>3</td>
<td>Employees develop survivor syndrome during demerger</td>
<td>F</td>
<td>70</td>
<td>130</td>
<td>50</td>
<td>240</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>14</td>
<td>26</td>
<td>10</td>
<td>48</td>
<td>2</td>
</tr>
<tr>
<td>4</td>
<td>Rate of employee absenteeism increased during the period of demerger</td>
<td>F</td>
<td>110</td>
<td>240</td>
<td>80</td>
<td>70</td>
<td>0</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>22</td>
<td>48</td>
<td>16</td>
<td>14</td>
<td>0</td>
</tr>
<tr>
<td>5</td>
<td>Employee morale was affected during the process of demerger</td>
<td>F</td>
<td>50</td>
<td>140</td>
<td>50</td>
<td>240</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>10</td>
<td>28</td>
<td>10</td>
<td>48</td>
<td>4</td>
</tr>
<tr>
<td>6</td>
<td>Employee performance was affected during the process of demerger</td>
<td>F</td>
<td>40</td>
<td>220</td>
<td>60</td>
<td>140</td>
<td>40</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>8</td>
<td>44</td>
<td>12</td>
<td>28</td>
<td>8</td>
</tr>
<tr>
<td>7</td>
<td>There was a change in the work culture post demerger</td>
<td>F</td>
<td>20</td>
<td>80</td>
<td>70</td>
<td>310</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>%</td>
<td>4</td>
<td>16</td>
<td>14</td>
<td>62</td>
<td>4</td>
</tr>
</tbody>
</table>

**Source:** Prepared by researcher using questionnaire

Response collected through questionnaire for various factors reflecting impact of demerger on state of employees is graphical represented below to facilitate better understanding.
Anxiety among employees during demerger:

It is interesting to note that no respondents strongly disagreed to that fact that employees were anxious during the period of demerger. Rather 42% agreed and 18% strongly agreed to this. The mean score of 3.50 helps in strongly concluding the anxiety amongst employees during demerger. It is human tendency to react like this to any uncertain change.

Feeling of disengagement:

Out of the total respondents 34% disagreed and 12% strongly disagreed to the statement that employees developed feeling of disengagement during the process of demerger. 20% of the respondents gave neutral response may be they were not sure of it. 26% of the respondents agreed and 85 strongly disagreed to this. There was a mixed response to this statement but since the mean score is 2.84 which is less than 3 it can be concluded that there was not much feeling of disengagement developed among employees during demerger. This can be attributed to the strong loyalty of employees developed over the period of time.
Survivor syndrome:

Survivor syndrome is an attribute found in employees which means the fear of loss of job, fear of sustaining, fear of uncertainties, etc. Though there was not much of disengagement found in employees, there was some survivor syndrome found in employees during demerger. 48% of the respondents agreed and 4% strongly agreed that employees had developed survivor syndrome during demerger. On discussion with employees it was found that talks about transfers and grapevine about layoffs were the reason for development of such syndrome. 26% disagreed and 14% strongly disagreed for having survivor syndrome developed in employees during demerger. Also the mean score is 2.98 which is just close to 3 so no strong conclusions can be made in this regard.

Employee absenteeism:

48% of the respondents disagreed and 22% strongly disagreed that employees’ absenteeism had increased during the demerger. It must be noted that no respondents strongly agreed to this statement. The mean score for the response to this statement is 2.22 much below 3, hence it can be strongly concluded that process of demerger did not result in to increased employee absenteeism.

Employee morale:

Morale is very important as it directly relates to the productivity of the employees. During any organisational changes it is crucial to sustain the employees’ morale high. The survey results state that 48% agreed and 4% strongly agreed that employees’ morale was affected during demerger. But 28% disagreed and 10% strongly disagreed that employees’ morale was affected. Even the mean score is 3.08 just slightly more than 3. Therefore it can be said that employees’ morale was affected but not much.

Employee performance:

Generally employee performance is correlated to employee morale. But it is difficult to get the accurate response related to employee performance from the employees themselves. 44% disagreed and 8% strongly disagreed that the employee performance was affected
during demerger. The mean of 2.84 also helps in concluding that demerger had no impact on the performance of employees.

**Work culture post demerger:**

Change in organisational structure, change in leadership are expected to result in change in work culture also. Out of the total respondents 62% agreed and 4% strongly agreed that there was a change in work culture post demerger. Considering the high mean score of 3.46 it can be concluded that there was change in work culture post demerger.

| Table 6.11 Statistical summary for impact of demerger on the state of employees |
|-------------------------------------------------|-------|-------|------|------|
| Employees were anxious during the period of demerger | 3.50  | 1.093 | -.244 | -1.281 |
| Employees develop feeling of disengagement during demerger | 2.84  | 1.184 | .169  | -.990 |
| Employees develop survivor syndrome during demerger | 2.98  | 1.186 | -.418 | -1.305 |
| Rate of employee absenteeism increased during the period of demerger | 2.22  | .954  | .565  | -.471 |
| Employee morale was affected during the process of demerger | 3.08  | 1.158 | -.408 | -1.177 |
| Employee performance was affected during the process of demerger | 2.84  | 1.167 | .324  | -1.087 |
| There was a change in the work culture post demerger | 3.46  | .952  | -1.063 | .282 |

**Source:** Prepared by researcher using data from table 6.10

For better analysis mean scores for factors dealing with impact of demerger on state of employees is presented graphically below.
Graph 6.14 Mean values for impact on state of employees

<table>
<thead>
<tr>
<th>Mean - Impact of demerger on the state of employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Work culture post demerger</td>
</tr>
<tr>
<td>Employee performance</td>
</tr>
<tr>
<td>Employee morale</td>
</tr>
<tr>
<td>Employee absenteeism</td>
</tr>
<tr>
<td>Survivor syndrome</td>
</tr>
<tr>
<td>Feeling of disengagement</td>
</tr>
<tr>
<td>Anxiety among employees during demerger</td>
</tr>
</tbody>
</table>

Table 6.12 Frequency table for role of HR department during demerger

<table>
<thead>
<tr>
<th></th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>F</td>
<td>30</td>
<td>60</td>
<td>130</td>
<td>230</td>
<td>50</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>6</td>
<td>12</td>
<td>26</td>
<td>46</td>
<td>100</td>
</tr>
<tr>
<td>2</td>
<td>F</td>
<td>0</td>
<td>80</td>
<td>180</td>
<td>210</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>0</td>
<td>16</td>
<td>36</td>
<td>42</td>
<td>100</td>
</tr>
<tr>
<td>3</td>
<td>F</td>
<td>20</td>
<td>80</td>
<td>60</td>
<td>270</td>
<td>70</td>
</tr>
<tr>
<td></td>
<td>%</td>
<td>4</td>
<td>16</td>
<td>12</td>
<td>54</td>
<td>100</td>
</tr>
</tbody>
</table>

Lot of initiatives were taken by HR department to keep employees morale high during demerger.

ESOP scheme worked as a motivator for boosting the morale of employees during demerger.

There were significant changes in the HR policies post demerger.
HR department was successful in managing employees during demerger

<table>
<thead>
<tr>
<th></th>
<th>4</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>20</td>
<td>70</td>
<td>170</td>
<td>220</td>
<td>20</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>4</td>
<td>14</td>
<td>34</td>
<td>44</td>
<td>4</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

HR department has an important role to play during demerger

<table>
<thead>
<tr>
<th></th>
<th>5</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>40</td>
<td>40</td>
<td>50</td>
<td>210</td>
<td>160</td>
<td>500</td>
<td></td>
</tr>
<tr>
<td>%</td>
<td>8</td>
<td>8</td>
<td>10</td>
<td>42</td>
<td>32</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

Source: Prepared by researcher using questionnaire

Graphical presentation of the data given in table 6.12 is given below which will facilitate proper understanding.

Graph 6.15 Role of HR department during demerger

Initiatives for high morale:

46% of the respondents agreed and 10% strongly agreed that HR department had taken lot of initiatives to keep employee morale high during demerger. The mean score is 3.42 which is higher than 3 hence it can be concluded that HR department had taken initiatives during demerger to keep employee morale high. It is also seen in the previous section of
the chapter dealing with impact on employees that employee morale was not much affected during demerger. The credit for this can be given to role of HR department in keeping employee morale high.

**ESOP scheme as motivator:**

Motivating factors are required to keep employee morale high. Motivating factors can be monetary or nonmonetary. It has been seen in many cases of demerger that company resorts to Employee Stock Option Scheme as a motivating factor to ensure complete cooperation from employees during demerger. 42% of the respondents agreed and 6% strongly agreed that ESOP scheme worked as a motivator to keep the employee morale high during demerger. The mean score of the responses to this statement comes to 3.38 hence it can be concluded that ESOP scheme worked as a motivator during demerger.

**Changes in HR policies:**

Change in organisational structure may call for change in HR policies. HR policies may require change to boost employee morale also. HR policies relate to change in composition of employees also. 54% of the respondents agreed and 14% strongly agreed that there were significant changes in the HR policies post demerger. The high mean of 3.58 draws conclusion that there were changes in HR policies post demerger.

**Success of HR department in managing employees during demerger:**

44% of the respondents agreed and 4% strongly agreed that HR department was successful in managing employees during demerger. This supported by the mean of 3.30. Various initiatives taken by the HR department had helped in managing employees during the process of demerger.

**Important role of HR department:**

Human resource is an important resource of an organisation and hence HR department has an important role to play in managing employees during demerger. 42% of the respondents agreed and 32% strongly agreed that HR department has an important role to play during demerger. This statement has a high mean score of 3.82 supporting this statement.
Table 6.13 Statistical summary for role of HR department during demerger

<table>
<thead>
<tr>
<th>Description</th>
<th>Mean</th>
<th>Std. Deviation</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lot of initiatives were taken by HR department to keep employees morale high</td>
<td>3.42</td>
<td>1.032</td>
<td>-.705</td>
<td>.091</td>
</tr>
<tr>
<td>during demerger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ESOP scheme worked as a motivator for boosting the morale of employees</td>
<td>3.38</td>
<td>.830</td>
<td>-.158</td>
<td>-.613</td>
</tr>
<tr>
<td>during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>There were significant changes in the HR policies post demerger</td>
<td>3.58</td>
<td>1.052</td>
<td>-.823</td>
<td>-.015</td>
</tr>
<tr>
<td>There were significant changes in the HR policies post demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR department was successful in managing employees during demerger</td>
<td>3.30</td>
<td>.909</td>
<td>-.645</td>
<td>.119</td>
</tr>
<tr>
<td>HR department was successful in managing employees during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>HR department has an important role to play during demerger</td>
<td>3.82</td>
<td>1.207</td>
<td>-1.090</td>
<td>.396</td>
</tr>
<tr>
<td>HR department has an important role to play during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** Prepared by researcher using data from table 6.12

For better analysis the mean values of factors reflecting role of HR department during demerger are graphically presented below.
6.7 TESTING OF HYPOTHESIS:

HYPOTHESIS 2:

Null hypothesis: (H0): Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

Alternative Hypothesis: (H1): Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

For testing purpose respondents are asked to give their opinion on five point agreement scale regarding different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd. The codes were as follows:


For testing above hypotheses we compare mean rating scores with score 3 (which gives positive agreement/ opinion rating score).

For statistical testing purpose, above hypothesis can be expressed as below
**Null Hypothesis:** Mean rating scores for different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd. is less than or equal to 3

**Alternative hypothesis:** Mean rating scores for different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd. is greater than 3

For testing null hypothesis we use one sample 't' test with hypothesized mean value 3. The details of which are tabulated as follows.

**Table No.6.14 One sample ‘t’ test of mean vs hypothesized score 2 for different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd.**

<table>
<thead>
<tr>
<th></th>
<th>Mean score</th>
<th>Sample size</th>
<th>Degree of freedom</th>
<th>Calculated ‘t’ value (one tailed, upper)</th>
<th>Significant P value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hypothesized scores for different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd.</td>
<td>μ₀ = 3</td>
<td>n= 50</td>
<td>d.f.= 49</td>
<td>t = +0.12</td>
<td>p = 0.4521</td>
</tr>
<tr>
<td>Observed Mean rating scores for different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd.</td>
<td>μ₁ = 3.0096</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Critical t values:**

1. At 5% level of significance the corresponding value t with d.f. 49 is +1.645
2. At 1% level of significance the corresponding t value with d.f. 49 is +2.326

**Source:** Statistical analysis prepared by researcher using data from table no 6.8, 6.10 & 6.12
Observation:

From the above table it is observed that ‘t’ value for null hypothesis is +0.12 which is less than +1.645 (also less than + 2.326). Also p value is 0.4521 which is greater than 0.01. Hence the null hypothesis cannot be rejected at 5% & 1% level of significance.

Interpretation:

On the basis of above data it can be inferred that Mean rating scores for different characteristics related to effect of the process of demerger on Employees of Reliance Industries Ltd. is less than or equal to 3.

Findings:

Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

6.8 Appraisal and Conclusion: In recent corporate restructuring demergers are a fairly common term. Employees are important source of productivity and future benefit and hence have been recognized as one of the most important asset of the company. Demerger poses a crucial challenge to human resource management division to keep employees motivated and to avoid increase in attrition rate. The human resource strategy must be communicated properly to the employees and the objective must be to ensure that the workforce also relates to the long term goals of the company. Employees should be able to identify how the company will grow 4-5 years down the line. The human resource department should strive to build a sense of importance among employees. It must help them realise their way forward with the company. It must initiate various schemes to keep the employees motivated and avoid voluntary attrition. An employee consultative forum must be formed where in elected representatives of employees from across the company would not only have voice but can take an active part in shaping change strategy. Two ways communication would help employees feel part of the company. Demerger of large
enterprise into smaller entities provides a viable option for company to restructure itself like Reliance Industries Ltd opted for multi-divisional structure accordingly goal/field specific management. In many cases, demerger of corporate giant helps the management to be more focussed and efficient i.e. the core human resources can be managed better. A common measure which is taken by various corporates during demerger is giving employees stake in the company as done in the case of Reliance Industries Ltd and Larsen & Toubro Ltd. from the primary data collected for the study it can be statistically concluded that employees of Reliance Industries Ltd were not significantly affected by the demerger. The survey also concludes that human resource department has an important role to play during demerger. Hence this chapter has helped in achieving objective number five of the study regarding generating deep understanding about the employee’s perspective to the demerger of Reliance Industries Ltd. according to the statistical tools used by the researcher, the null hypotheses two of the study cannot be rejected and hence it is accepted concluding that employees of Reliance Industries Ltd were not significantly affected by the demerger of Reliance Industries Ltd.
References


CHAPTER 7
THE BEHAVIOR OF STOCK MARKET PRICES AND TURNOVER OF SHARES OF RELIANCE INDUSTRIES LTD. IN PRE AND POST DEMERGER PERIOD
CHAPTER 7

THE BEHAVIOR OF STOCK MARKET PRICES AND TURNOVER OF SHARES OF RELIANCE INDUSTRIES LTD. IN PRE AND POST DEMERGER PERIOD

7.1 INTRODUCTION

This chapter focuses on objective number six of the study relating to the study of behavior of stock prices and turnover of shares of Reliance Industries Ltd in the pre and post demerger period. It also deals with testing the hypotheses 3 and 4 of the study. Here, the researcher has compared the stock prices of the Reliance Industries Ltd in pre and post demerger period to know the impact of the demerger of the company on the movement of the stock market. The stock market also witnessed the ups and downs in the period when the news of demerger spreads in the market and also had affected the other companies’ shares in the stock market.

