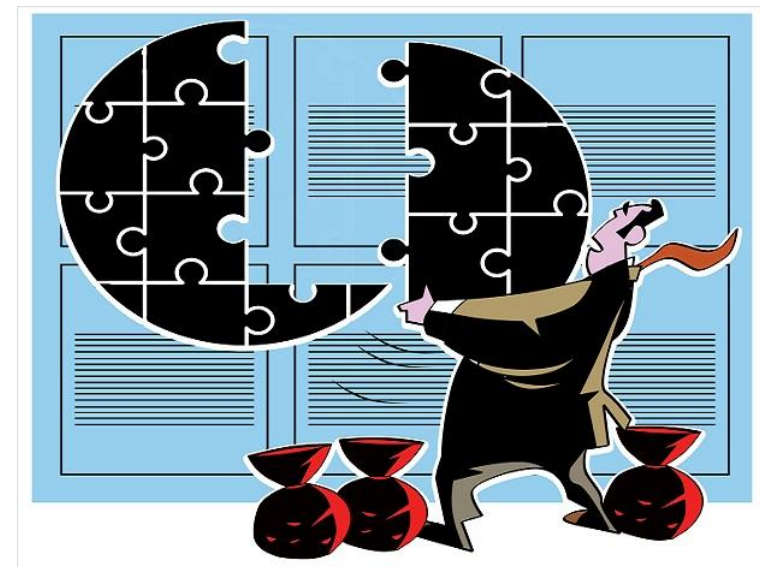


# Demergers fail to unlock value; shareholders' wealth hit post-restructuring

Promoter selling, weak fundamentals have weighed on share prices in recent cases

Jash Kriplani | Mumbai November 01, 2018 Last Updated at 18:09 IST



Representative Image

Demergers, which are expected to unlock shareholder value, have not worked in favour of shareholders if recent examples are to be considered.

A sample of six of the last seven demergers that came into effect since 2017 (based on record date), have proved to be value destructive for investors. Currently, the combined market capitalisation of the resultant entities is on an average 31 per cent down over their market value prior to the demerger.

In absolute terms, the overall hit on shareholders' wealth from these six demergers is around Rs 150 billion.

Weak fundamentals of the demerged entities and promoter selling after the demerger are factors that have pulled down the share prices of some of the restructured entities.

Bout of promoter selling has spooked investors in the case of Omkar Specialty Chemicals and Lasa Supergenerics. Data shows that the shareholders have been the worst hit from this demerger. The combined market cap of the two entities was down around 84 per cent from the pre-adjusted market cap of Omkar Specialty Chemicals. "Promoter selling normally creates fear, especially after a corporate event such as demerger. It gives a feeling that the promoter lacks confidence in the new structure. Don't know if the promoter had any compulsion to sell in this specific case," said G Chokkalingam, founder and Managing Director, Equinomics Research.

Experts added that for entities where the leverage is high, demergers have done little to improve sentiment. "Several of these demerged entities have poor fundamentals. Unless fundamentals improve, demergers won't alone help in restoring shareholder value," said Chokkalingam.

For instance, at the end of FY18, Sintex Industries had a standalone total debt of Rs 54 billion sitting on its books. The debt-to-equity ratio of the company stood at 1.15x.

Meanwhile, the consolidated debt on the books of the demerged Sintex Plastics Technology stood at Rs 38.7 billion, with debt-to-equity ratio of 1.18x, shows data from Capitaline.

Corporate governance experts say minority shareholders also need to be careful while approving such corporate proposals.

"Sometimes, promoters may use demergers to create complex structures, which would essentially help them consolidate their voting control in their companies," said Amit Tandon, founder and Managing Director of proxy advisory firm IiAS.

In some of the demerged companies, say experts, value creation could play out over a longer term.

"The stated objective of a demerger is usually to create a structure whereby managements can give sharper focus to their different businesses. One should look at these businesses' operating performance couple of years from the demerger," said Pankaj Murarka, founder of Renaissance Investment Managers.

Shareholder value has been considerably hit in the case of Talwalkar Better Value Fitness and Talwalkar Lifestyle, which was demerged recently in March. The combined market cap of the entities is 32 per cent below the pre-adjusted market cap of Talwalkar Better Value Fitness.

Among other prominent names, the combined market cap of Aditya Birla Capital and Grasim Industries is 12 per cent below the pre-adjusted market cap of Grasim Industries. The demerger came into effect in July 2017.

## Waiting for value to emerge

Change in combined market capitalisation from pre-adjusted m-cap (%)

Bar Chart  
Infogram