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B.Com Honours

Semester VI

Calicut University

# FINANCIAL ADVISORY SERVICES IN INVESTMENT BANKING

Course Code: COM6EJ316 • Module 3 Notes

# Module III: Corporate Re-Organisations & Restructuring

Covers corporate restructuring rationale, demergers (Sec 2(19AA)), business hive-offs, subsidiarisation, spin-offs, equity carve-outs, & global and Indian M&A market perspectives.

## Unit 12: Rationale for Corporate Restructuring & Asset Split-ups

**Restructuring Rationale:** Unlocking shareholder value, core competency focus, tax optimization, & divesting non-core business divisions through asset transfer.

## Unit 13: Demerger of a Company & Business Hive-Offs (Sec 2(19AA))

**Demerger Definition:** Transfer of one or more undertakings to a resulting company on a going concern basis. Requirements: All assets & liabilities transferred at book value; shares issued to parent shareholders on pro-rata basis.

## Unit 14: Comparative Analysis of Split-ups vs Ownership Dilution

**Split-up Mechanics:** Transfer of asset division vs dilution of control via strategic equity sale to third-party investors.

## Unit 15: Subsidiarisation, Spin-offs, & Equity Carve-outs

**Restructuring Avenues:**
- **Spin-off:** Distribution of subsidiary shares directly to parent shareholders (No cash inflow).
- **Equity Carve-out:** Public IPO of subsidiary shares bringing cash inflow to parent company.

## Unit 16: Introduction to Global & Indian M&A Industry Markets

**M&A Market Dynamics:** Inbound vs Outbound M&A in India, role of NCLT in approving schemes of arrangement under Sec 230-232 of Companies Act 2013.

**Practical Case Framework 1 (Corporate Restructuring Modes Comparison Matrix):** Compare restructuring method, shareholder cash consideration, tax neutral status under Income Tax Act, and parent control retained.

**Corporate Restructuring Modes Comparison Table:**

| Restructuring Method | Cash Inflow & Share Distribution | Tax Neutrality Status (Income Tax Act) |
|---|---|---|
| Demerger (Sec 2(19AA)) | Pro-rata shares issued to parent shareholders | Tax-exempt for parent & shareholders if Sec 2(19AA) met |
| Spin-off (De-subsidiarisation) | Shares of subsidiary distributed to parent holders | Tax-exempt distribution under statutory scheme |
| Equity Carve-out (Subsidiary IPO) | Cash inflow generated for parent / subsidiary entity | Capital gains tax payable on secondary share sale |
| Slump Sale (Sec 2(42C)) | Lump-sum cash consideration paid to transferor firm | Capital gains taxed under Sec 50B on net worth |

**Practical Case Framework 2 (De-subsidiarisation Technical Architecture Table):** Detail restructuring pathway, parent ownership post-transaction, stock exchange listing impact, and strategic objective.

**De-subsidiarisation Pathway Reference Table:**

| De-subsidiarisation Pathway | Parent Ownership Post-Deal | Strategic Management Objective |
|---|---|---|
| Pure Spin-off | Parent ownership drops to 0%; independent firm | Complete separation of unrelated business units |
| Equity Carve-out | Parent retains controlling stake (e.g. 70% - 80%) | Unlocks market valuation while retaining control |