It is necessary to note the following important dates relating to demerger of Reliance Industries Ltd as stated in scheme of demerger document submitted by Reliance Industries Ltd for court approval:-

i. **Appointed date under the scheme: 1-09-05**
   
   Appointed date means the date for identification of assets and liabilities of existing company for transfer to resulting companies. It is important for determination of share exchange ratio.

ii. **Court order approving the scheme: 9-12-05**
   
   The date of court order is important as the scheme gets approval on the said date.

iii. **Effective date of the scheme: 21-12-05**
   
   Effective date means the last of the dates on which the conditions of the scheme have been fulfilled or waived and the order of the High Court sanctioning the Scheme of
Arrangement is filed with the Registrar of Companies by the demerged company and each of the resulting companies.

iv. **Special Trading Session : 18-01-06**

In the history of Indian stock market it had happened for the first time that before the start of the regular market a special trading session was held at stock exchange where in only shares of Reliance company would be traded to facilitate the price discovery of shares of demerged company Reliance Industries Ltd post demerger.(The Hindu,2005)

v. **Record date of the scheme: 25-01-06**

Record date means the date to be fixed by the Board of Directors of the demerged company in consultation with the respective resulting companies for the purpose of reckoning names of the equity shareholders of the demerged company, who shall be entitled to receive shares of each of the resulting companies upon coming into effect of this scheme.

For the purpose of analysis and better interpretation of the situation on stock exchange the researcher has broadly compared pre and post demerger period which is further divided into stages of demerger process. Considering the above mentioned important dates the researcher has divided the entire analysis into six periods as follows:

1. From 1st April 2004 to 31st August 2005 i.e. the period where no demerger activity had started.
2. From 1st September 2005 to 8th December 2005 i.e. the period from the appointed date of the scheme upto the date of court approval to the scheme.
3. From 9th December 2005 to 20th December 2005 i.e. the period from the date of court approval upto effective date of the scheme.
4. From 21st December 2005 to 17th January 2006 i.e. the period from effective date of the scheme upto the date of special trading session held at stock exchange to discover the price of demerged company.
5. From 18th January 2006 to 24th January 2006 i.e. the period from the date of special trading session up to the record date under the demerger scheme.
6. From 25th January 2006 to 31st July 2006 i.e. the period after the record date of the scheme which is the post demerger period.

Out of the above the first stage can be considered to be the purely pre demerger period and stages second to five are the periods during the demerger process and sixth stage represents purely the post demerger period. Record date of the demerger scheme for all practical purpose symbolizes the event of demerger and hence it is taken as a cutoff point to compare pre and post demerger period. The prices and volume of shares is almost similar on both stock exchanges namely Bombay Stock Exchange and National Stock Exchange, hence the researcher has instead of giving data on both exchanges has selected to work on data at National Stock Exchange. All the data required for analysis has been taken from the official website of National Stock Exchange.

7.2 PRE-DEMERGER PERIOD
This segment of the chapter deals with five different periods including the period before any activity of process of demerger was started and the various stages involved in the process of demerger. It includes the period before appointed date, the stages from court order approval to effective date to special trading session date up to record date. The researcher explains the movement of share prices and turnover of the company shares during these phases.

7.2.1 Period before any demerger process had started:
The researcher has started with this period wherein no activity relating to the process of demerger had started. This period is taken from 1st April 2004 to 31st August 2005 i.e. just before the appointed date. Since the appointed date under the scheme was 1st September 2005.
Table 7.1: Stock Price and turnover of Reliance Industries Ltd before appointed date.
(1st April, 2004 to 31st August, 2005)

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Source: www.nseindia.com surfed on March 17, 2014

To summarize the data given in the above table a graphical representation of share price and turnover movement during the stated period is given below

**Graph 7.1 Pre demerger movement of Reliance Industries Ltd. Share Prices**
From the above graph 7.1, it is found that the share price of the Reliance Industries Ltd. was ranging between 500 to 600 on an average during the year. It is seen that on 1st April, 2004 the share price was ₹555.85 which dropped to around average of 450 in the months of May, June, July and August 2004 and it went up in the month of September and continued to be above 500 till May 2005. In June 2005 the price goes above 600 and reaches to ₹719.4 on 31st August, 2005. Therefore, it can be said that the market price of Reliance shares was rising before demerger of the company.

Graph 7.2 Pre demerger Turnover of Reliance Industries Ltd. Shares in lakhs

Graph 7.2 exhibits the turnover of Reliance shares in stock market. It is seen that there is lots of buy and sell of Reliance share in the stock market before the demerger of the company. This graph also reflects the volume of reliance shares in the stock market and that can affect the movement of market anytime. It is important to understand the turnover of company’s shares and its movement in the stock market. It can be seen that there has always been high turnover of shares of Reliance Industries Ltd in the pre demerger period.
Table 7.2: Statistical interpretation of data

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Source: Statistical analysis prepared by researcher using data from table 7.1.

In table 7.2, the researcher has tried to represent the data in statistical way in the tabular form. It is shown that the average price of reliance share in the market before demerger was ₹ 537.76 whereas the average turnover of Reliance shares in the market was 33,723 lakhs. These mean values are supported by the corresponding median values of closing price and turnover which are near about the mean score. Due to high volatility at stock exchange standard deviation values are always higher for any stock market data series.

The skewness value being positive indicates that distribution is right skewed means more of the data values are towards right i.e. greater than the mean value. The value being between 0.5 and 1 implies it is moderately skewed. The kurtosis value is less than 3 implying platykurtic distribution i.e. variability is not due to few extreme values from mean.

7.2.2 Period from appointed date but before Court Order:

The next period considered for study is from appointed date but before the date of court order approving the scheme. This period is considered to be the preliminary stage in the process of demerger. This period consists from 1st September 2005 to 8th December 2005.

Since the court order approving the scheme was received on 9th December 2005. This is the period in which activities relating to demerger started officially. The scheme of demerger was being drafted. The expert valuation was done for arriving at appropriate exchange ratio to be applied for issuing shares of resulting companies to the shareholders of demerged company. The values of assets and liabilities of undertakings of transferor company to be...
transferred to resulting companies as on appointed date are considered for the purpose of calculation of exchange ratio. All the technical formalities are undertaken in this period.

Table 7.3: Stock Price and turnover of Reliance Industries Ltd from appointed date but before court order. (1st Sept, 2005 to 8th Dec, 2005)

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<td>798.45</td>
<td>25556.43</td>
</tr>
<tr>
<td>23-Sep-05</td>
<td>747.75</td>
<td>79472.2</td>
<td>16-Nov-05</td>
<td>817.45</td>
<td>46815.31</td>
</tr>
<tr>
<td>26-Sep-05</td>
<td>780.25</td>
<td>49761.99</td>
<td>17-Nov-05</td>
<td>829.3</td>
<td>49233.51</td>
</tr>
<tr>
<td>27-Sep-05</td>
<td>788</td>
<td>56176.34</td>
<td>18-Nov-05</td>
<td>826.15</td>
<td>30843.77</td>
</tr>
<tr>
<td>28-Sep-05</td>
<td>800.45</td>
<td>55425.79</td>
<td>21-Nov-05</td>
<td>829.05</td>
<td>42644.77</td>
</tr>
<tr>
<td>29-Sep-05</td>
<td>808.3</td>
<td>57644.34</td>
<td>22-Nov-05</td>
<td>819.3</td>
<td>56863.56</td>
</tr>
<tr>
<td>30-Sep-05</td>
<td>793.55</td>
<td>68545.77</td>
<td>23-Nov-05</td>
<td>832</td>
<td>47640.26</td>
</tr>
<tr>
<td>3-Oct-05</td>
<td>794.25</td>
<td>38258.67</td>
<td>24-Nov-05</td>
<td>844.1</td>
<td>49219.47</td>
</tr>
</tbody>
</table>
To summarize the data given in the above table a graphical representation of share price and turnover movement during the stated period is given below:

**Graph 7.3 Movements of Reliance Industries Ltd. Share Prices in the period from appointed date up to court order.**

![Graph showing share price movements](image_url)
From the above graph 7.3, it is found that the share prices of the reliance industries Ltd. was continuously increasing. It is seen that on 1st September, 2005 the share price was ₹726.7 and it went up to ₹846.15 till December, 2005. Therefore, it can be said that the market price of Reliance shares was rising before demerger of the company.

Graph 7.4: Turnover of Reliance Industries Ltd. Shares in lakhs in the period from appointed date up to court order.

Graph 7.4 exhibits the turnover of Reliance share in stock market. It is seen that there is lots of buy and sell of Reliance share in the stock market before the demerger of the company. This graph also reflects the volume of reliance shares in the stock market and that can affect the moment of market anytime. It is important to understand the turnover of company’s shares and its movement in the stock market.
Table 7.4: Statistical interpretation of Share Prices and Turnover of Shares in Stock Market

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>67</td>
<td>67</td>
</tr>
<tr>
<td>Mean</td>
<td>787.2769</td>
<td>43,983.1372</td>
</tr>
<tr>
<td>sample standard deviation</td>
<td>36.0791</td>
<td>15,927.2364</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.2301</td>
<td>0.6040</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-1.0741</td>
<td>0.4756</td>
</tr>
<tr>
<td>coefficient of variation (CV)</td>
<td>4.58%</td>
<td>36.21%</td>
</tr>
<tr>
<td>Median</td>
<td>785.7000</td>
<td>40,059.8500</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.3.

In table 7.4, the researcher tried to represent the data in statistical way in the tabular form. It is shown that the average price of reliance share in the market before demerger was ₹787.27 whereas the average turnover of Reliance shares in the market was 43,983 lakhs. The median values of stock prices and turnover support the respective mean values. The data under study is stock market data which is generally volatile hence the standard deviation value is seen very high. The skewness value being positive indicates that distribution is right skewed means mode is to the right of the mean value. The value being between 0 and 0.5 implies it is slightly skewed. The kurtosis value is less than 3 implying platykurtic distribution i.e. variability is not due to few extreme values from mean.

7.2.3: Period from Court approval to effective date of the Scheme

After the first stage of court approval, there is implementation stage in the process of demerger. This is the period from court approval up to effective date of the scheme. During this period all conditions of the scheme are fulfilled and order of High Court sanctioning the scheme is filled with Registrar of Companies. This period in case of Reliance Industries Ltd is from 9th December 2005 to 20th December 2005, the effective date of the scheme being 21st December 2005.
Table 7.5: Stock Price and Turnover of Reliance Industries Ltd from court approval to effective date (9th Dec to 20th Dec, 2005)

<table>
<thead>
<tr>
<th>Date</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>9-Dec-05</td>
<td>863.35</td>
<td>55623.11</td>
</tr>
<tr>
<td>12-Dec-05</td>
<td>863.2</td>
<td>23160.76</td>
</tr>
<tr>
<td>13-Dec-05</td>
<td>871.6</td>
<td>34833.3</td>
</tr>
<tr>
<td>14-Dec-05</td>
<td>861.95</td>
<td>34155.3</td>
</tr>
<tr>
<td>15-Dec-05</td>
<td>845.25</td>
<td>44875.23</td>
</tr>
<tr>
<td>16-Dec-05</td>
<td>849.35</td>
<td>40894.86</td>
</tr>
<tr>
<td>19-Dec-05</td>
<td>857.15</td>
<td>20962.23</td>
</tr>
<tr>
<td>20-Dec-05</td>
<td>854.55</td>
<td>31094.35</td>
</tr>
</tbody>
</table>

Source: www.nseindia.com surfed on March 17, 2014

To summarize the data given in the above table a graphical representation of share price and turnover movement during the stated period is given below

**Graph 7.5: Movement of Reliance Industries Ltd. Share Prices from Court order to effective date**
From the above graph 7.5, it is found that the share prices of the Reliance Industries Ltd had slightly fallen down after court order but before effective date of the scheme. It is seen that on 9th December, 2005 the share price was ₹863.35 and it went down to ₹854.55 till 20th December, 2005.

**Graph 7.6: Turnover of Reliance Industries Ltd. Shares in lakhs from Court order to effective date**

Graph 7.6 exhibits the turnover of Reliance share in stock market after court order but before the execution of the scheme. It is seen that the volume of trading of Reliance share in the stock market before the execution of the scheme had declined.
Table 7.6: Statistical interpretation of data (After Court Order)

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>8</td>
<td>8</td>
</tr>
<tr>
<td>Mean</td>
<td>858.3000</td>
<td>35,699.8925</td>
</tr>
<tr>
<td>sample standard deviation</td>
<td>8.4980</td>
<td>11,382.2256</td>
</tr>
<tr>
<td>Skewness</td>
<td>-0.1074</td>
<td>0.4581</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>-0.4090</td>
<td>-0.0440</td>
</tr>
<tr>
<td>coefficient of variation (CV)</td>
<td>0.99%</td>
<td>31.88%</td>
</tr>
<tr>
<td>Median</td>
<td>859.5500</td>
<td>34,494.3000</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.5.

In table 7.6, the researcher tried to represent the data of descriptive statistics in the tabular form. It is shown that the average price of reliance share in the market after court order was ₹ 858.30 whereas the average turnover of Reliance shares in the market was 35,699 lakhs which is supported by its corresponding median values. High standard deviation implies variability in the data series. Skewness values are low hence supporting the mean. The kurtosis value suggests that mean is not influenced by few extreme data values.

7.2.4: After effective date but before special trading session

This period consists of period from effective date of the scheme up to the day before special trading session date. It is this period where in all conditions of the scheme are already fulfilled and the actual demerger is executed. This period in case of Reliance Industries Ltd is from 21st December 2005 to 17th January 2006. 18th January was the landmark day when special trading session was held for price discovery of demerged company post demerger.
Table 7.7: Stock Price and Turnover of Reliance Industries Ltd from effective date up to special trading session (Dec 21, 2005 to Jan 17, 2006)

<table>
<thead>
<tr>
<th>Date</th>
<th>Closing Price</th>
<th>Turnover in Lakhs</th>
<th>Date</th>
<th>Closing Price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>21-Dec-05</td>
<td>860.15</td>
<td>32206.62</td>
<td>4-Jan-06</td>
<td>929.85</td>
<td>40162.17</td>
</tr>
<tr>
<td>22-Dec-05</td>
<td>855.95</td>
<td>49308.67</td>
<td>5-Jan-06</td>
<td>921.7</td>
<td>49143.33</td>
</tr>
<tr>
<td>23-Dec-05</td>
<td>842.9</td>
<td>49237.59</td>
<td>6-Jan-06</td>
<td>920.7</td>
<td>58669.1</td>
</tr>
<tr>
<td>26-Dec-05</td>
<td>832.7</td>
<td>44244.71</td>
<td>9-Jan-06</td>
<td>910.15</td>
<td>57158.57</td>
</tr>
<tr>
<td>27-Dec-05</td>
<td>866.9</td>
<td>50123.96</td>
<td>10-Jan-06</td>
<td>894.1</td>
<td>86151.44</td>
</tr>
<tr>
<td>28-Dec-05</td>
<td>872.5</td>
<td>95322.81</td>
<td>12-Jan-06</td>
<td>886.85</td>
<td>173949.48</td>
</tr>
<tr>
<td>29-Dec-05</td>
<td>891.1</td>
<td>80511.19</td>
<td>13-Jan-06</td>
<td>885.15</td>
<td>90079.69</td>
</tr>
<tr>
<td>30-Dec-05</td>
<td>889.3</td>
<td>44267.33</td>
<td>16-Jan-06</td>
<td>872.95</td>
<td>133915.8</td>
</tr>
<tr>
<td>2-Jan-06</td>
<td>897.85</td>
<td>32830.45</td>
<td>17-Jan-06</td>
<td>928.5</td>
<td>412620.46</td>
</tr>
<tr>
<td>3-Jan-06</td>
<td>920</td>
<td>44607.48</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: www.nseindia.com surfed on March 17, 2014

To summarize the data given in the above table a graphical representation of share price and turnover movement during the stated period is given below

Graph 7.7: Movement of Reliance Industries Ltd. Share Prices from effective date to special trading session.
From the above graph 7.7, it is found that the share prices of the Reliance Industries Ltd were increased after effective date but before special trading session. It is seen that on 21st December, 2005 the share price was ₹860.15 and it went up to ₹928.5 till 17th January, 2006.

