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VALUE CREATION THROUGH CORPORATE RESTRUCTURING WITH REFERENCE TO INDIAN COMPANIES

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ABSTRACT
Indian companies is under presure as the servival of the fittest becomes the reality. The indian corporate world are hard pressed to restructure thier business. It is time now for indian companies to wake up from its prolonged slumber. Indian corpoirate world has witnessed major changes in the last decade. Lot of thans to govt's policy of LPG (Liberalisation, Privatisation and Globalisation) of the Indian economy. The never before visualised dream of growing big into the competative globle markets slowly, but surely materialising with the reforms, restructuring become imperative for the indian companies. Many big business houses and family run business are moving towardds restructuring and increasing thier valueof the firm and competitiveness

KEYWORDS: Corporate restructuring, merger & acquisitions,

INTRODUCTION

Restructuring action taken to expand or conduct a firm's basic operation or fundamentally changes its assets or financial structure. It may involve taking the company private. Selling attractive assets, undertaking a major acquisition or even liquidating the company. Starting with the opening of he economy the much needed impetus was provided in 1998, which was rightly described as the year of restructuring. Throughtout that year most of the companies went ahaed will mergers, acquisitions is, sell offs and spin off. As many as 60 merger deals were tabled in the year mostly involving companies in the same promoter groups. Corporate indian has been steadily restrcturing it self through merger, acquisitions, divestitures, and other means as it repositions itself in the post liberalization environment.

Meaning of Restructuring

"The word structure used in an economic context implies a specific, stable relationship among the key elements of a particular function or process. To restructure means the (hopefully) purposeful process of changing the structure of an institution (a company, an industry, a market, a country, the world economy, etc.) [Sander et al., 1996, p.1]." This structure defines the constraints under which institutions function in their day-to-day operations and their pursuit of better economic performance. Restructuring can therefore be interpreted as the attempt to change the structure of an institution in order to relax some or all of the short-run constraints. Restructuring is concerned with changing structures in pursuit of a long run strategy. Crum & Goldberg [1998, p.340] define restructuring of a company as "a set of discrete decisive measures taken in order to increase the competitiveness of the enterprise and thereby to enhance its value". In this study, we define restructuring as a change in the operational structures, investment structures, financing structures and governance structure of a company.

Approach to Corporate Restructuring

corporate restructuring activities are broad range from reorganizing business units from product lines to divisions to takeover or joint ventures. corporate restructuring significant re-orientation or realignment of the investments (assets) and financing (liabilities) structure of a company throgh management actions with a view to drastically alter the quality and quantum of its future cash flow streams. Corporate action as merger, acquisitions, divestitures, demergers(spin-offs) debt equity changes, equity curveouts(J.F.Weston, Chang and Hong-1990).

Actions taken to expand or contract a firm's basic operations or fundamentally changes its asset or financial structure. Activities are broad, range from reorganizing business units from product lines to divisions to takeovers or joint ventures etc. May involve taking the company private, selling attractive assets, undertaking a major acquisition, or even liquidating the company

Reasons for restructuring of business and models by the Indian corporate;

The following reasons are given bellow,

- Increasing competition both globally and domestically
- Improve the core competencies and building the company
- To cope up with the funds contraints or utilisation of excess funds
- Debt equity restructuring to reduce high interest obligations
- Its reduce time over run costs
- Decreasing economies of scale
- Growth and entry into new markets
- Automatic approval for in companies
- Corporate restructuring is help in corporate tax benefits
- Underutilisation of excess capacities

- Converting family dominated business into corporate entity
- To enhance shreholders value

Sources of value creation in corporate restructure

Sources of value creation in corporate restructure are given bellow

1. Review corporate financial structure from the shareholders point of view
2. Increase the efficiency and reduce the after tax cost of capital through judicious use of borrowing
3. Improve operating cash flow through focusing on wealth creating investment opportunities, profit improvement and overhead reduction programs and divestiture
4. Pursue finally-driven creation using various financing instruments and arrangements
5. Technological up gradation and reduction in employee related cost
6. Induction of professional managers

