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Corporate Restructuring in India: A Case Study of Reliance Industries Limited (RIL)

Deepika Dhingra[1] and Nishi Aggarwal[2]

[1]Research Scholar, Faculty of Management Studies, Delhi University, New Delhi.
[2]Assistant Professor, Jagannath Institute of Management Sciences, New Delhi.

Abstract

Growth is what every enterprise strives for as 'survival of fittest' applies as much to entrepreneurs as to others in life. A competitor needs to be an overachiever in every sense of the word. Hence, unprecedented growth has become unavoidable in the wide range of industrial operations.

Keywords: Restructuring, Merger, Acquisition, Demerger.

1. Introduction

It is a well known fact that the way to growth is either through Greenfield expansions leading to organic growth in one's own unit, or brownfield expansions leading to inorganic growth. Since the world is moving at a rapid pace and corporate are in a hurry to expand, restructuring through inorganic growth is an ideal medium. Corporate restructuring is the name of the game all over the globe. Indian companies too, have learnt that this is a faster mechanism of intensification. Restructuring through Amalgamations and acquisitions, if suitably chosen and implemented, can permit a organization to leapfrog into a novel orbit of markets, customers, products and technologies almost overnight. On the other hand, it may well take more than a few years of strive to get into that trajectory if a company is stuck to crude style of expansion alone. Inorganic growth, for this cause is the popular alternative. Restructuring through M&As all over the world have, therefore, been used quite significantly.

The Indian business environment has altered radically since 1991 with the changes in the economic policies and introduction of new institutional mechanism. The Indian corporate world, while befitting from decontrol, and deregulation, has now begun to feel the effect of these changes. Those most affected are the promoters who are today threatened by the possibility of hostile takeovers. At the same time, financial

institutions, which have a significant stake in many companies, have started demanding better corporate governance.

Changes in the business environment ensuing from liberalization and globalization have contributed to dynamism in the Indian economy. The new environment poses challenges to the methods of operations practiced under the controlled economy . These challenges have compiled Indian business to rethink the ways in which they previously operated. With growth becoming central to the new economic environment, mergers and acquisitions are gaining acceptance as a mode of growth in India. This new environment demands more stringently, than the controlled economy did, that the business either perish or restructure through amalgamations and takeovers.

As a result , Indian companies have been steadily restructuring themselves through amalgamations, divestitures, Leveraged buyouts (LBO's), sell-offs, spin-offs etc., especially, post liberalization. The corporate world today is witnessing a sudden surge of M&As sweeping across all the industries, which has totally restructured the Indian corporate environment. This paper tries to Study and Analyze Corporate Restructuring with reference to Reliance Industries Limited (RIL), India.

Introduction

Restructuring is the corporate management term for the act of rearranging the legal, ownership, operational, or other structures of a organization for the rationale of making it more beneficial, or better structured for its current needs. Other reasons for restructuring include a change of ownership or ownership structure, demerger, or a response to a crisis or chief alteration in the business such as insolvency, repositioning, or buyout. Restructuring may also be described as corporate restructuring, debt restructuring and financial restructuring.

Rising competition, breakthrough technological and other changes, rising stock market volatility, major corporate accounting aspects have increased the responsibility to managers in order to deliver superior performance and enhance market value to shareholders. The organizations which not succeed to deal with the above effectively may lose their independence, if not face destruction. Rising competition, swift advances in technology, more demanding shareholders and increasing difficulty of the business conditions have increased the burden on managers to deliver superior performance and value for their shareholders. Corporate restructuring helps companies deal with poor performance, adopt new strategic opportunities, and achieve credibility in the capital market. It can also have a enormous impact on a company's market value, often in terms of billions of dollars. But how does a corporate restructuring actually get done? How do the related bankruptcies, mergers and acquisitions, spin-offs, and buyouts affect creditors, shareholders, and employees? What are the options, issues, trade-offs, and conflicts?

All through the past decade, corporate restructuring has increasingly become a staple of business and a common occurrence around the world. Unprecedented number of companies across the world have reorganized their divisions, restructured their assets and updated their operations in a bid to stimulate the company's performance. It has facilitated copious organizations to react rapidly and more effectively to new opportunities and unanticipated pressures.