Graph 7.8: Turnover of Reliance Industries Ltd. Shares in lakhs from effective date to special trading session.

Graph 7.8 exhibits the turnover of Reliance share in stock market after effective date but before special trading session. It is seen that the volume of trading of Reliance share in the stock market before the special trading session has increased.
Table 7.8: Statistical interpretation of data (After effective date)

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>mean</td>
<td>888.3842</td>
<td>85,500.5711</td>
</tr>
<tr>
<td>sample standard deviation</td>
<td>28.9351</td>
<td>87,172.6462</td>
</tr>
<tr>
<td>skewness</td>
<td>-0.2345</td>
<td>3.2789</td>
</tr>
<tr>
<td>kurtosis</td>
<td>-0.7975</td>
<td>11.9556</td>
</tr>
<tr>
<td>coefficient of variation (CV)</td>
<td>3.26%</td>
<td>101.96%</td>
</tr>
<tr>
<td>median</td>
<td>889.3000</td>
<td>50,123.9600</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.7.

In table 7.8, the researcher tried to represent the data in descriptive statistics in the tabular form. It is shown that the average price of reliance share in the market after court order was ₹ 888.38 whereas the average turnover of Reliance shares in the market was 85,500 lakhs. The median value for stock prices supports the mean value but median value of turnover is not very close to the mean value. As expected due to volatility standard deviation is seen very high. The skewness value for stock prices is low but in case of turnover its above 3 indicating that mode is slightly to the left of mean i.e. more of the data values are seen lower than the mean value. The kurtosis value also in case of turnover is seen high indicating that the mean value is influenced by few extreme data values.

7.2.5: Period from Special Trading Session day up to Record Date of Scheme

This period covers trading days from 18th January 2006 to 25th January 2006. The record date of the demerger scheme was 26th January 2006. 18th January 2006 is a remarkable day in the history of stock market when it was for the first time that a special session was held at stock exchange where only shares of a demerged company would be traded.
The Bombay Stock Exchange and National Stock Exchange in consultation with the Securities and Exchange Board of India, decided to hold a special one-hour trading session on January 18 from 8 a.m. to 9 a.m. to facilitate the price discovery of the Reliance Industries Ltd’s shares post demerger. During the special session only equity shares of Reliance were permitted to be traded and there was no circuit filter. The volume weighted average price of Reliance during the special session was used for adjustment to the base market capitalisation of the respective indices. No index was calculated during the special trading session. The normal market commenced at 9.55 a.m. after the close of special session. The trades done for Reliance during the special trading session were settled along with the normal market trades of January 18.

Reliance was actively traded script on the stock exchanges with a market capitalisation of Rs.120,000 crores and had approximately 9.04 per cent weightage in Nifty index of the National Stock Exchange and 11.14 per cent of the weightage in the Sensex of the Bombay Stock Exchange. On account of the demerger, the market capitalisation of the company went a change resulting in the indices requiring adjustment in base market capitalisation. Since the four new separate corporate entities formed by the demerger were not currently listed and traded, valuing the post demerger price of Reliance was not possible by the exchanges. It was hence very much required to have a reasonable mechanism for the market to discover the price of Reliance post demerger which will be used for determining the opening level of the indices that will continue to include Reliance.

The Reliance Industries Ltd stock closed at Rs 713.93 at the special trading session held which is 23 per cent lower from previous day close of Rs 928.15, when RIL was an undivided entity. After the demerger, RIL's market capitalization had reduced by Rs 32,719.52 crore or 25 per cent, from previous days market capitalization which was Rs 1,29,387.22 crore. This means RIL's post demerger market capitalization was Rs 96,667.70 crore. The weightage of Reliance Industries Ltd in Nifty index post demerger was 7.39 per cent. According to Mr. Sashi Bhushan, Head (Western region) of IL&FS Investment, the RIL stocks' new valuation was in line with the market expectation. During the normal
trading session on the first day of trading after the de-merger the stock lost another Rs 20.10 to close at Rs 693.85.

Mr Anil Ambani quoted “RIL’s stand-alone post-demmerger market capitalisation is 15 per cent higher than its pre-demmerger market capitalization and 23 lakh Reliance shareholders will further benefit from the free shares they receive in the four Reliance Anil Dhirubhai Ambani group companies, namely, Reliance Communications Ventures Ltd, Reliance Energy Ventures Ltd, Reliance Natural Resources Ltd and Reliance Capital Ventures Ltd.”

The NSE, in a press release, said “the trading activity was normal at the special one-hour session with 3.98 crore shares of RIL being traded. After the close of the special session, the weighted average price of RIL was Rs 714.35. The adjustment of the base index value was suitably carried out to compute the index value so as to effect the demerger of RIL”.

However, once the first trade in Reliance Industries was executed, it was observed that the Nifty index reflected incorrect value. It was found that due to memory initialisation failure, the last traded price being taken for the purpose of index computation was carrying an incorrect value. This resulted in a wrong Nifty index value being displayed. The problem was identified immediately and rectified to reflect the correct value. This led to pause in Nifty index broadcasting for 26 minutes, from 10.30 a.m. to 10.56 a.m.

**Table 7.9: Stock Price movement of Reliance Industries Ltd. (Jan 18 -25, 2006)**

<table>
<thead>
<tr>
<th>Date</th>
<th>closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>18-Jan-06</td>
<td>693.7</td>
<td>432534.36</td>
</tr>
<tr>
<td>19-Jan-06</td>
<td>704.5</td>
<td>71168.08</td>
</tr>
<tr>
<td>20-Jan-06</td>
<td>704.2</td>
<td>27227.69</td>
</tr>
<tr>
<td>23-Jan-06</td>
<td>702.35</td>
<td>29231.53</td>
</tr>
<tr>
<td>24-Jan-06</td>
<td>693.45</td>
<td>79164.35</td>
</tr>
<tr>
<td>25-Jan-06</td>
<td>688.4</td>
<td>92500.59</td>
</tr>
</tbody>
</table>

Source:www.nseindia.com surfed on March 17, 2014
To summarize the data given in the above table a graphical representation of share price and turnover movement during the stated period is given below

**Graph 7.9: Movement of Reliance Industries Ltd. Share Prices from Special Trading Session to Record Date.**

From the above graph 7.9, it is found that the share prices of the Reliance Industries Ltd decreased after special trading session but before record date of scheme. It is seen that on 18th January, 2006 the share price was ₹693.7 and it went slightly down to ₹688.4 till 25th January, 2006.
From the above graph 7.10, it is found that the turnover of shares of the Reliance Industries Ltd decreased after special trading session but before record date of scheme. It is seen that on 18\textsuperscript{th} January, 2006 the turnover was 432534.36 lakhs followed by a sharp decline and then stabilized to reach 92500.59 lakhs till 25\textsuperscript{th} January, 2006.

**Table 7.10: Statistical interpretation of data (After special trading session)**

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>mean</td>
<td>697.7667</td>
<td>121,971.1000</td>
</tr>
<tr>
<td>sample standard deviation</td>
<td>6.7917</td>
<td>154,472.2342</td>
</tr>
<tr>
<td>skewness</td>
<td>-0.2889</td>
<td>2.2846</td>
</tr>
<tr>
<td>kurtosis</td>
<td>-2.1286</td>
<td>5.3898</td>
</tr>
<tr>
<td>coefficient of variation (CV)</td>
<td>0.97%</td>
<td>126.65%</td>
</tr>
<tr>
<td>median</td>
<td>698.0250</td>
<td>75,166.2150</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.9.
In table 7.10, the researcher tried to represent the data in descriptive statistics in the tabular form. It is shown that the average price of reliance share in the market in the period after special trading session but before record date of the demerger scheme was ₹697.76 whereas the average turnover of Reliance shares in the stated period was 1,21,971 lakhs.

The median value of stock price corresponds to the mean value but median value for turnover is less than its mean value. Standard deviation in turnover is seen very high implying high variability. The skewness values support the mean value. The kurtosis value for turnover being more than 3 indicate that mean score is due to few extreme data values.

7.3 POST-MERGER PERIOD

Record date of the scheme is taken as a cutoff point where demerger process is completed. Hence the post demerger period is considered from record date i.e. 27th January 2006 to 30th March 2007. The study of stock price movements and turnover variability in this post period will facilitate comparison with the pre demerger period.

Table 7.11: Stock Price and Turnover of Reliance Industries Ltd in Post Demerger Period (Jan 27, 2006 to March 30, 2007)

<table>
<thead>
<tr>
<th>Date</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
<th>Date</th>
<th>closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>27-Jan-06</td>
<td>698.65</td>
<td>43872.7</td>
<td>29-Aug-06</td>
<td>1118.85</td>
<td>44377.5</td>
</tr>
<tr>
<td>30-Jan-06</td>
<td>711.05</td>
<td>51702.8</td>
<td>30-Aug-06</td>
<td>1128.8</td>
<td>36985.8</td>
</tr>
<tr>
<td>31-Jan-06</td>
<td>713.9</td>
<td>44365</td>
<td>31-Aug-06</td>
<td>1117.35</td>
<td>57712.1</td>
</tr>
<tr>
<td>01-Feb-06</td>
<td>704.8</td>
<td>35148.4</td>
<td>01-Sep-06</td>
<td>1122.5</td>
<td>24107.9</td>
</tr>
<tr>
<td>02-Feb-06</td>
<td>708.65</td>
<td>35520.2</td>
<td>04-Sep-06</td>
<td>1131.6</td>
<td>28106.6</td>
</tr>
<tr>
<td>03-Feb-06</td>
<td>696.6</td>
<td>24039.6</td>
<td>05-Sep-06</td>
<td>1125.95</td>
<td>16761.2</td>
</tr>
<tr>
<td>06-Feb-06</td>
<td>720.35</td>
<td>67797.9</td>
<td>06-Sep-06</td>
<td>1137.5</td>
<td>40731.6</td>
</tr>
<tr>
<td>07-Feb-06</td>
<td>720.55</td>
<td>48769.2</td>
<td>07-Sep-06</td>
<td>1125.7</td>
<td>31645.3</td>
</tr>
<tr>
<td>08-Feb-06</td>
<td>716.5</td>
<td>48427.8</td>
<td>08-Sep-06</td>
<td>1130.8</td>
<td>50495.9</td>
</tr>
<tr>
<td>10-Feb-06</td>
<td>719.6</td>
<td>37030.9</td>
<td>11-Sep-06</td>
<td>1087.7</td>
<td>52532.8</td>
</tr>
<tr>
<td>13-Feb-06</td>
<td>716.8</td>
<td>22741.2</td>
<td>12-Sep-06</td>
<td>1106.85</td>
<td>63545.2</td>
</tr>
<tr>
<td>14-Feb-06</td>
<td>714.2</td>
<td>47342.2</td>
<td>13-Sep-06</td>
<td>1116.15</td>
<td>44796.2</td>
</tr>
<tr>
<td>Date</td>
<td>Qty</td>
<td>Description</td>
<td>Date</td>
<td>Qty</td>
<td>Description</td>
</tr>
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<td>Close</td>
<td>Date</td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: www.nseindia.com surfed on March 17, 2014

To summarize the data given in the above table a graphical representation of share price and turnover movement during the stated period is given below.
Graph 7.11: Post Demerger Period Movement of Reliance Industries Ltd. Share Prices

It can be seen in graph 7.11 that closing price of Reliance Industries Ltd’s shares on the record date of the scheme i.e. on 27th January 2006 was Rs. 698.65 from which it has shown an increasing trend in the post demerger year to reach Rs. 1370.3 on 30th March 2007 which is almost double.
Graph 7.12: Post Demerger Period Turnover of Reliance Industries Ltd. Shares in lakhs

Graph 7.12 shows the turnover of shares of Reliance Industries Ltd in the post demerger period. The turnover as on the record date was Rs. 43872.7 lakhs and which has reached to Rs.36121.1 lakhs as on 30th March 2007.

Table 7.12: Statistical interpretation of data (After record date of scheme)

<table>
<thead>
<tr>
<th>Descriptive statistics</th>
<th>Closing price</th>
<th>Turnover in Lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>N</td>
<td>293</td>
<td>293</td>
</tr>
<tr>
<td>Mean</td>
<td>1,089.5089</td>
<td>44,906.5829</td>
</tr>
<tr>
<td>sample standard deviation</td>
<td>211.9423</td>
<td>25,560.1353</td>
</tr>
<tr>
<td>skewness</td>
<td>-0.3465</td>
<td>1.5310</td>
</tr>
<tr>
<td>kurtosis</td>
<td>-0.9800</td>
<td>2.8614</td>
</tr>
<tr>
<td>coefficient of variation (CV)</td>
<td>19.45%</td>
<td>56.92%</td>
</tr>
<tr>
<td>median</td>
<td>1,117.3500</td>
<td>37,799.8200</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.11
In table 7.12, the researcher tried to represent the data in descriptive statistics in the tabular form. It is shown that the average price of reliance share in the post demerger period was ₹1,089.51 whereas the average turnover of Reliance shares in the market was 44,906 lakhs. The corresponding median values are near about the same. High standard deviation is found in the sample data series. The value of kurtosis being less than 3 indicate that mean values are not influenced by few extreme data values.

7.4 TESTING OF HYPOTHESES

This chapter deals with hypotheses 3 and hypotheses 4 of the study one related to stock market price and another related to turnover of shares of Reliance Industries Ltd. The results obtained through analysis and decisions regarding the acceptance or rejection of the hypotheses are presented as follows:

**Hypothesis 1**

H₀: There is no significant difference in mean stock market prices of shares of Reliance Industries Ltd in the pre and post demerger period.
H₁: Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

To test above hypotheses, ‘t’ test on two independent samples of stock closing prices of pre and post-merger period without assuming equal variance is applied. The result of the same is tabulated in following table no 7.11.
Table no 7.13: t’ test of two independent samples of stock closing prices of pre and post-merger period (without assuming equal variance)

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D.</th>
<th>N</th>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>F Value</td>
<td>p value</td>
</tr>
<tr>
<td>Pre-demmerger period</td>
<td>537.7564</td>
<td>71.3592</td>
<td>360</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Post-demmerger period</td>
<td>1,089.50 89</td>
<td>211.9423</td>
<td>293</td>
<td>8.82</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.1, 7.3, 7.5, 7.7, 7.9 and 7.11

**Observations:**

**Levene's Test for Equality of Variances:**

As p value is 0.000 which is less than $\alpha = 0.05$ (5% significant level) we **reject null hypothesis** that two groups have equal variance. Hence two groups are having unequal variance. For testing equality of means we apply t test with unequal variance.

**t-test for Equality of Means:**

From table no, it is observed that p value is 0.0000 which is less than $\alpha = 0.01$ (1% significant level). It is also observed that calculated ‘t’ value is -42.64 is less than -1.96 (table value at 1% significant level, left tailed and degree of freedom 345). Hence we reject null hypothesis Ho.