CORPORATE RESTRUCTURING WITH REFERENCE TO INDIAN COMPANIES

AN OVERVIEW OF INDIA'S BHARTI AIRTEL

India's Bharti Airtel has revealed that it will undertake a restructuring exercise under which it will merge three separate businesses which currently account for around 90% of the company's revenues, according to the Indian Economic Times. Airtel has said that it will merge its mobile, satellite TV and fixed line and broadband Telemedia units, with the corporate restructure being performed with a view to cutting costs and boosting efficiency at the telco in the wake of falling profits. The only unit not to be included in the merger plans is Airtel's enterprise arm, which serves corporate and SME customers and has responsibility for the company's undersea cable offerings. In response to queries regarding the possible impact on jobs at the company, with some estimates that as many as 2,000 positions could be at risk, Airtel said that the restructure would have a 'minimum impact on people'. It has been suggested that those employees potentially affected by the corporate reshuffle may be given the opportunity to move to one of the group's other departments or possibly one of its African units, with one unnamed Airtel employee cited as saying that staff may be given the option to move to 'similar functions within group companies that handle telecom infrastructure, agriculture, retail, value-added services as well as its mobile businesses in 16 African countries.

LARSEN AND TOUBRO LIMITED (L&T)

L&T was founded in Bombay (Mumbai) in 1938 by two Danish engineers, Henning Holck-Larsen and Soren Kristian Toubro. In December 1950, L&T became a Public Company with a paid-up capital of Rs.2million. It operates in various divisions like in electrical and electronics, engineering and construction projects, cement, power, machinery and industrial products, IT and engineering services, financial services, ship building, heavy engineering and railway projects. L&T is one of India's biggest and best known industrial organizations with a reputation for technological excellence, high quality of products and services, and strong customer orientation. In 2004, L&T used the process for restructuring some of its business divisions in order to concentrate more on infrastructure and turnkey business. The other reason for this step was to protect itself from a takeover bid by GIL a flagship company of Aditya Birla Group, from the year 2001. GIL was trying to take over control in L&T management by purchasing shares of L&T from the open market. L&T used a three step restructuring plan and the restructuring of L&T's cement division was approved. With the restructuring of the cement business, L&T needed to restructure the equity capital. The plan was to first (phase 1) spin off the cement business into a new company, UltraTech CemCo Ltd. (UCL), where it would held 20 per cent and the balance of 80 per cent would be held by existing shareholders of L&T. GIL would buy 8.5 percent of UCL from L&T @ Rs. 342.60 per share and make an open offer to other shareholders of another 30 percent at the same price during second phase while in the last phase of this process, L&T Employee Welfare Foundation would acquire the GILs 15.3 percent stake in the residual engineering company.

Restructuring Process at L&T: Date Process of Strategic Changes

Date	Name of the company
15 01.2000	L & T to restructure, gain focus
13.11.2001	Low demand pulls cement prices down
20.11.2001	Grasim stake stalls L & T de-merger
04.01.2002	Financial Institutions meet on Grasim
14.10.2002	Grasim to buy 20% more stake in L&T
30.11 2002	SAT ruling on Grasim open offer a victory
01.04.2003	Grasim's revised open offer for L&T
03.05.2003	Grasim's revises timeline of open offer
18 06.2003	Grasim signs deal to buy L & Ts de-merged cement business
07.07.2004	L &T hands over Ultra Tech Management

Source: Nag and Pathak (2009)

Two important issues in this restructuring were; i) to protect the interests of both existing and former employees. L&T Employees Welfare Foundation was given a stake in the company; and ii) how shareholders at large also could benefit from this restructuring

RELIANCE INDUSTRIES LIMITED (RIL)