2. Review of Literature

Laura Horn (2012) have emphasized on the essentially political nature of corporate governance regulation and argues that the transformation of corporate governance regulation is part of a broader political project of economic restructuring and market-making in the European Union and illustrated that how company law has become increasingly focused on the rights of shareholders, while worker rights have been relegated to the area of social policies and labor law. Desai; Klock; & Mansi (2011) have observed the role played by the parent's intention in undertaking a carve-out and found that the post-IPO parent ownership considerably influence the acquisition possibility and the level of acquisition premium. Zahid & Shah (2011) have stated that businesses from developing countries have started to buy out businesses of developed countries as their economies are doing better compared to the developed world due to low cost of production. Indian and Chinese businessmen are the most aggressive compared to rest in this regard. Owolabi & Dada (2011) has examined the role, nature, composition, objectives and functions of an effective audit committee in achieving reliable corporate governance and suggested that the recent business and governance failures demonstrated that a great step in corporate governance restructuring is a must.

3. Objectives of the Study

- To Study the diverse issues associated to the procedure of Corporate Restructuring.
- To comprehend the general framework of Corporate Restructuring and reformation.
- To analyze how Corporate Restructuring can be used as a tool of Competitive Advantage.
- To Study and Analyze Corporate Restructuring with reference to Reliance Industries Limited (RIL), India.

Corporate Restructuring

A bonus for Competitive Advantage Crum and Goldberg define restructuring of a company as "a set of discrete significant measures taken in order to boost the com-petitiveness of the enterprise and thereby to augment its value." It generally includes a array of company actions, from selling business lines to attaining new busi-ness lines, from rationalizing workforces to stock repurchase to debt elimination.

Conceptual Scaffold for corporate restructuring and reorganisation consists of the following:

1) Management of Assets.
2) Constructing new Ownership Relationships.
3) Reorganising financial claims.
4) Corporate Strategies.

It has facilitated several organizations to react swiftly and more efficiently to novel opportunities and unanticipated pressures so as to re-establish their competitive advantage. The suppliers, customers and competitors also have an equally insightful

impact while working with a reorganised company. In India, corporate houses have recently witnessed an increase of restructuring in different organizations. The main reasons for the sudden thrust to restructure in India are as follows:

a. Implementing strict MRTP provisions and new government policy of relicensing.
b. Fierce competition is an-other key element for giving rise to corporate restructuring.
c. Increasing pressure on margins have necessitated higher volume of business, ensuing mergers and acquisitions or the grand concentration of strategy has led to demergers of non profitable businesses.
d. All round resource optimization in active businesses to reorganize functioning profit and to stay fit in competition.

However, some organizations have done their restructuring through acquisition and mergers and some through demergers.

Corporate restructuring is carried out through changes in corporate structure and optimization of resources including financial restructuring. When the market prices of shares are rising, the organizations like to use their equity to takeover other companies. In this modern "winners take all" economy, organizations have to take a timely responsive action to save their organizations. At this point of time, company executives may ask whether it is time to restructure the company. However, before considering any action, they must first answer the questions: "Will restructuring work?" and "When does restructuring improve economic performance?

A company's financial stipulation could be weakened for a diversity of reasons. When the result does not tag on plans, the fiscal condition shrinks the settlement borrowing ability, which may stop the implementation of potential expansion plans. In such circumstances, an apt financial structure is crucial for sustenance of business. The corporate should try to achieve optimal capital structure in line with the earning capacity of the enterprise. There should be a proper debt –equity mix, that is, debt suited for the company with respect to its cash flows. Financial restructuring enables the company to achieve an optimal capital structure. It helps in maintaining cash flow, thus enabling the company to focus on new business plans. Financial restructuring entails restructuring the assets and liabilities of corporations, in line with their cash flow needs, in order to promote efficiency, support growth, and maximize the value to shareholders, creditors and other stakeholders.