**Interpretation:**

On the basis of above data it can be inferred that Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.
Conclusion:
Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

Hypothesis 2:
Ho: There is no significant difference in mean turnover of shares of Reliance Industries Ltd in the pre and post demerger period.
H1: Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

To test above hypotheses, ‘t’ test on two independent samples of turnover of pre and post-merger period without assuming equal variance is applied. The result of the same is tabulated in following table no 7.14.

Table no 7.14: t’ test of two independent samples of turnover of stock in pre and post-merger period (without assuming equal variance)

<table>
<thead>
<tr>
<th></th>
<th>Mean</th>
<th>S.D.</th>
<th>N</th>
<th>Levene's Test for Equality of Variances</th>
<th>t-test for Equality of Means</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>F</td>
<td>p value</td>
<td>d. f.</td>
<td>t value</td>
<td>p value</td>
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<tr>
<td>Pre-demerger period</td>
<td>33,723.06</td>
<td>19,352.64</td>
<td>360</td>
<td>1.74</td>
<td>0.00</td>
</tr>
<tr>
<td>Post-demerger period</td>
<td>44,906.58</td>
<td>25,560.14</td>
<td>293</td>
<td>-6.18</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Source: Statistical analysis prepared by researcher using data from table 7.1, 7.3, 7.5, 7.7, 7.9 and 7.11
Observations:

Levene's Test for Equality of Variances:
As p value is 0.000 which is less than $\alpha = 0.05$ (5% significant level) we reject null hypothesis that two groups have equal variance. Hence two groups are having unequal variance. For testing equality of means we apply t test with unequal variance.

T-test for Equality of Means:
From table no, it is observed that p value is 0.0000 which is less than $\alpha = 0.01$ (1% significant level). It is also observed that calculated ‘t’ value is -6.18 is less than -1.96 (table value at 1% significant level, left tailed and degree of freedom 533). Hence we reject null hypothesis Ho.

Interpretation:
On the basis of above data it can be inferred that Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

Conclusion:
Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

7.5 APPRAISAL AND CONCLUSION:

This chapter gives the complete picture of movement of stock prices and turnover of shares of Reliance Industries Ltd from 1st April 2004 to 31st March 2007. The financial year 2005-06 is the year of demerger and hence researcher has considered one year prior to demerger 2004-05 and one year post demerger 2006-07 so as to facilitate study over the period of three years. These three years further divided into six stages helps us to compare the movement of stock price and turnover in pre demerger period, during the process of demerger and in the post demerger period. Hence the objective number 6 to study the behavior of stock prices and turnover of shares of Reliance Industries Ltd in the pre and
post demerger period has been achieved in this chapter. The comparison of data in pre and post period has helped in drawing conclusions with regard to impact of demerger on stock market prices and turnover. On comparison and with the help of statistical tools Hypotheses 3 and 4 of the study are tested and since both the null hypotheses are rejected it can be concluded that mean stock price and turnover in pre demerger period was less than the mean stock price and turnover in post demerger period. Hence the stock prices and turnover of Reliance Industries Ltd has been increasing. Though the process of demerger had short term impact on stock prices and turnover but it was of temporary nature and was corrected within one year. Along with the other reasons for increase in stock price and turnover it can be said that demerger as a restructuring strategy has facilitated improved performance of the company at stock exchange.
REFERENCES


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8. www.nseindia.com surfed on December 2, 2013


10. www.ril.com surfed on December 2, 2013
CHAPTER 8
FINDINGS AND CONCLUSIONS
8.1 SUMMARY OF THE STUDY

Demerger is been increasingly used as a tool for corporate restructuring hence researcher selected it as a research topic. To analyze demerger concept in detail, case study of Reliance Industries Ltd a major demerger in the history of Indian corporate was selected. The objective of the study was to analyze various aspects of demerger namely legal, taxation, accounting, employee perspective, shareholders perspective and impact on stock market. For the purpose of analysis both primary and secondary data were used. Primary data was collected with the help of two separate questionnaires one for shareholders and the other for employees. Secondary data was collected from various books, journals, websites, etc. The study was based on four hypothesis which were tested using t test. The outcome of the study can be summarized to have generated in depth knowledge about the legal procedures, taxation provisions and accounting treatment in relation to demerger. The conclusion drawn from testing of hypothesis is that Demerger had a significant impact on the shareholders wealth and employees were not significantly affected by demerger. Also the mean stock market prices and turnover in pre demerger period was less than that in post demerger period. The findings and conclusions in detail are enumerated in the following part of the study.

8.2 FINDINGS OF THE STUDY

8.2.1 In relation to objectives of the study:

i) The first objective of the study was to understand the concept of demerger as a tool for corporate restructuring and the important aspects related to it are that Sec 2(19AA) of Income Tax Act 1961 defines the term demerger. Companies Act does not provide directly with the definition of demerger but conditions laid down under section 391 to
394 apply to demerger. Demerger is just a separation of a division of a company into a separate legal existence. Reasons for adopting demerger as restructuring strategy are Family settlement, Focus on core competencies, improving valuation, increasing shareholders wealth, to bring specialization in operations, attracting investors, etc.

ii) The second objective was to study **legal, taxation and accounting aspects** of demerger and following are the important findings generated by the study.

The legal procedural steps involved in the process of demerger are as follows:-

- Application to court for getting direction to hold meeting of the members/creditors
- Obtaining court order for holding meetings of members/creditors
- Notice of the meetings to members/creditors
- Holding meetings of members/creditors
- Reporting the result of the meeting by the chairman to the court
- Petition to the court for sanctioning the scheme of demerger
- Obtain order of the court for sanctioning the scheme
- Court order on petition sanctioning the scheme of demerger
- To finalize the record date for the scheme so that shareholders as on that date shall be eligible for shares in the resulting companies as per the exchange ratio under the demerger scheme.

Section 47 of the Income Tax act 1961 states that when a shareholder is issued any share in a scheme of demerger, there is no transfer and hence there is no capital gain.

According to section 2(42A) of Income Tax act 1961 states that the period of holding of the demerged company is to be included in the period of holding of the shares of the resultant company.

The accumulated loss and unabsorbed depreciation of the demerged company will be allowed to be carried forward and set off in the hands of resulting company.
As per the guidelines issued by Reliance Industries Ltd after the consultation of experts the proportion in which original cost of acquisition of Reliance Industries Ltd’s shares will be apportioned to the new shares is as follows:

**Table 8.1 Cost of acquisition of shares in resulting companies.**

<table>
<thead>
<tr>
<th>Company</th>
<th>% of cost of acquisition</th>
</tr>
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<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>52.0</td>
</tr>
<tr>
<td>Reliance communication ventures Ltd</td>
<td>38.7</td>
</tr>
<tr>
<td>Reliance energy ventures Ltd</td>
<td>7.3</td>
</tr>
<tr>
<td>Reliance capital ventures Ltd</td>
<td>1.3</td>
</tr>
<tr>
<td>Reliance natural resources Ltd</td>
<td>0.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>100</strong></td>
</tr>
</tbody>
</table>

Source: RIL Demerger scheme document

The assets and liabilities of the demerged company are transferred to resulting company at book value.
The deficit in recording assets and liabilities in resulting companies is recorded as general reserve.

iii) The next objective was to understand the **scheme of demerger of Reliance Industries Ltd** and the salient points of the scheme are as follows:
Demerged company - Reliance Industries Ltd
Exchange ratio under the scheme of demerger – 1:1
Subsequent merger of Reliance Energy Ventures Ltd with Reliance Energy Ltd and Reliance Capital Ventures Ltd with Reliance Capital Ltd resulted in the effective exchange ratio to be as follows:

Table 8.2 Effective exchange ratio under scheme of demerger

<table>
<thead>
<tr>
<th>Shares in demerged company</th>
<th>Shares in resulting companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 shares of Reliance</td>
<td>5 shares of Reliance Capital Ltd</td>
</tr>
<tr>
<td>Industries Ltd</td>
<td>7.5 shares of Reliance Energy Ltd</td>
</tr>
<tr>
<td></td>
<td>100 shares of Reliance Communication Ventures Ltd</td>
</tr>
<tr>
<td></td>
<td>100 shares of Global Fuel Management Services Ltd</td>
</tr>
</tbody>
</table>

Source: Scheme of arrangements

Important dates in the process of demerger were as follows:–

vi. Appointed date under the scheme: 1-09-05
   Appointed date means the date for identification of assets and liabilities of existing company for transfer to resulting companies. It is important for determination of share exchange ratio.

vii. Court order approving the scheme: 9-12-05
    The date of court order is important as the scheme gets approval on the said date.

viii. Effective date of the scheme: 21-12-05
     Effective date means the last of the dates on which the conditions of the scheme have been fulfilled or waived and the order of the High Court sanctioning the Scheme of Arrangement is filed with the Registrar of Companies by the demerged company and each of the resulting companies.

ix. Record date of the scheme: 25-01-06
    Record date means the date to be fixed by the Board of Directors of the demerged company in consultation with the respective resulting companies for the purpose of reckoning names of the equity shareholders of the demerged company, who shall be
entitled to receive shares of each of the resulting companies upon coming into effect of this scheme.

iv) Findings related to **shareholders perspective**:

Researcher has calculated with the help of secondary data, shareholders wealth at various stages to analyze impact of demerger on shareholders wealth in long run as well as short run. Also the important ratios from the point of view of shareholders are calculated for one year pre demerger and one year post demerger. Financial year 2005-06 being the year of demerger, pre demerger ratio is calculated for F.Y. 2004-05 and post demerger ratio for F.Y. 2006-07. Since the record date for the scheme of demerger is 25\textsuperscript{th} Jan 2006 in case of pre and post months, January is considered as the centre point. Summary of these calculations is tabulated as follows:

**Table 8.3 Summary of impact on shareholders wealth**

<table>
<thead>
<tr>
<th></th>
<th>Pre</th>
<th>Post</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders wealth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In one year</td>
<td>272980.00</td>
<td>1189277.50</td>
<td>335.66</td>
</tr>
<tr>
<td>In six months</td>
<td>351450.00</td>
<td>823947.50</td>
<td>134.44</td>
</tr>
<tr>
<td>In two months</td>
<td>381280.00</td>
<td>932250.00</td>
<td>144.51</td>
</tr>
<tr>
<td>In one month</td>
<td>444830.00</td>
<td>730230.00</td>
<td>64.16</td>
</tr>
<tr>
<td>In one day</td>
<td>346680.00</td>
<td>349300.00</td>
<td>0.76</td>
</tr>
</tbody>
</table>
It can be seen from the above table that shareholders wealth has increased at all levels and key ratios have also improved which leads to the conclusion that shareholders of Reliance Industries Ltd have significantly benefited with the demerger strategy adopted by the company.

Primary data collected from the shareholders when analyzed has resulted into following findings:

i. 20% of the respondents were happy, 50% were hopeful and 28% were optimistic and only 2% were nervous which implies that most of the shareholders had a positive approach towards the news of demerger of Reliance Industries Ltd and were expecting demerger to result benefits to them.

ii. 52% of the respondents consider family dispute to be the reason for demerger.

iii. 52% purchased further shares and 32% retained existing shares with the expectation of share prices to go up and only 16% sold out shares may be due to fear of future
performance of resulting companies or may be to take advantage in the short run of the increased prices due to volatility on stock exchanges with the outburst of demerger news.

iv. The total mean score for all the factors which signify that shareholders were benefited by the process of demerger and shareholders were satisfied with the demerger is more than 3 implying that most of the respondents agreed to the fact that demerger has proved to have positive impact for shareholders.

v) Findings related to employees perspective:

Primary data collected from the employees when analyzed has resulted into following findings:

i. 58% of the respondents had joined Reliance Industries Ltd before financial year 2005-06 and 42% had joined in the year of demerger.

ii. 32% of respondents came to know about the news of demerger through official HR mail, 28% through grapevine communication within the company and remaining from social media sites, newspaper, television, family and friends.

iii. When asked to describe state of employees during demerger, 22% opted for optimistic, 36% for hopeful, 14% for happy and only 16% opted for nervous and 12% for strained.

iv. According to 54% of the respondents family dispute was the reason for demerger.

v. 96% of the respondents opted for the Employee Stock Option Scheme offered during demerger. Reliance Industries Ltd had issued 52687851 equity shares of Rs. 10 each just before demerger for offering it to employees under the ESOP scheme.

vi. The total mean score for all the factors which signify that employees were affected by the process of demerger is just 3 implying that most of the respondents agreed to the fact that demerger has not significantly affected the employees. Also the mean score for all factors signifying the importance of HR department during demerger is more than 3 implying that the HR department has an important role to play during demerger.
vi) Findings related to behavior of stock market prices and turnover:

The mean stock market price and mean turnover for different periods during the process of demerger are summarized in table below.

Table 8.4 Summary of mean stock market price and mean turnover

<table>
<thead>
<tr>
<th>Period</th>
<th>Mean stock market price</th>
<th>Mean Turnover in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre demerger period</td>
<td>537.76</td>
<td>33723.06</td>
</tr>
<tr>
<td>From appointed date upto court order</td>
<td>787.28</td>
<td>43983.14</td>
</tr>
<tr>
<td>From court order upto effective date</td>
<td>858.30</td>
<td>35699.89</td>
</tr>
<tr>
<td>From effective date upto special trading session day</td>
<td>888.38</td>
<td>85500.57</td>
</tr>
<tr>
<td>From special trading session day upto record date</td>
<td>697.77</td>
<td>121971.10</td>
</tr>
<tr>
<td>Post demerger period</td>
<td>1089.51</td>
<td>44906.58</td>
</tr>
</tbody>
</table>

Source: Calculations shown in chapter 7

The above mean values are supported by their corresponding median values but the standard deviation is very high implying that the data values vary drastically from its mean value. The mean score for closing price of shares of Reliance Industries Ltd was 537.76 in the pre demerger period which increased during the process of demerger reaching 888.38 but it dropped to 697.77 in the period between special trading session and record date, still it remained higher the mean score in pre demerger period. Interestingly the mean score rises to 1089.51 in the post demerger period. The mean turnover of shares of Reliance Industries Ltd was 33,723.06 in pre demerger period.
which increased to 43,983.14 after appointed date but reduced little till court order and then again picked up after court approval and reaching highest during special trading session and then again normalized to 44,906.58 in the post demerger period.

