Corporate Restructuring, Mergers & Acquisitions

Introduction

Corporate Restructuring is the process of redesigning one or more aspects of a company. The process of reorganizing a company may be implemented due to a number of different factors, such as positioning the company to be more competitive, surviving a currently adverse economic climate, or acting on the self-confidence of the corporation to move in an entirely new direction. Before restructuring there must be an existing structure which may have many limitations/ restrictions such as finance, legal, business and management which are to be kept in mind before restructuring. In other words, restructuring could be considered as making alterations to some extent to the existing structure.

Corporate Restructuring may have a single objective or multiple objectives; amongst them, there must be a dominant objective in addition to other important objectives for a successful corporate restructuring.

Hence, Corporate Restructuring is a comprehensive process by which a company can consolidate its business operations and strengthen its position for achieving its short-term and long-term corporate objectives. Corporate Restructuring is vital for the survival of a company in a competitive environment.

Process for Corporate Restructuring

While looking at the concept of Corporate restructuring, there is process to make it successful in achieving its stated objectives. For that a company must understand the objectives which are to be achieved and put forward the options or their opinions to achieve them. On selecting the appropriate option, a company can execute the same.

Objectives of Corporate Restructuring:

• Growth
• Technology
• Government policy
• To reduce dependency on others
• Economic stability

Needs of Corporate Restructuring:

1) To expand the business or operations of the company.
2) To carry on the business of the company more economically or more efficiently
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3) To focus on its core strength
4) Cost Reduction, by deriving the benefits of economies of scale.
5) To obtain tax advantages by merging a loss-making company with a profit-making company.
6) To have access to better technology.
7) To improve the debt-equity ratio.
8) To have a better market share.
9) To overcome significant problems in a company.
10) To become globally competitive.
11) To eliminate competition between the companies.
12) To ct in the public interest (by the Central Government in exercise of the powers conferred by section 396).

Corporate Restructuring Tools:

In India, the concept has caught on like wildfire, with a merger or two reported frequently. The process of restructuring through mergers and amalgamations has been a regular feature in the developed and free economy nations like USA and European countries, more particularly in the UK, where hundreds of mergers take place every year. There are many tools and strategies by which or through which Corporate Restructuring can be processed such as amalgamations, mergers, demergers, reverse mergers, takeovers, acquisitions, joint ventures, disinvestments, buyback of shares etc.

- ***By Amalgamation*:**
  It is the process of combining or uniting multiple entities into one form. The term amalgamation is not defined under the Companies' Act, 1956. Generally speaking, amalgamation is a legal process by which two or more companies are joined together to form a new entity or one or more companies are to be absorbed or blended with another. As a consequence, the amalgamating company loses its existence and its shareholder become the shareholder of the new or amalgamated company

- ***By Reverse Merger*:**
  It is when a private company purchases control of a public company and then carries out a merger with a private company. With a reverse merger, the private company shareholders receive most of the shares of the public company and control of the Board. A reverse merger is a quick way of going public with the time-table being only a couple of weeks. The reason a reverse merger is so quick is that the public company has already completed all the necessary paper-work and reviews in order to become public.

- ***By Normal merger*:**
  Merger is an arrangement whereby the assets of two or more companies become vested in or under the control of one company, which may or may not be one of the original two companies, which has as its shareholders, all or substantially all, the shareholders of the two companies.

- ***By Demerger*:**
  The act of splitting off a part of an existing company to become a new company, which operates completely separately from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company. A demerger is often done to help each of the segments operate more smoothly, as they can now focus on a more specific task.

- ***By Take-over*:**
  It is the purchase of one company by another. The term refers to the acquisition of a public company whose shares are listed on the Stock Exchange, in contrast to the acquisition of a private company.

- ***By Joint Venture*:**
  Two parties, (individuals or companies), incorporate a company in India. The business of one party is transferred to the company and, as a consideration for such a transfer; shares are issued by the company and subscribed by that party. The other party subscribes to the shares in cash. The parties subscribe to the shares of the joint-venture company in agreed proportion, in cash, and start a new business.

- ***By Disinvestment*:**
  It means to sell off certain assets, such as a manufacturing plant, a division or subsidiary, or product line.

- ***By Buyback*:**
  The repurchase of outstanding shares by a company, in order to reduce the number of shares on the market. Companies will buy back shares either to increase the value of shares still available or to eliminate any threats by shareholders who may be looking for controlling powers. In other words, Buyback is the reverse of issue of shares by a company where it offers to take back its shares owned by the investors at a specified price; this offer can be binding or optional to the investors.

Reduction of entities

- By striking off of the name from the Register of Companies.
- By dissolution without winding up.
- By mergers or absorptions.

Conclusion:

The restructuring usually takes place when a business is struggling and losing money. A third party will be brought in to assess the way that the business is being run, and then make recommendations based on what they found that will help make the business run more efficiently. A strong corporate restructuring firm will have experts in a wide variety of areas that can examine all aspects of a business to help find solutions. A good corporate restructuring firm will not just identify problems of where money is being lost, but also offer solutions that a company can implement in order to solve those problems. They will also help a company through the process of restructuring by developing forecasts of what to expect and making sure the company is able to secure the capital available to make those changes. Corporate restructuring can help restore, preserve and enhance the value of an organisation.