A number of companies in India have agreed for financial restructuring in order to create value for the shareholders. The outstanding among those who are going for financial restructuring are unquestionably those companies, which have tall wealth investments and are more affected by the global depression. Corporate are reorganizing their capital arrangement and retiring debt for lessening the growing interest commitments and unleashing the value for shareholders. In majority of the cases the practice of financial restructuring has been executed through Mergers, Takeovers/ Acquisitions etc.

The Indian businesses environment has altered radically since 1991 with the changes in the economic policies and introduction of new institutional mechanisms. A series of reforms such as the formulation of the Takeover Code, simplification of the

laws on Mergers and Amalgamations and the toning down of the MRTP Act, all set off a series of restructuring efforts among companies. The liberalization of foreign investment norms and the entry of foreign players into India through a Joint venture or direct investment added the spice in the restructuring. Multinationals who were in search of an excellent sourcing zone for the Asian countries suddenly found a heaven with the opening of the economy. In an attempt to adjust to the new global environment that the corporate are exposed to, they speeded up the restructuring activity as they rightfully identified the need for such a move.

The restructuring exercise in India can be viewed as an attempt to keep pace with the global restructuring. The Indian Corporate world today is witnessing a sudden surge of Mergers and Acquisitions (M&As) sweeping across all the industries, which has totally restructured the market place. This surge in Mergers and Acquisitions is remodeling the corporate situation today at dizzying speed, spawning surprise pairings, recorded prices and mammoth sizes. This trend is poles apart from the earlier scenario wherein the Mergers and Acquisitions were looked upon as threat and had evoked images of dark shadows and backdoor entries to the corporate world. However, today managers have recognized Amalgamations and Takeovers as powerful weapons in their arsenal and they have become an integral component in the strategic initiatives of a well managed business.

With growth becoming central to the new economic environment, M&As are gaining increasing acceptance as a mode of inorganic growth. This section gives a definition of Mergers, acquisitions and Corporate Restructuring.

Merger

Merger is said to occur when two or more companies are united into one company ,where one survives and the other lose its corporate being. The survivor attains the assets as well as liabilities of the merged company or companies. Merger is also the synthesis of two or more existing companies(also known as amalgamation).All assets, liabilities and stock of one company stand reassigned to the transferee company in deliberation of payment in the form of equity shares of transferee company or debentures or cash or a mix of the two or three modes.

Acquisition

An acquisition takes place when one company purchases another company or a part of it. The company completely buys out another company and the former company remains. Examples include: - investment firm buys all the stock of a public company (Blackstone Group buys Harrah's Entertainment)

The distinction between an acquisition (takeover) and a merger is that in a takeover, the direct or indirect control over assets of the acquired company passes to the acquirer, whereas in a merger, the shareholding in the combined enterprise will spread between the shareholders of the two companies. Often the distinction is a question of degree, and bases on the relative sizes of the two companies.

Demerger

A business strategy in which a single business is broken into components, either to operate on their own, to be sold or to be dissolved. A de-merger allows a large

company, such as a conglomerate, to split off its various brands to invite or prevent an acquisition, to raise capital by selling off components that are no longer part of the business's core product line, or to create separate legal entities to handle different operations.

Restructuring

A considerable alteration made to the debt, operations or arrangement of a company. This kind of business action is usually made when there are significant troubles in a organization , which are causing some form of financial damage and putting the overall business in danger. The hope is that through restructuring, an organization can reduce financial harm and improve the business.

Restructuring of Reliance Industries Limited (RIL) Background

In the current scenario restructuring has become the need of the hour for any organization to survive. However, this paper has tried to study the corporate restructuring of one Indian company which immensely enhanced the shareholders' market value and fortified their aggressive edge in recent times i.e Reliance Industries Limited (RIL).For example, the acquisition, merger, and demerger of Reliance Industries Ltd. like their acquisition of IPCL mergers of Reliance Petrochemicals Ltd., and the recent demergers of four entities like Reliance Communication Ventures Ltd., Reliance Energy Ventures Ltd., Re-liance Natural Resources Ventures Ltd., and Reliance Capital Ventures Ltd. which spun off from Reliance Industries Ltd. (RIL), and were perhaps the most well-known restructurings in current times. RIL forayed into the telecom sector in the year 2000. The company also applied for open offers to take control of BSES stocks and took over BSES in 2002. It also intended to combine its finance company with another subsidiary Reliance Petrochemicals Ltd. (RPL). In March 2002, RPL amalgamated with RIL. RIL also bagged a 25 percent share of IPCL in the same year. After the RIL patriarch Dhirubai Ambani passed away ,RIL branched out further into the areas of biotech, life sciences, mining, and insurance.