8.2.2 In relation to hypothesis of the study:

i) The first null hypothesis was ‘Demerger of Reliance Industries Ltd had no significant impact on the shareholders wealth’.
   It is observed that ‘t’ value for null hypothesis is +7.30 which is greater than table value +1.645 (also greater than +2.326). Also p value is 0.000 which is less than 0.01. Hence the null hypothesis is rejected at 5% & 1% level of significance and hence the alternative hypothesis “Demerger of Reliance Industries Ltd had significant impact on the shareholders wealth” has been accepted.

ii) The second null hypothesis was ‘Employees of Reliance Industries Ltd were not significantly affected by the process of demerger’.
   It is observed that ‘t’ value for null hypothesis is +0.12 which is less than table value +1.645 (also less than +2.326). Also p value is 0.4521 which is greater than 0.01. Hence the null hypothesis cannot be rejected at 5% & 1% level of significance and hence the alternative hypothesis “Employees of Reliance Industries Ltd were significantly affected by the process of demerger” has been rejected and null hypothesis is accepted and it is concluded that Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

iii) The third null hypothesis was ‘There is no significant difference between the mean stock market prices of shares of Reliance Industries Ltd in the pre and post demerger period’.
   To test this hypotheses, ‘t’ test on two independent samples of stock closing prices of pre and post merger period without assuming equal variance is applied. It is observed that p value is 0.0000 which is less than α = 0.01 (1% significant level). It is also
observed that calculated ‘t’ value is -42.64 which is less than -1.96 (table value at 1% significant level, left tailed and d.f. 345). **Hence we reject null hypothesis and it is inferred that Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.**

iv) The forth null hypothesis was ‘There is no significant difference between mean turnover of shares of Reliance Industries Ltd in the pre and post demerger period’. To test this hypotheses, ‘t’ test on two independent samples of stock closing prices of pre and post merger period without assuming equal variance is applied. It is observed that p value is 0.0000 which is less than \( \alpha = 0.01 \) (1% significant level). It is also observed that calculated ‘t’ value is -6.18 which is less than -1.96 (table value at 1% significant level, left tailed and d.f. 533). **Hence we reject null hypothesis and it is inferred that Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.**

### 8.3 CONCLUSIONS OF THE STUDY

Corporate restructuring implies restructuring the corporate sector from multi dimensional angles with a view to obtain competitive edge and thereby ensuring business success. Corporate restructuring could be required to keep abreast of today’s superlatively competitive expectations from various stakeholders. An appropriate change in the assets, liabilities, shareholdings or activities could bring higher profits or more stability to the business entity. Reviving business excellence and thereby creating a value for a company is considered to be the most vital as well as significant objective of today’s business enterprises with an aim to ensure long run survival and sustainable growth over the period of time. The study concludes how the shareholders and also the company benefits from the demerger. Conclusions with respect to each of the objectives of the study are stated below.
8.3.1 With respect to understanding the process of demerger:

Demerger has been adopted as a restructuring strategy by increasing number of companies to unlock its shareholders value and also to separate the unrelated businesses into different companies. A company can opt for demerger after getting approval of majority (3/4th) of the shareholders and court sanction. Demerger is the process by which undertakings of a company are separated from the company and are given separate legal status to run the business of undertaking independently. Organizations undergoing demergers would typically cite a few commonly floated reasons behind a demerger although these reasons largely present an undertone of creating greater value for stakeholders of the organization. Some of the key drivers behind a demerger could be as follows:

i) By separating the parts of business into independent entities, it is possible to generate greater value for stakeholders since the business entities being separated would now have their independent focus allowing for a better strategic approach to tackling costs and growing earnings.

ii) Increase specialization from the point of view of a particular business unit. To focus only on core operations and offload other portfolios

iii) By demerging business / product units organizations

iv) Push from highly and largely invested investors who might see some assets underperforming and putting a drain on returns from assets performing well thereby seeing a demerger as an essential step towards the overall growth strategy of the organization and as a means to unlocking value from assets doing well

v) A scenario in which, two or more business units within an organization doing equally well in terms of return on investments but requiring a different strategic and growth focus in order to maximize returns may also call for a demerger so that both business units can function as independent entities and might not need to compete with each other to drive the parent organization’s growth strategy and resource allocation strategies

While the reasons mentioned above are by and large the reason for most demergers to take place, there may also be situations in which;
i) Governments or regulatory bodies might intervene and force an organization to demerge in order to regulate competition/cartelization within the business place. An increasing number of mergers which fail to achieve their strategic intent go through the knife and demergers may be called upon to rid the merged entities of the perpetual misery of doing business as a single entity.

ii) In case of family owned business houses, demergers might also take place owing to issues with succession and division of control in which case, demerging business units and creating independent organizations with separate boards, managements, strategies, etc might be the only way to prevent succession and inheritance related issues.

**8.3.2 With respect to legal, taxation and accounting aspects of demerger:**

i) Legal framework for demerger is similar to that of merger; the steps involved in the process of demerger are same as that of merger. SEBI has issued guidelines with respect to share exchange ratio adopted in demerger for the protection of investors.

ii) Current law recognises demerger of an 'undertaking' into another Indian company as being tax neutral, where specified conditions are met. No capital gain shall arise to the shareholders of demerged company on account of receipt of shares in the resulting company. Since demergers have only recently been recognised under Indian tax laws, only limited split-ups are recognised as tax neutral and unlike international laws, transactions such as direct spin off of a subsidiary are presently not accorded these tax benefits.

iii) There is no mention of accounting treatment to be followed during demerger in the International Financial Reporting Standards (IFRS)-3 on Business Combinations. Also Indian Accounting Standard-14 on Accounting for Amalgamations has not covered the aspect of demerger accounting procedure to be followed. Though there is no specific treatment suggested by any standards, the treatment of accounting demerger followed globally has remained uniform.

**8.3.3 With respect to scheme of demerger of Reliance Industries Ltd:**
Reliance Industries Ltd has followed all the procedures required by Companies Act and SEBI while undertaking the process of demerger. The scheme of demerger specifies clearly the purpose of the scheme, rationale of the scheme, exchange ratio under the scheme, accounting treatment for transferring assets and liabilities of undertakings to the resulting companies. The scheme also mentions that specified shareholders i.e. trustees of Petroleum Trust decided not to take up their proportionate entitlement in resulting companies which would result in added benefit for remaining shareholders.

**8.3.4 With respect to shareholders perspective:**

i) The shareholders wealth has increased after demerger in long run as well as short run.

ii) Shareholders were satisfied with the exchange ratio given under the scheme of demerger as it finally proved to be beneficial to the shareholders.

iii) According to shareholders family dispute was the reason for Reliance demerger.

iv) Dividend payout ratio and price earnings ratio of Reliance Industries Ltd in post demerger period was satisfactory.

v) Company performance has improved post demerger leading to better valuation.

**8.4.4 With respect to employees perspective to demerger:**

i) Employees were not significantly affected by the process of demerger but change in management approach had some impact on the working culture.

ii) Employees were highly anxious during the process of demerger due to inter departmental transfers.

iii) Employee Stock Option scheme worked very well as a motivating factor to curb the attrition rate during demerger.

iv) Human Resource department has an important role to play during the implementation of demerger to keep the employees morals high.
8.4.5 With respect to stock market:

i) Special one hour trading session was kept by the stock exchange to derive the price for Reliance Industries Ltd shares.

ii) High volatility was found on both National Stock Exchange and Bombay Stock Exchange on the outbreak of news of demerger of Reliance Industries Ltd.

iii) The prices of shares of Reliance Industries Ltd increased during the process of demerger i.e. in the period from appointed date of the scheme up to the special trading session. In the special trading session high downfall in the price of shares was found but later on after the record date of the scheme during the post demerger period again the upward trend in price of shares was found. Leaving the intermittent period of demerger, it can be concluded that post demerger prices of shares of Reliance Industries Ltd have increased as compared to pre demerger period.

iv) The trend observed in the turnover of shares is that the maximum turnover can be seen during the special trading session, followed by high turnover during the period between effective date of the scheme and special trading session. When turnover in pre demerger period is compared with post demerger period it can be concluded that mean turnover in pre period is less than that in post period.
CHAPTER 9

SUGGESTIONS AND RECOMMENDATIONS
CHAPTER 9

SUGGESTIONS AND RECOMMENDATIONS

Since the methodology adopted for research work is of case study, it has generated detailed minute analysis of the concept of demerger. Various aspects related to demerger like legal provisions, taxation aspects, accounting aspects, employees perspective, shareholders perspective and impact on stock exchange are considered in the study. The study undertaken has brought to the notice some loopholes and multiple interpretations possible in the legal provisions relating to demerger and hence the researcher suggests few amendments required for the same. Also there have been contradicting court judgments relating to taxation matters in a demerger case, so researcher also lists down some suggestions in this area.

Though the study is more focused and specific to Reliance Industries Ltd, some general suggestions and recommendations are enumerated in this chapter as follows.

9.1 GENERAL SUGGESTIONS:

i. The concept of demerger is not very clearly understood by the common people hence the researcher suggests that regulators must allocate sufficient resources to generate awareness about such restructuring strategy. Awareness programs should be arranged. Detailed information about process of demerger and its implications should be made available on the websites and social media sites as well.

ii. Companies to be required to publish the demerger report certified by the expert. This would also serve as guidance for companies planning to adopt demerger as a form of restructuring.
iii. Researcher suggests that companies as well as foreign direct investors must be aware of the conceptual difference between demerger, hiving off, slump sale and legal and taxation implication of these strategies, as choosing one over the other may have considerable financial advantages as well as undertaking the correct required procedural compliances.

iv. A database should be maintained by SEBI giving all the details of the demergers undertaken by various companies and this should be made available to public for analysis.

9.2 SUGGESTIONS WITH RESPECT TO LEGAL ASPECTS:

i. Demerger is not defined by Companies Act which calls for a strong recommendation to include that in the Act.

ii. The legal procedure involved in the process of demerger calls for various formalities and sanctions which takes up a very long period to close the demerger process. Researcher suggests to fasten this process by making certain procedures online. The simplified procedures would act as an incentive for companies to opt for demerger as their restructuring and would thereby help in increasing the valuation of the company.

9.3 SUGGESTIONS WITH RESPECT TO DEFINITION OF DEMERGER stated in section 2(19AA) of Income Tax Act, 1961:

i. The definition of demerger is very restrictive and hence not very encouraging for companies to undertake demerger as their corporate restructuring strategy. It is hence suggested that some of the conditions need to be relaxed to grant tax neutrality status to the cases of genuine demergers.
ii. Condition 1 with regard to transfer of all properties of the undertaking being transferred leaves the interpreters with the option of not transferring the properties which are jointly used by the undertaking being transferred and by the undertaking being retained. Hence it is suggested that clarity in this respect should be brought by explanation to the definition so as to how such joint properties should be apportioned. It is recommended that ratio applied for apportioning joint borrowings should be used to apportion such assets also.

iii. It is suggested that there should be a specific mention that the undertaking being transferred should be an industrial undertaking or in relation to industrial sector.

iv. It is suggested that three conditions of raised, incurrence and utilisation of loan in relation to undertaking being demerged should be eased out otherwise many specific loans will fall in the category of non specific loans. The intention for which loan was raised should be ignored if it is actually used in relation to the undertaking being demerged. Also it is suggested that Income tax officer must consider the usage of loan in the accounting year in which demerger took place.

v. Central Government must exercise the powers under section 72A (5) to notify further conditions to ensure the demergers are of genuine nature and not just an alternative opted by companies for tax avoidance.

9.4 SUGGESTIONS WITH RESPECT TO TAXATION ASPECTS:

i. More clarity on taxation laws to be made to make all types of demergers tax neutral.

ii. There is a need for clarity in regard to procedure to be followed when a demerger occurs in the middle of the year, regarding determination of the book value/written down value of assets forming part of block of assets, regarding determination of the cost of original shares post demerger and also determining the value of shares in the resulting company. At present most of the companies going in for demerger inform
the shareholders about the cost to be considered for shares in resulting company through the explanatory statement indicating the relevant data required for the computation. It is suggested that some common guidelines be issued in this matter instead of leaving it at the discretion of the companies.

iii. Exemptions provided in sections 47 (vi a) and 47 (vi c) for cases of amalgamations or demergers of foreign companies in respect of Indian shares held by them should be made available to amalgamations or demergers of Indian companies who hold shares in the foreign companies.

iv. The technique of asset-stripping mechanism is increasingly used by companies to defeat the revenue by transferring all major assets by the process of demerger. Proper amendments in this regard should be made to the law to safeguard the tax revenue. Section 281 of the Income tax Act declaring certain transfers to be void could be amended to add a provision to consider asset stripping technique as void also.

v. It is suggested that suitable amendments may be made to ensure that even if the resulting company issues composite consideration it would come within the scope of the definition of demerger. The difficulties arising in the case of odd lots should also be taken care of.

vi. Further, it is suggested that the consideration received in the form of cash may be required to be invested in approved securities with a suitable lock-in period.

9.5 SUGGESTIONS WITH RESPECT TO ACCOUNTING ASPECTS:

i. The absence of accounting treatment suggested by accounting standard gives scope for researcher to give suggestions for accounting treatment to be followed. It is suggested to include in the accounting standard 14, the accounting treatment to be
followed in case of demerger on similar lines of that applied in case of mergers and standard should be renamed as accounting for corporate restructuring.

ii. The calculation of ratio for apportioning the common borrowings also results in practical complexities. Hence it is suggested that the ratio prescribed should be only of recommendatory nature and not compulsory. Board of Directors should be given powers to come up with appropriate methodology to apportion common borrowings as they would know the internal actualities of the business. Such power in the hands of directors also causes threat of fraudulent activities to the benefit of parent company. Therefore it is suggested that the decision of the directors in this regard to be approved by the shareholders in the meeting or be certified by the Chartered accountant.

iii. It is also suggested to bring clarity as regards to what all is to be included in value of assets to be used in calculation of ratio for apportioning multipurpose borrowings. It is appropriate to include all fixed assets, investments and current assets.

iv. The condition relating to transfer of assets and liabilities at book value and to ignore revalued figures contradicts the concept of fair value accounting. Hence it is suggested that such condition for sake of granting tax neutrality to demerger should be dispensed off so as to encourage fair value accounting in cases of demerger.

v. There needs to be clarified clearly that revaluation of assets transferred is to be ignored only for the purpose of giving tax neutrality status under Income Tax provisions and is not to be ignored for the purpose of stamp duty calculations.
9.6 SUGGESTIONS WITH RESPECT TO SHAREHOLDERS:

i. Shareholders being the owners of the company are the most affected stakeholders in the process of demerger and therefore shareholders should be involved at every step of demerger process.

ii. Further specific guidelines with regards to the entire process of demerger should be issued to make the process of demerger more transparent for the protection of investors. These guidelines to be at par with guidelines issued for merger.

iii. Companies opting for demerger should submit the rationale report to the court justifying the act of demerger.

iv. There is a need to create awareness amongst investors with regard to demerger so that they can identify the genuine efforts of the company to improve valuation through demerger and the bogus demergers undertaken just to get rid of loss making undertakings.

9.7 SUGGESTIONS WITH RESPECT TO EMPLOYEES:

i. The delay in completing demerger process results in increased uncertainty syndrome among the employees which in turn hampers the productivity. Hence researcher recommends shortening the process by speeding up the sanctions required and simplifying the procedural hurdle.

ii. The human resource department must communicate the demerger strategy properly to the employees and the objective must be to ensure that the workforce also relates to the long term goals of the company. It must initiate various schemes to keep the employees motivated and avoid voluntary attrition. An employees consultative forum must be formed where in elected representatives of employees from across
the company would not only have voice but can take an active part in shaping change strategy.

9.8 SUGGESTIONS WITH RESPECT TO STOCK MARKET:

i. There should be close monitoring of the transactions on stock market with respect to securities of company who has announced its demerger so as to avoid insider trading.

ii. Applicable strong circuits should be enforced during the period from court application to the record date.

iii. Special trading session should be mandatory for all companies undergoing demerger so as to facilitate price discovery of demerged company post demerger.
BIBLIOGRAPHY
BOOKS


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**NEWSPAPERS AND MAGAZINES ARTICLES**


**RESEARCH PROJECTS, THESIS AND CONFERENCES**


WEBSITES


ANNEXURES
ANNEXURE I QUESTIONNAIRE FOR SHAREHOLDERS

This questionnaire is for the purpose of academic research work. Answer all questions honestly. Respondents are required to put a tick mark for the correct option and may write NA wherever questions are not applicable. All answers will be kept confidential. Identity of the respondent will not be revealed.