In 1958, Shri Dhirubhai Ambani set up a trading company to export spices to Yemen. It was then called Reliance Commercial Corporation. Reliance was one of the first Indian companies to go public in 1977. On 27th June 1985, the name of the company was changed, from Reliance Textile Industries Ltd. To Reliance Industries Ltd. It diversified its business area into telecommunication, power, finance, and transportation. It merged its finance company with another subsidiary Reliance Petrochemicals Ltd. (RPL). RIL diversified further into the areas of biotech, life sciences, mining, and insurance. Mukesh Ambani, elder son of Dhirubhai Ambani, was elected as chairman of RIL on July 31st 2002. Due to differences between two brothers, RIL split in June 2005. The fight was due to the clash of egos between the brothers, sharing the money and power in running such an empire. This causes restructuring in the RIL. In the new structure, Mukesh had been given complete control in the oil exploration, refining, petrochemicals, and textile businesses through a standalone entity in RIL along with IPCL. He got also shares in biotech firm Reliance Life Sciences and Trevira, a company in Europe which manufactures polyester fibers. Whereas Anil got control over financial businesses power, communication, and through four other companies (Reliance Capital Ventures Ltd., Reliance Energy Ventures Ltd, Reliance Communication Ventures Ltd. and Reliance Natural Resources Ltd.) which came under Anil Dhirubhai Ambani Enterprise (ADAE) as part of the Reliance group. This restructuring causes a jump of 26 per cent increase in share price for every shareholder.

Corporate restructuring is designed for enterprise property rights relations and other debt, assets, management, structure of the expanded enterprise restructuring, consolidation and integration process, as a whole and strategic business management to improve the situation, and strengthen competition in the market capacity, promote business innovation. Major corporate restructuring, including restructuring of property rights, debt restructuring, capital restructuring, asset restructuring, organizational restructuring, and, by the corporate restructuring will inevitably lead to the corresponding economic structure and industrial structure of the reorganization.

The benefits of corporate restructuring are the following aspects

1. The stock of assets through restructuring of existing enterprises can optimize the structural elements of various resources to accelerate business innovation, to enable enterprises to government agencies out of control and intervention, full the potential of enterprises and workers to play, and improving the productivity and competitiveness.
2. Maintain the sustainable development of enterprises. For enterprises to get greater efficiency and broader opportunities for further development.
3. The likelihood of corporate restructuring in itself means that a huge and direct economic benefit, property rights can change the existing unitary enterprise, the drawbacks of abstraction. Through the diversification of property rights and to implement specific business property rights, this could make many investors to participate in and view Note the survival of enterprises so that enterprises can better under new leadership change and development of market economy.
4. the restructuring of the Chinese enterprises have a more special meaning: for China's enterprises, in the past has been to separate government from enterprises for many years, but the government and enterprises has always been inseparable, the reason one does not seize the property that long-term key the second is not to find ways to solve the problem of enterprise property rights.
5. Corporate restructuring can provide an effective means to this end. Donors and businesses to achieve the separation of corporate ownership, thus contributing to separation of enterprise operational mechanism, to enable enterprises to get rid of dependence on the line of authority, a city of independent competitors.

Challenges for Restructuring

Though there are many drivers of restructuring and one can expect increase in the restructuring, there are certainly some challenges the corporations have to deal with:

1. Many external shocks such as political instability, higher oil prices and interest rates have potential to affect the dynamics of restructuring. For example the growth rates and access to capital can be affected which are catalysts for mergers and acquisitions.
2. The protectionism and nationalist attitude at times hurt the cross-border activity. Such environment needs to be anticipated and managed carefully in case of foreign entity entering a new market.
3. Lack of transparency or weak disclosure standards in certain Asian markets could lead to surprises that were not anticipated during due diligence.
4. The pace of regulatory change and, in some industries and markets, reversal of regulation is a risk that needs to be assessed and taken into account, as far as possible.

CONCLUSION

Corporate Restructuring creates value to the enterprises. Restructuring add more value through financial, organization and portfolio restructuring. Corporate restructuring benefited in the long run than in the short run. Major corporate restructuring, including restructuring of property rights, debt restructuring, capital restructuring, asset restructuring, organizational restructuring, and, by the corporate restructuring will inevitably lead to the corresponding economic structure and industrial structure of the reorganization.

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