4. Division of Reliance

RIL split in June 2005 due to issues between the two successors. The RIL struggle was not only a conflict of titans, but it was also about wealth in the area of Rs.1000 billion which was not uncomplicated to distribute. On January 17 th 2006, a unique trading and investment era was over. The demerger permitted by RIL board in August 2005, both brothers, Mukesh and Anil–directed different businesses and five listed companies emerged as potential investment opportunities for investors by March 2006. Among the group companies of RIL, Reliance Energy and Reliance Capital, were already listed at the exchanges. The remaining four companies were listed by the end of March 2006.

5. Current Structure

The new RIL structure gave Mukesh absolute independent control in the business of oil exploration, refining, petrochemicals, and textile businesses through a standalone entity in RIL along with IPCL. His shares also included biotech firm Reliance Life Sciences and Trevira, a company in Europe which manufactures polyester fibers. Anil got control over power, communication, and financial businesses through four companies which came under Anil Dhirubhai Ambani Enterprise (ADAE) as part of the Reliance group. These four com-panies were named as Reliance Capital Ventures Ltd. (pro-posed to be merged with another listed company Reliance Capital Ltd.), Reliance Energy Ventures Ltd. (proposed to be merged with existing company Reliance Energy Ltd.), Reliance Communication Ventures Ltd.(these include both Reliance Infocomm and Reliance Telecom) and Reliance Natural Resources Ltd. (which includes businesses in gas based energy undertakings).

6. Impact of the Demerger

Share prices of the listed five companies were cited differently at the Bombay Stock Exchange and National Stock Exchange after the Demerger. Before the split, RIL's share was traded around Rs 978 per share, but after the demerger the united demerged share values of five companies came to around Rs. 1235. This was a increase of nearly 26 percent for each shareholder. Long term aspect of the demerger sill needs to studied.

7. Suggestions

Corporate restructuring in a developing country like India is one of the most demanding tasks faced by fiscal policymakers. Measures that will assist to assuage the issues related to Corporate Restructuring in India are listed below:

- The central organization of India with intimidating political milieu makes it unavoidable for the government and management to guide in creating restructuring precedence, discussing market collapse, changes in the legal and tax systems particularly in the come round of financial crisis when business agony is all-encompassing.
- A encouraging legal, regulatory, and accounting background is to be formed for victorious corporate restructuring. Significant legal aspects of reorganization embrace foreclosure principles, foreign investment rules and Mergers and Acquisition policies.
- Restructuring should be based on a holistic and transparent strategy encompassing corporate and financial restructuring.
- Effective measures should be taken rapidly to offset the social costs of crisis and reformation. Government should be equipped to take on a large role as almost immediately a crisis is reviewed to be systemic.

8. Conclusion

Corporate Restructuring has become very popular over the years especially during the last two decades owing to rapid changes that have taken place in the industry.Business firms now have to face greater than before opposition not only from Companies domestically but also from worldwide business groups, thanks to globalization, liberalization, technological updation , etc. The objective of Corporate Restructuring is Shareholder wealth maximization by in quest of growth in terms of synergy, economies of scale, enhanced financial and marketing benefits, diversification and concentrated earnings instability, superior inventory organization, boost in domestic market share and also to attain rapidly increasing global markets. But astoundingly, though the number and value of Corporate Restructuring are on the rise , the effects of the studies on the impact of mergers on the performance from the acquirers' shareholders viewpoint has not been very good .Thorough reformation scheduling as well as carrying out appropriate due diligence, effectual communication during the combination, unswerving and skilled leadership, speediness with which the integration plan is integrated all this overlay for the accomplishment of Corporate Restructuring. While making the Restructuring deals, it is essential not only to make examination of the monetary aspects of the acquiring company but also the cultural and manpower issues of both the concerns for suitable post-acquisition integration.

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