1. Gender
   A) Male
   B) Female

2. Age
   A) Below 35
   B) 36-50
   C) Above 50

3. Annual income
   A) upto 6,00,000
   B) 6,00,000 to 12,00,000
   C) above 12,00,000

4. Have you purchased shares of RIL?
   A) Yes
   B) No

5. When did you purchase shares of RIL? (multiple tick allowed)
   A) Before 2005-06
   B) In the year 2005-06 (year of demerger)
   C) Post 2005-06

6. How many RIL shares (approx) did you have prior to demerger? (2004-05) ______

7. How many RIL shares (approx) did you have in the year of demerger? (2005-06) ______

8. How many RIL shares (approx) did you have post demerger? (2006-07) ______

9. Were you a shareholder of Reliance industries Ltd as on the date of demerger?
   A) Yes
   B) No

10. How would you best describe the state of shareholders during demerger?
    A) Happy
    B) Hopeful
C) Optimistic  
D) Strained  
E) Nervous

11. According to you what was the reason behind the demerger?  
A) Family dispute  
B) Diversification of business  
C) Unrealized synergies of different sectors  
D) Increasing shareholders wealth  
E) Lack of ability to manage expanded business under one name

12. When RIL demerger was announced what was your action?  
A) Purchased more RIL shares  
B) Sold RIL shares  
C) Just retained existing RIL shares

Put a tick mark in the appropriate box wherein SD = strongly disagree, D = disagree, N = neutral, A = agree, SA = strongly agree

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>13</td>
<td>The exchange rate given in the scheme of demerger was satisfactory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Increase in share market price of RIL shares post demerger was satisfactory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15</td>
<td>Dividend payout was satisfactory</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Price Earnings ratio improved post demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>17</td>
<td>Performance of the company improved post demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Demerger has proved to be effective tool for maximisation of shareholders wealth</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Retaining RIL shares post demerger proved to be beneficial to shareholders</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>20</td>
<td>Speculators gained immensely with the news of RIL demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>21</td>
<td>High volatility was noticed on stock exchanges due to RIL demerger</td>
<td></td>
<td></td>
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<td></td>
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</tr>
<tr>
<td>22</td>
<td>Shareholders were anxious during the period of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Researcher is extremely thankful to you for sparing your valuable time in filling up this questionnaire and your cooperation will be of great help for research purpose.
ANNEXURE II: QUESTIONNAIRE FOR EMPLOYEES

This questionnaire is for the purpose of academic research work. Answer all questions honestly. Respondents are required to put a tick mark for the correct option and may write NA wherever questions are not applicable. All answers will be kept confidential. Identity of the respondent will not be revealed.

1. Gender
   A) Male
   B) Female

2. Age
   A) Below 35
   B) 36-50
   C) Above 50

3. When did you join Reliance?
   A) Before 2005-06
   B) In the year 2005-06 (year of demerger)
   C) Post 2005-06

4. Are you still the employee of Reliance?
   A) Yes
   B) No

   If No answer question no.5 & 6

5. When did you leave Reliance?
   A) Prior to 2005-06
   B) In the year 2005-06
   C) Post 2005-06

6. What was the reason for leaving Reliance?
   A) Demerger
   B) Better salary offer
   C) Better job profile
   D) Any other specify _______________________

7. Would you leave the job at Reliance if a better job opportunity was offered?
   A) Yes
   B) No
8. Were you an employee of Reliance during its demerger?
   A) Yes
   B) No

9. What was the job title of your position at the time of demerger?
   ______________________

10. You came to know about the news of Reliance demerger through
    A) Official HR department mail
    B) Grapevine communication amongst employees
    C) Social media websites
    D) Newspaper
    E) Television news
    F) Family & friends
    G) Other

11. How would you best describe the state of employees during the period of demerger?
    A) Happy
    B) Hopeful
    C) Optimistic
    D) Strained
    E) Nervous

12. According to you what was the reason behind the demerger?
    A) Family dispute
    B) Diversification of business
    C) Unrealized synergies of different sectors
    D) Increasing shareholders wealth
    E) Lack of ability to manage expanded business under one name

13. Did you subscribe to ESOP scheme during demerger?
    A) Yes
    B) No

14. In your opinion are employees anyway affected by demerger?
    A) Yes
    B) No
    If yes specify in what manner ________________________________
Put a tick mark in the appropriate box wherein SD = strongly disagree, D = disagree, N = neutral, A = agree, SA = strongly agree

<table>
<thead>
<tr>
<th>Sr.No.</th>
<th>Statement</th>
<th>SD</th>
<th>D</th>
<th>N</th>
<th>A</th>
<th>SA</th>
</tr>
</thead>
<tbody>
<tr>
<td>15</td>
<td>Lot of inter department transfers were executed during the process of demerger</td>
<td></td>
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<tr>
<td>16</td>
<td>Many employees resigned during the process of demerger</td>
<td></td>
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<tr>
<td>17</td>
<td>Many employees resigned immediately post demerger</td>
<td></td>
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<tr>
<td>18</td>
<td>Many employees were given termination letter immediately post demerger</td>
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<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>19</td>
<td>New recruits were added in your department immediately post demerger</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>20</td>
<td>There were significant changes in the HR policies post demerger</td>
<td></td>
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<tr>
<td>21</td>
<td>Employees were anxious during the period of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>22</td>
<td>Employees develop feeling of disengagement during demerger.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Employees develop survivor syndrome during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>24</td>
<td>Rate of employee absenteeism increased during the period of demerger</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>25</td>
<td>Employees tried to search alternate job opportunities during the period of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>26</td>
<td>Competitors took advantage of anxiety amongst employees and pulled away talent during the period of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>27</td>
<td>Employee morale was affected during the process of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>28</td>
<td>Employee performance was affected during the process of demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>29</td>
<td>There was a change in the work culture post demerger</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>30</td>
<td>Lot of initiatives were taken by HR department to keep employees morale high during demerger.</td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>31</td>
<td>ESOP scheme worked as a motivator for boosting the morale of employees during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>32</td>
<td>HR department was successful in managing employees during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>33</td>
<td>HR department has an important role to play during demerger</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

34. Is there anything more you would like to share about the experience during demerger

_Researcher is extremely thankful to you for sparing your valuable time in filling up this questionnaire and your cooperation will be of great help for research purpose._

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ANNEXURE III OPINION FROM STATISTICIAN

After going through the details of chapter 5, 6, 7 it is found that researcher used the statistical tools like measures of central tendencies, measures of dispersion and graphs/diagrams for descriptive analysis. For hypothesis testing researcher used Levene’s tests for variance, one sample and two sample ‘t’ tests. To the best of my knowledge, statistical tools applied by the researcher, Ms. Rupal Vinayak Malti Pandya in her Ph.D thesis titled –Demergers in India- A Case Study of Reliance Industries Ltd are appropriate.

Dr. Madhukar Dalvi
MSc.( Statistics), Ph.D ( Statistics)
Consultant Statistician
Email ID: mhdalvi7@gmail.com
Contact no: 8425951314
ANNEXURE IV PLAGIARISM REPORT

The present research study was submitted in turnitin software and following originality report was generated.
ANNEXURE V - LETTER FROM RELIANCE INDUSTRIES LTD

To Whomsoever It May Concern

This is to certify that CA Rupal Pudya, a PhD student working on research topic –
Demergers in India – A case study of Reliance Industries Ltd had approached our company
for assistance in gathering information required for her research. The representatives of the
company have offered all cooperation required in this regard. We wish her all the best for her
research and request her to submit her final research outcome to the company since it is study
on our company.

For Reliance Industries Limited

Rohit C Shah
Sr. Vice President (Corporate Secretarial)
1. INTRODUCTION

1.1 Corporate restructuring:
Corporate restructuring can be defined as any change in the business capacity or portfolio that is carried out or a change in the capital structure of a company or any change in the ownership or control over the management of company. In today’s dynamic competitive world, companies are constantly researching on various options by which shareholders value can be enhanced by changing the composition of their assets, liabilities, equity and operations. All these attempts channelized as strategies are referred to as restructuring strategies. Restructuring may encompass either growth strategy or exit strategy. Important forms of corporate restructuring are as follows:- Merger, Consolidation, Acquisition, Divestiture, Carve out, Joint venture, Reduction of capital, Buy back of securities, Delisting of securities and Demerger.

1.2 Demerger as a form of corporate restructuring:
Demergers (spin off / split up/ split off): It is a form of structural readjustment for corporations in which a company splits into two or more entities keeping the economic position of the members same. Demerger can take three forms:

i. Spin off: It involves transfer of all or substantially all the assets, liabilities and business on a going concern basis of one of the business undertakings or divisions to another company whose shares are allotted to the shareholders of the transferor company on a proportionate basis.

ii. Split up: It involves transfer of all or substantially all the assets, liabilities and business on a going concern basis of the company to two or more companies whose shares are allotted to the shareholders of the transferor company on a proportionate basis. Unlike spin off, in split up the transferor company ceases to exist.

iii. Split off: It is similar to spin off but in this case not all the shareholders of the transferor company get the shares in transferee company in the proportion in which they hold shares in transferor company. It is used to realign the interese holding of promoters.
1.3 Rationale of Demerger:

One of the prime reasons why large corporate houses go in for demerger is to increase the role of specialization in the particular segment. In case of large conglomerates, demerging entities often are the departments which are growing at an impressive rate and have substantial potential. A part from core competencies being main reason for demerging companies, in some cases, restructuring in the form of demerger was undertaken for splitting up the family owned large business empires into smaller companies. “Companies which have more than one business and the smaller business is not recognized in valuation of these companies are going for demerger” – Mr T.V. Ragunath, Executive directors, Kotak Mahindra investing banking. The remarks by Mr Ragunath are similar in case of Reliance which has taken demerger as a way of growth. It has tried to enhance shareholders value by adopting the restructuring strategy. After the enactment of comprehensive provisions under the Income Tax Act 1961 dealing with demerger, many corporate embarked on focusing business plans by splitting the unrelated business by way of demerger and there are also other reasons for demerger like family split which occurred in Reliance.

There are many examples of demergers but the biggest demerger in the history of Indian corporate is that of Reliance Industries Ltd. Such demergers are accordingly, more in the nature of family settlements and are affected through the court order. Improving valuation and attracting investors have been the important rationales behind many demergers.

Demerger is an act of splitting off a part of an existing company to become a new company, which operates completely separate from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company. The entity that emerges has its own board of directors and, if listed on a stock exchange, have separate listings. It does not result in a purchase or sale transaction but is just a division of an existing entity, the demerged company. Demerger is essentially a scheme of arrangement under Section 391 to 394 of the Companies Act, 1956 requiring
approval by majority of shareholders holding shares representing three-fourths value in meeting convened for the purpose, and sanction of High Court.

1.4 Definition of Demerger: Although the term Demerger has not been defined in the Companies Act, 1956, however, it has been defined in Sub-section (19AA) of Section 2 of the Income-tax Act, 1961. According to the said Sub-section, demerger in relation to companies, means transfer, pursuant to a scheme of arrangement under Sections 391 to 394 of the Companies Act, 1956, by a demerged company of its one or more undertakings to any resulting company in such a manner that:

i. All the property of the undertaking being transferred by the demerged company, immediately before the demerger, becomes the property of the resulting company.

ii. All the liabilities relatable to the undertaking, being transferred by the demerged company, immediately before the demerger, become the liabilities of resulting company of virtue of the demerger.

iii. The property and the liabilities of the undertaking, being transferred by the demerged company are transferred at values appearing in its books of account immediately before the demerger;

iv. The resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis;

v. The shareholders holding not less than three fourths in value of the share in the demerged company (other than shares already held therein immediately before the demerger or by a nominee for, the resulting company or, its subsidiary) become shareholders of the resulting company or companies by virtue of the demerger.

vi. The transfer of the undertaking is on a going concern basis;

vii. The demerger is in accordance with the conditions, if any, notified under Sub section (5) of Section 72A of the Income Tax Act 1961 by the Central Government in this behalf.
1.5 SWOT analysis:

<table>
<thead>
<tr>
<th>Strengths</th>
<th>Weakness</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Unlock the full potential of the business by creating different companies</td>
<td>i) Anxiety amongst employees in course of creating departments.</td>
</tr>
<tr>
<td>ii) Increase the valuation of wealth of shareholders</td>
<td>ii) Delay in finalization of deals</td>
</tr>
<tr>
<td>iii) Attract the investors</td>
<td>iii) Sometime sudden change in management and organization vision creates a gap leaving certain capacity idle and promoting inefficiency in utilisation of resources.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Opportunities</th>
<th>Threats</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Restructuring is an attempt to relax some or all of the short run constraints which is concerned with changing structure in pursuit of long run strategy.</td>
<td>i) Difficult to tap credit / funds</td>
</tr>
<tr>
<td>ii) Can focus on core business</td>
<td>ii) Losing the synergy</td>
</tr>
<tr>
<td>iii) Scope for independent collaboration and expansion</td>
<td>iii) Misconception in the minds of investors about the stability of resulting company</td>
</tr>
</tbody>
</table>

1.6 Scheme of Demerger of Reliance Industries Ltd:

The year 2005-06 was a landmark year in the history of Indian corporate. Reliance Industries Ltd marked a new strategic decision to unlock value for its shareholders by reorganizing business through a process of demerger. In this process, Reliance Industries Ltd’s investments in power generation and distribution, financial services and telecommunication services were demerged into four separate entities namely Reliance Energy Ventures Ltd, Global Fuel Management Services Ltd, Reliance Capital Ventures Ltd and Reliance Communication Ventures Ltd. With a view to achieve greater management focus and keeping in mind the paramount and overall interest of shareholders of Reliance Industries Ltd Shri Anil Ambani will lead financial services, power and telecom businesses and Shri Mukesh Ambani will continue to lead the other businesses including petrochemicals, oil and gas exploration and production, refining and other
businesses comprising the remaining undertaking. The exchange ratio given under the scheme of demerger is 1:1 but the effective ratio due to subsequent mergers changed.

2. STATEMENT OF THE PROBLEMS

With the above discussion in light, researcher has selected the research endeavor of examining meticulously and critically the conduct observable of the “Demergers in India- A Case Study of Reliance Industries Ltd”.

Researcher has made an attempt to critically address following problems:-

i. Demerger has been increasingly used by companies as a strategy for corporate restructuring and hence it is important to understand its concept thoroughly.

ii. The process of demerger is governed by various legal provisions; hence it is required to study in detail legal aspect of demerger. The taxation aspect in the event of demerger has remained a very burning issue for tax authorities and the entities undergoing demerger, hence it is necessary to study this aspect in detail. In demerger, assets and liabilities of the undertaking of demerged company are transferred to resulting companies; hence it is important to understand the accounting treatment applicable in case of demerger.

iii. Demerger of Reliance Industries Ltd was the remarkable demerger in the history of Indian corporate world hence it is apt to take the case study of this company to know in details the demerger scheme applied by the company.

iv. Shareholders are the ones who are predominantly affected by the process of demerger, therefore it is crucial to analyze its impact on shareholders wealth and also the shareholders perspective to it.

v. Employees also get affected by the process of demerger in respect of their payrolls, human resource policies, transfers, working environment, etc. so it is required to study employees’ perspective to demerger.

vi. Any corporate restructuring activity has immense impact on its stock market prices. Also stock market prices are considered to be the indicators of company performance
so it is important to study the stock market position of Reliance Industries Ltd during pre and post demerger period.

