

Business Standard

FIRMS TAKE THE DEMERGER ROUTE

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India Inc has been bitten by a demerger bug. A large number of listed companies have announced plans to hive off a part of their business to unlock value, attract investors and take tax benefits ahead of proposed changes in taxation rules.

According to stock exchange data, companies that have announced demerger plans since the beginning of this year include Transport Corporation of India, Triveni Engineering & Industries, Dalmia Cement Bharat, Texmaco, Bilpower, Harrisons Malayalam, ETC Networks and Rain Commodities.

Demergers are a form of cor-

UNLOCKING VALUE

Companies that announced demerger plans:

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| ■ Dalmia Cement Bharat | ■ Harrisons Malayalam |
| ■ Texmaco | ■ ETC Networks |
| ■ Bilpower | ■ Rain Commodities |

porate restructuring in which a business segment within the group is hived off and made into a separate legal entity. It is often opted for by diversified business conglomerates that would like to have each business operate as a separate legal entity. Companies opting for this avenue cite reasons such as increased management fo-

cus, flexibility in fund-raising and creating value for shareholders that want to bet on individual businesses of the group.

Pankaj Kapoor, managing director, Harrisons Malayalam, said demerged units gave investors an option to invest in operational companies rather than purely holding ones. "Many old listed entities are only hold-

ing companies created to ensure the promoter holding remains at comfortable levels. Investors of such companies are dependant on dividend income. Demergers help companies create operational entities where potential investors can invest," said Kapoor. Harrisons Malayalam plans to demerge its investment undertaking into Sentinel Tea and Exports.

Another reason for a surge in such instances is the proposed changes to Section 56 of the Income Tax Act which, once implemented, will make the consideration received in kind by a company from its parent or a subsidiary taxable as income from other sources. One view held by tax experts is that this may cover demergers, although this is de-

batable. Market participants are quick to point out the advantages of demergers from a tax perspective and also from an investor point of view.

"Demerger is a very tax-efficient manner of separating business," said Girish Nadkarni, executive director, Avendus Capital. "If you sell or transfer your business, the capital gains tax comes into play. Demergers also help expand independent businesses of the group," said Nadkarni.

Also, "demergers typically happen when investors are interested in investing in a business unit of a company, but not in the company as a whole", said Akil Hirani, managing partner, Majmudar & Co.

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