3. OBJECTIVES OF THE STUDY

The present research aims at the fulfillment of the following objectives:

i. To generate understanding about demerger as a tool for corporate restructuring
ii. To study the legal, taxation and accounting aspects of demerger.
iii. To study in detail the scheme of demerger of Reliance Industries Ltd.
iv. To analyze the perspective of shareholders to demerger of Reliance Industries Ltd.
v. To study the employees perspective to demerger of Reliance Industries Ltd.
vi. To study the behaviour of stock prices and turnover of shares of Reliance Industries Ltd in the pre and post demerger period.

4. HYPOTHESES OF THE STUDY

With a view to develop a sound theoretical framework for the investigation, a review of literature on demergers in India has been done. However, the related published literature on the area of study in India is indeed scanty. Hence, the hypotheses framed are as follows:

HYPOTHESIS 1:

Null hypothesis (H₀): Demerger of Reliance Industries Ltd had no significant impact on the shareholders wealth.

Alternative Hypothesis (H₁): Demerger of Reliance Industries Ltd had significant impact on the shareholders wealth.
HYPOTHESIS 2:

*Null hypothesis* (H₀): Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

*Alternative Hypothesis* (H₁): Employees of Reliance Industries Ltd were significantly affected by the process of demerger.

HYPOTHESIS 3:

*Null hypothesis* (H₀): There is no significant difference between the mean stock market prices of shares of Reliance Industries Ltd in the pre and post demerger period.

*Alternative Hypothesis* (H₁): Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is significantly less than that of post demerger period.

HYPOTHESIS 4:

*Null hypothesis* (H₀): There is no significant difference between mean turnover of shares of Reliance Industries Ltd in the pre and post demerger period.

*Alternative Hypothesis* (H₁): Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is significantly less than that of post demerger period.

5. SCOPE OF THE STUDY

i. The geographical scope of the present study covers the entire India region.

ii. The functional scope of the study is assessment of the impact of demerger on employees, shareholders and share market.

iii. The analytical scope covers the fulfillment of the objectives set out for the study.

iv. The topical scope is confined to study the scheme of demerger of Reliance Industries Ltd.
6. RESEARCH METHODOLOGY OF THE STUDY

6.1 Case study selected for study:
Demerger is a recent form of corporate restructuring as compared to other forms. Also research work on this topic is very limited hence to study demerger in detailed manner, researcher has selected case study method. A case study method facilitates to study the topic in detail from various angles and then draw conclusions from particular event and generalize it through inductive method. This study covers legal, accounting, taxation, shareholders, employees and stock market aspects of the demerger.

6.2 Reason for selecting case study of Reliance demerger:
There are many example of demerger at national and international level. The biggest demerger in the history of Indian corporate is that of Reliance Industries Ltd. Also this demerger has received maximum publicity by media and hence known to the common public as well. This demerger was more in nature of family settlement and affected through the court order. This demerger has been understood to have an impact on every stakeholder i.e. shareholder, employee etc. so a case study of demerger of reliance is selected to study its impact on stakeholders.

6.3 Area selected for the study:
The area selected for the study is all over India. 1000 (non-promoters) shareholders and 500 employees, including all directors of the company were selected for collection of data. Various Indian legal provisions and data from National Stock Exchange and Bombay Stock Exchange were considered for the study.

6.4 Source of data collection:
The fulfillment of the objectives set forth for the study has called for data collection from different sources. Hence the researcher has taken cognizance of collecting the data through primary source as well as secondary source explained as under:-
6.4.1 **Primary data:** The study requires detail information about the impact of demerger on employee and shareholders hence the researcher decided to collect such information from primary data. To collect such information is more time consuming, but it is likely to yield a more accurate picture than a study based on secondary data. There are mainly 3 ways to collect primary data namely: by observation of behavior, by experimentation and by survey. As the researcher wanted to ask the employees regarding their views about demerger, i.e. reason behind the demerger, changes in human resource policies, working environment, anxiety level of the employees etc. hence the survey method was selected for collecting the data. Soliciting the information from the respondents was time consuming and it is difficult to judge the anxiety level and the syndrome in the behavior of employee. Impact of demerger on shareholders wealth has been calculated by secondary data but researcher also wanted to analyze the view point and opinion of shareholders hence the researcher has prepared two separate questionnaires to understand the opinion of the shareholders and employees towards the demerger process.

**Questionnaire method:** The researcher has prepared two separate questionnaires one for the shareholder and other for the employees for collecting the data for the present study. Questionnaire was of structured and non disguised type. To develop a list of items for framing a questionnaire review of existing literature on demerger was undertaken. Consultation with experts was also made in this regards. The questionnaire was pre-tested with 50 respondents. Thereafter changes were made to the questionnaire with specific reference to wording, sequence and language.

Utmost precautions were taken to make the questionnaire simple and easily understandable, so that the respondents would not find any difficulty in answering questions. Great care was taken in working each question to avoid biasing the responses. The first questionnaire is related to year of service of employees, if left the company then the reason for leaving, HR policies in pre and post period of demerger, and opinions with multiple choices. Second questionnaire for shareholders is related to purchase of shares in pre, post or during the period of demerger, sale of shares, stake of shareholders in resulting companies and overall opinion with multiple choice questions. The respondents are asked
to give their opinion on five point Likert scale regarding different characteristics related to
effect of the process of demerger on Employees and shareholders of Reliance Industries
Ltd. The codes were as follows: Strongly Disagree (1), Disagree (2), Neither agree nor
disagree (3), Agree (4), Strongly Agree (5)

As the respondents are from all over India, questionnaires were sent by email and
information was collected as it was not possible to meet respondents personally. The
questionnaire gathered information on employees’ reaction on news of demerger, ESOP
scheme, morals of employees, HR policies, social and mental syndrome during demerger,
fear of losing job etc. The questionnaire gathered further information on shareholders view
on the exchange rates in demerger, market price, and their wealth, decision of purchasing
new shares in resulting company or selling of shares

6.4.2 **Secondary data:**
The secondary data in the form of archival information necessary for investigation was
collected mainly from reports of Reliance demerger, project reports published on demerger
at national and international level and government published source as well as internet
(websites related to study topic). The data regarding shareholders wealth and stock market
was collected from official websites of National Stock Exchange and Bombay Stock
Exchange. Various libraries were visited for collection of secondary data through access of
related books, journals, etc.

6.5 **Sample design**

6.5.1 **Target population**

The survey’s target population is the entire set of population units about which the survey
data are to be used to make inferences. For this survey, in case of the shareholders the
target population was all shareholders having shares of Reliance Industries Ltd before and
after demerger and in the period of demerger. In case of employees the target population
was all employees who were part of the company before, after and at the time of demerger.
6.5.2 Sample selection

The sample selected for the study constitutes of shareholders and employees who were part of companies before, after and at the time of demerger. It was purposively decided to have a quota sample of 1000 (non-promoters) shareholders and 500 employees including all directors of Reliance Industries Ltd. In order to carry out data collection exercise more meticulously the researcher approached some of the respondents to sort their opinion, and noted their responses accordingly. The sampling technique adopted for the study was judgmental and purposive sampling method. The researcher is of the strong conviction that the sample size selected for the study is a representative sample of the universe.

Details of Sample Size

<table>
<thead>
<tr>
<th>Point of respondent profile</th>
<th>Sub points</th>
<th>Shareholders</th>
<th>Employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>760</td>
<td>280</td>
</tr>
<tr>
<td></td>
<td>Female</td>
<td>240</td>
<td>220</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1000</td>
<td>500</td>
</tr>
<tr>
<td>Age</td>
<td>Below 35</td>
<td>80</td>
<td>10</td>
</tr>
<tr>
<td></td>
<td>36-50</td>
<td>620</td>
<td>290</td>
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<tr>
<td></td>
<td>Above 50</td>
<td>300</td>
<td>200</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1000</td>
<td>500</td>
</tr>
<tr>
<td>Annual income</td>
<td>up to 6 lakhs</td>
<td>100</td>
<td>20</td>
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<tr>
<td></td>
<td>6 lakhs to 12 lakhs</td>
<td>480</td>
<td>100</td>
</tr>
<tr>
<td></td>
<td>above 12 lakhs</td>
<td>420</td>
<td>380</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>1000</td>
<td>500</td>
</tr>
</tbody>
</table>

6.6 Data Analysis and Interpretation

All the completed questionnaires were scrutinized carefully and the responses of respondents have been presented in the form of tables, graphs and figures. In consultation
with computer experts and statisticians, software such as SPSS, AMOS and Mega stats were used. After getting the data computerized, in order to sharpen the inferences drawn based on simple description of facts, statistical techniques like frequency distribution, averages, and percentages have been used. Researcher tabulated the data and analyzed it using spreadsheets (Excel) and a statistical program. Further Inferential analysis and conclusion are drawn using one sample t test with hypothesized mean value 3.

The data and all the completed questionnaires were scrutinized carefully together with the theoretical material and have been interpreted through an intellectual exercise. The findings derived from these exercises are presented separately.

7 SIGNIFICANCE OF THE STUDY:
The cases of demergers in Indian corporate are increasing in recent times hence it is very important to have detailed research study on demerger which would include all legal aspects, tax implications, accounting procedures, its impact on employees, shareholders and share market. There is no major research carried out in this field and hence this study assumes importance. Demerger of Reliance Industries Ltd being the biggest in Indian corporate history makes this topic very suitable for the research. It is a financial restructuring by a company for future and better growth.

The present study is an attempt to investigate process of demerger from various angles. Further this study is to reveal the speed hurdle and benefits of demerger on the road of demerger process. The study analyzes and focuses a review of the current laws. It has explained the complexities of various laws relating to demerger and the way company has managed these complexities.

Further the study explains shareholders view on wealth maximisation in the process of demerger and employees view in the process of demerger. The role of human resource department in relation to motivating factors required during the demerger and post demerger. The study has also highlighted the company performance pre and post demerger which would help analyst to track performance of companies going in for demerger. The
Impact of demerger on stock market prices and turnover would help investors to understand how the stock market performance of a company is affected by a particular company's demerger. It generates the conceptual base for understanding the process of demerger. The study will help shareholders and common public to understand the complicate process of demerger. It would also be helpful to fund managers and investors to balance their portfolio in the event of demerger. It will also prove to be beneficial for companies planning to adopt demerger as a strategy for corporate restructuring in future. It will certainly help human resource department to better understand the employee’s perspective to demerger.

8 LIMITATIONS OF THE STUDY
The main limitation of study is that primary data for the study was dependent upon the cooperation of employees, shareholders, directors, auditors of Reliance Industries Ltd. The data collection has been done by email and telephonic conversations. Thus the inferences drawn are purely based on feedback received from the respondents. This study covers the experiences of shareholders and employees in the demerger of Reliance. Therefore the scope of study is limited to selected shareholders and employees only. It must be cautioned that results presented are solely based upon data received from the surveyed respondents and the possibility of biased opinion cannot be ruled out. This survey is indication of the opinion of the shareholders and employees but it is not referendum. It contains certain biased related to those who chose to respond the survey and the subject interpretation of the questionnaire itself. Also the study itself is limited to only the case of Reliance Industries Ltd and hence the conclusions drawn are for a specific company and may not hold true for every other company adopting demerger. Hence one needs to be careful while generalizing the conclusions drawn from this study.
9 FINDINGS OF THE STUDY

9.1 In relation to objectives of the study:

9.1.1 The first objective of the study was to understand the concept of demerger as a tool for corporate restructuring and the important aspects related to it are that Sec 2(19AA) of Income Tax Act 1961 defines the term demerger. Companies Act does not provide directly with the definition of demerger but conditions laid down under section 391 to 394 apply to demerger. Demerger is just a separation of a division of a company into a separate legal existence. Reasons for adopting demerger as restructuring strategy are Family settlement, Focus on core competencies, improving valuation, increasing shareholders wealth, to bring specialization in operations, attracting investors, etc.

9.1.2 The second objective was to study legal, taxation and accounting aspects of demerger and following are the important findings generated by the study.

a) The legal procedural steps involved in the process of demerger are as follows:-
   i. Application to court for getting direction to hold meeting of the members/creditors
   ii. Obtaining court order for holding meetings of members/creditors
   iii. Notice of the meetings to members/creditors
   iv. Holding meetings of members/creditors
   v. Reporting the result of the meeting by the chairman to the court
   vi. Petition to the court for sanctioning the scheme of demerger
   vii. Obtain order of the court for sanctioning the scheme
   viii. Court order on petition sanctioning the scheme of demerger
   ix. To finalize the record date for the scheme so that shareholders as on that date shall be eligible for shares in the resulting companies as per the exchange ratio under the demerger scheme.
b) Section 47 of the Income Tax act 1961 states that when a shareholder is issued any share in a scheme of demerger, there is no transfer and hence there is no capital gain.

c) According to section 2(42A) of Income Tax act 1961 states that the period of holding of the demerged company is to be included in the period of holding of the shares of the resultant company.

d) The accumulated loss and unabsorbed depreciation of the demerged company will be allowed to be carried forward and set off in the hands of resulting company.

e) As per the guidelines issued by Reliance Industries Ltd after the consultation of experts the proportion in which original cost of acquisition of Reliance Industries Ltd’s shares will be apportioned to the new shares is as follows:

<table>
<thead>
<tr>
<th>Company</th>
<th>% of cost of acquisition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reliance Industries Ltd</td>
<td>52.0</td>
</tr>
<tr>
<td>Reliance communication ventures Ltd</td>
<td>38.7</td>
</tr>
<tr>
<td>Reliance energy ventures Ltd</td>
<td>7.3</td>
</tr>
<tr>
<td>Reliance capital ventures Ltd</td>
<td>1.3</td>
</tr>
<tr>
<td>Reliance natural resources Ltd</td>
<td>0.7</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
</tr>
</tbody>
</table>

f) The assets and liabilities of the demerged company are transferred to resulting company at book value.

g) The deficit in recording assets and liabilities in resulting companies is recorded as general reserve.

9.1.3 The next objective was to understand the scheme of demerger of Reliance Industries Ltd and the salient points of the scheme are as follows:

i. Demerged company - Reliance Industries Ltd

iii. Exchange ratio under the scheme of demerger – 1:1

iv. Subsequent merger of Reliance Energy Ventures Ltd with Reliance Energy Ltd and Reliance Capital Ventures Ltd with Reliance Capital Ltd resulted in the effective exchange ratio to be as follows:

<table>
<thead>
<tr>
<th>Shares in demerged company</th>
<th>Shares in resulting companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>100 shares of Reliance Industries Ltd</td>
<td>5 shares of Reliance Capital Ltd</td>
</tr>
<tr>
<td></td>
<td>7.6 shares of Reliance Energy Ltd</td>
</tr>
<tr>
<td></td>
<td>100 shares of Reliance Communication Ventures Ltd</td>
</tr>
<tr>
<td></td>
<td>100 shares of Global Fuel Management Services Ltd</td>
</tr>
</tbody>
</table>

v. Important dates –

Appointed date under the scheme: 1-09-05

Appointed date means the date for identification of assets and liabilities of existing company for transfer to resulting companies. It is important for determination of share exchange ratio.

Court order approving the scheme: 9-12-05

The date of court order is important as the scheme gets approval on the said date.

Effective date of the scheme: 21-12-05

Effective date means the last of the dates on which the conditions of the scheme have been fulfilled or waived and the order of the High Court sanctioning the Scheme of Arrangement is filed with the Registrar of Companies by the demerged company and each of the resulting companies.
Record date of the scheme: 25-01-06
Record date means the date to be fixed by the Board of Directors of the demerged company in consultation with the respective resulting companies for the purpose of reckoning names of the equity shareholders of the demerged company, who shall be entitled to receive shares of each of the resulting companies upon coming into effect of this scheme.

9.1.4 Findings related to shareholders perspective:

Researcher has calculated with the help of secondary data, shareholders wealth at various stages to analyze impact of demerger on shareholders wealth in long run as well as short run. Also the important ratios from the point of view of shareholders are calculated for one year pre demerger and one year post demerger. Financial year 2005-06 being the year of demerger, pre demerger ratio is calculated for F.Y. 2004-05 and post demerger ratio for F.Y. 2006-07. Since the record date for the scheme of demerger is 25th Jan 2006 in case of pre and post months, January is considered as the centre point. Summary of these calculations is tabulated as follows:

<table>
<thead>
<tr>
<th></th>
<th>Pre</th>
<th>Post</th>
<th>% increase</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shareholders wealth</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>In one year</td>
<td>272980.00</td>
<td>1189277.50</td>
<td>335.66</td>
</tr>
<tr>
<td>In six months</td>
<td>351450.00</td>
<td>823947.50</td>
<td>134.44</td>
</tr>
<tr>
<td>In two months</td>
<td>381280.00</td>
<td>932250.00</td>
<td>144.51</td>
</tr>
<tr>
<td>In one month</td>
<td>444830.00</td>
<td>730230.00</td>
<td>64.16</td>
</tr>
<tr>
<td>In one day</td>
<td>346680.00</td>
<td>349300.00</td>
<td>0.76</td>
</tr>
<tr>
<td>Dividend per share</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>One year</td>
<td>7500.00</td>
<td>12072.50</td>
<td>60.97</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Earnings per share</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>54340.00</td>
<td>101635.75</td>
<td>87.04</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>P/E ratio</th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>One year</td>
<td>5.02</td>
<td>38.73</td>
<td>670.95</td>
</tr>
</tbody>
</table>

It can be seen from the above table that shareholders wealth has increased at all levels and key ratios have also improved which leads to the conclusion that shareholders of Reliance Industries Ltd have significantly benefited with the demerger strategy adopted by the company.

Primary data collected from the shareholders when analyzed has resulted into following findings:

i. 20% of the respondents were happy, 50% were hopeful and 28% were optimistic and only 2% were nervous which implies that most of the shareholders had a positive approach towards the news of demerger of Reliance Industries Ltd and were expecting demerger to result benefits to them.

ii. 52% of the respondents consider family dispute to be the reason for demerger.

iii. 52% purchased further shares and 32% retained existing shares with the expectation of share prices to go up and only 16% sold out shares may be due to fear of future performance of resulting companies or may be to take advantage in the short run of the increased prices due to volatility on stock exchanges with the outburst of demerger news.
iv. The total mean score for all the factors which signify that shareholders were benefitted by the process of demerger and shareholders were satisfied with the demerger is more than 3 implying that most of the respondents agreed to the fact that demerger has proved to have positive impact for shareholders.

9.1.5 Findings related to employees perspective:

Primary data collected from the employees when analyzed has resulted into following findings:

i. 58% of the respondents had joined Reliance Industries Ltd before financial year 2005-06 and 42% had joined in the year of demerger.

ii. 32% of respondents came to know about the news of demerger through official HR mail, 28% through grapevine communication within the company and remaining from social media sites, newspaper, television, family and friends.

iii. When asked to describe state of employees during demerger, 22% opted for optimistic, 36% for hopeful, 14% for happy and only 16% opted for nervous and 12% for strained.

iv. According to 54% of the respondents family dispute was the reason for demerger.

v. 96% of the respondents opted for the Employee Stock Option Scheme offered during demerger. Reliance Industries Ltd had issued 52687851 equity shares of Rs. 10 each just before demerger for offering it to employees under the ESOP scheme.

vi. The total mean score for all the factors which signify that employees were affected by the process of demerger is just 3 implying that most of the respondents agreed to the fact that demerger has not significantly affected the employees. Also the mean score for all factors signifying the importance of HR department during demerger is more than 3 implying that the HR department has an important role to play during demerger.
9.1.6 Findings related to behaviour of stock market prices and turnover:

<table>
<thead>
<tr>
<th>Period</th>
<th>Mean stock market price</th>
<th>Mean Turnover in lakhs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre demerger period</td>
<td>537.76</td>
<td>33723.06</td>
</tr>
<tr>
<td>From appointed date upto court order</td>
<td>787.28</td>
<td>43983.14</td>
</tr>
<tr>
<td>From court order upto effective date</td>
<td>858.30</td>
<td>35699.89</td>
</tr>
<tr>
<td>From effective date upto special trading session day</td>
<td>888.38</td>
<td>85500.57</td>
</tr>
<tr>
<td>From special trading session day upto record date</td>
<td>697.77</td>
<td>121971.10</td>
</tr>
<tr>
<td>Post demerger period</td>
<td>1089.51</td>
<td>44906.58</td>
</tr>
</tbody>
</table>

The above mean values are supported by their corresponding median values but the standard deviation is very high implying that the data values vary drastically from its mean value. The mean score for closing price of shares of Reliance Industries Ltd was 537.76 in the pre demerger period which increased during the process of demerger reaching 888.38 but it dropped to 697.77 in the period between special trading session and record date, still it remained higher the mean score in pre demerger period. Interestingly the mean score rises to 1089.51 in the post demerger period. The mean turnover of shares of Reliance Industries Ltd was 33,723.06 in pre demerger period which increased to 43,983.14 after appointed date but reduced little till court order and then again picked up after court
approval and reaching highest during special trading session and then again normalized to 44,906.58 in the post demerger period.

9.1 In relation to hypothesis of the study:

9.2.1 The first null hypothesis was ‘Demerger of Reliance Industries Ltd had no significant impact on the shareholders wealth’.

It is observed that ‘t’ value for null hypothesis is +7.30 which is greater than table value +1.645 (also greater than + 2.326). Also p value is 0.000 which is less than 0.01. Hence the null hypothesis is rejected at 5% & 1% level of significance and hence the alternative hypothesis “Demerger of Reliance Industries Ltd had significant impact on the shareholders wealth” has been accepted.

9.2.2 The second null hypothesis was ‘Employees of Reliance Industries Ltd were not significantly affected by the process of demerger’.

It is observed that ‘t’ value for null hypothesis is +0.12 which is less than table value +1.645 (also less than + 2.326). Also p value is 0.4521 which is greater than 0.01. Hence the null hypothesis cannot be rejected at 5% & 1% level of significance and hence the alternative hypothesis “Employees of Reliance Industries Ltd were significantly affected by the process of demerger” has been rejected and null hypothesis is accepted and it is concluded that Employees of Reliance Industries Ltd were not significantly affected by the process of demerger.

9.2.3 The third null hypothesis was ‘There is no significant difference between the mean stock market prices of shares of Reliance Industries Ltd in the pre and post demerger period’.

To test this hypotheses, ‘t’ test on two independent samples of stock closing prices of pre and post merger period without assuming equal variance is applied. It is observed that p value is 0.0000 which is less than α = 0.01 (1% significant level). It is also
observed that calculated ‘t’ value is -42.64 which is less than -1.96 (table value at 1% significant level, left tailed and d.f. 345). Hence we reject null hypothesis and it is inferred that Mean stock market price of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

9.2.4 The forth null hypothesis was ‘There is no significant difference between mean turnover of shares of Reliance Industries Ltd in the pre and post demerger period’.

To test this hypotheses, ‘t’ test on two independent samples of stock closing prices of pre and post merger period without assuming equal variance is applied. It is observed that p value is 0.0000 which is less than $\alpha = 0.01$ (1% significant level). It is also observed that calculated ‘t’ value is -6.18 which is less than -1.96 (table value at 1% significant level, left tailed and d.f. 533). Hence we reject null hypothesis and it is inferred that Mean turnover of shares of Reliance Industries Ltd in the pre demerger period is less than that of post demerger period.

10. CONCLUSIONS OF THE STUDY

Reviving business excellence and thereby creating a value for a company is considered to be the most vital as well as significant objective of today’s business enterprises with an aim to ensure long run survival and sustainable growth over the period of time. Corporate restructuring implies restructuring the corporate sector from multi dimensional angles with a view to obtain competitive edge and thereby ensuring business success. The study concludes how the shareholders and also the company benefits from the demerger.

10.1 With respect to understanding the process of demerger:

Demerger has been adopted as a restructuring strategy by increasing number of companies to unlock its shareholders value and also to separate the unrelated businesses into different companies. A company can opt for demerger after getting approval of majority ($3/4^{th}$) of
the shareholders and court sanction. Demerger is the process by which undertakings of a company are separated from the company and are given separate legal status to run the business of undertaking independently.

10.2 With respect to legal, taxation and accounting aspects of demerger:
   i. Legal framework for demerger is similar to that of merger; the steps involved in the process of demerger are same as that of merger. SEBI has issued guidelines and a show cause notice to Reliance Industries Ltd with respect to share exchange ratio adopted in demerger for the protection of investors.
   ii. Current law recognises demerger of an 'undertaking' into another Indian company as being tax neutral, where specified conditions are met. No capital gain shall arise to the shareholders of demerged company on account of receipt of shares in the resulting company. Since demergers have only recently been recognised under Indian tax laws, only limited split-ups are recognised as tax neutral and unlike international laws, transactions such as direct spin off of a subsidiary are presently not accorded these tax benefits.
   iii. There is no mention of accounting treatment to be followed during demerger in the International Financial Reporting Standards (IFRS)- 3 on Business Combinations. Also Indian Accounting Standard -14 on Accounting for Amalgamations has not covered the aspect of demerger accounting procedure to be followed. Though there is no specific treatment suggested by any standards, the treatment of accounting demerger followed globally has remained uniform.

10.3 With respect to scheme of demerger of Reliance Industries Ltd:
Reliance Industries Ltd has followed all the procedures required by Companies Act and SEBI while undertaking the process of demerger. The scheme of demerger specifies clearly the purpose of the scheme, rationale of the scheme, exchange ratio under the scheme, accounting treatment for transferring assets and liabilities of undertakings to the resulting companies. The scheme also mentions that specified shareholders i.e. trustees of Petroleum Trust decided not to take up their proportionate entitlement in resulting companies which would result in added benefit for remaining shareholders.
10.4 With respect to shareholders perspective:
   i) The shareholders wealth has increased after demerger in long run as well as short run.
   ii) Shareholders were satisfied with the exchange ratio given under the scheme of demerger as it finally proved to be beneficial to the shareholders.
   iii) According to shareholders family dispute was the reason for Reliance demerger.
   iv) Dividend payout ratio and price earnings ratio of Reliance Industries Ltd in post demerger period was satisfactory.
   v) Company performance has improved post demerger leading to better valuation.

10.5 With respect to employees perspective to demerger:
   i) Employees were not significantly affected by the process of demerger but change in management approach had some impact on the working culture.
   ii) Employees were highly anxious during the process of demerger due to inter departmental transfers.
   iii) Employee Stock Option scheme worked very well as a motivating factor to curb the attrition rate during demerger.
   iv) Human Resource department has an important role to play during the implementation of demerger to keep the employees morals high.

10.6 With respect to stock market:
   i) Special one hour trading session was kept by the stock exchange to derive the price for Reliance Industries Ltd shares.
   ii) High volatility was found on both National Stock Exchange and Bombay Stock Exchange on the outbreak of news of demerger of Reliance Industries Ltd.
   iii) The prices of shares of Reliance Industries Ltd increased during the process of demerger i.e. in the period from appointed date of the scheme up to the special trading session. In the special trading session high downfall in the price of shares was found but later on after the record date of the scheme during the post demerger period again the upward trend in price of shares was found. Leaving the intermittent period of demerger, it can be concluded that post demerger prices of
shares of Reliance Industries Ltd have increased as compared to pre demerger period.

iv) The trend observed in the turnover of shares is that the maximum turnover can be seen during the special trading session, followed by high turnover during the period between effective date of the scheme and special trading session. When turnover in pre demerger period is compared with post demerger period it can be concluded that mean turnover in pre period is less than that in post period.

11. SUGGESTIONS AND RECOMMENDATIONS

i. Further specific guidelines with regards to the entire process of demerger should be issued to make the process of demerger more transparent for the protection of investors. These guidelines to be at par with guidelines issued for merger.

ii. Companies opting for demerger should submit the rationale report to the court justifying the act of demerger.

iii. Companies to be required to publish the demerger report certified by the expert. This would also serve as guidance for companies planning to adopt demerger as a form of restructuring.

iv. There is a need to create awareness amongst investors with regard to demerger so that they can identify the genuine efforts of the company to improve valuation through demerger and the bogus demergers undertaken just to get rid of loss making undertakings.

v. The human resource department must communicate the demerger strategy properly to the employees and the objective must be to ensure that the workforce also relates to the long term goals of the company. It must initiate various schemes to keep the employees motivated and avoid voluntary attrition. An employees consultative forum must be formed where in elected representatives of employees from across the company would not only have voice but can take an active part in shaping change strategy.
vi. A database should be maintained by SEBI giving all the details of the demergers undertaken by various companies and this should be made available to public for analysis.

vii. More clarity on taxation laws to be made to make all types of demergers tax neutral.

12. CHAPTER SCHEME

The Thesis has been divided into nine chapters as follows:

Chapter-1: Introduction and Research Design
This chapter deals with the objectives of the study, hypothesis of the study, significance of the study, limitations of the study and the detailed research methodology adopted for the present study.

Chapter-2: Review of Relevant Literature
This chapter is devoted to review the literature comprising of earlier studies related to the topic.

Chapter-3: Conceptual Framework of the study
This chapter explains the concepts used in the study. It also shows the model of the present study and explains in detail the scheme of demerger of Reliance Industries Ltd.

Chapter-4: The legal, taxation and accounting aspects of demerger
This chapter deals with the various legal and taxation provisions related to demerger. Also the accounting treatment applied in case of demerger is explained.

Chapter-5: Shareholders perspective to the demerger of Reliance Industries Ltd
This chapter specifically deals with impact of demerger of Reliance Industries Ltd on its shareholders wealth and the opinion of shareholders with respect to demerger.
Chapter-6: Employees perspective to the demerger of Reliance Industries Ltd
This chapter focuses on the impact of demerger on employees of Reliance Industries Ltd and the role of human resource department in the process of demerger.

Chapter-7: The behavior of stock market prices and turnover of shares of Reliance Industries Ltd in pre and post demerger period.
This chapter deals with the study of movements in stock market prices and turnover of shares of Reliance Industries Ltd in pre demerger period, during the process of demerger and post demerger period.

Chapter-8: Findings and Conclusions
This chapter includes the conclusions and findings, which are derived from the study.

Chapter-9: Suggestions and Recommendations
This chapter highlights the suggestions and recommendations in respect of demergers.

The structured questionnaires used for collecting the primary data and a select bibliography and appendices conclude the Thesis.

13. SCOPE FOR FURTHER STUDY:
Researcher has undertaken only the case of demerger of Reliance Industries Ltd but there are lots of other companies adopting demerger as restructuring strategy so study can be conducted on those companies. Also a comparison of two demergers can be undertaken. Researcher has covered only the legal, accounting and taxation aspects applicable in India, a study can be undertaken to compare Indian provisions with international provisions relating to demerger. The present study has covered only the opinion of selected shareholders and employees, further studies can be conducted to include the perspective of small investors and lower level employees.
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