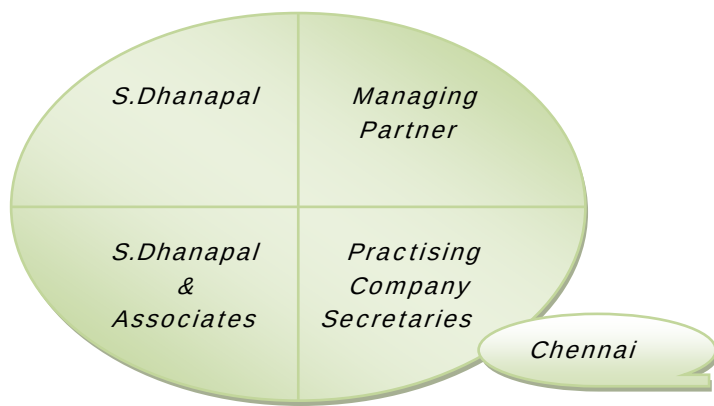


**DIFFERENT
DIMENSIONS
OF MERGERS
AND
DEMERGERS**





SECTION 1 – INTRODUCTION

The term ‘Amalgamation’ or ‘Merger’ or ‘De-merger’ is not defined in the Companies Act, 1956. Chapter V of Part VI of Companies Act comprising sections 390 to 396A contain provisions regarding Compromises, Arrangement and Reconstructions.

In simple terms, a **Merger or Amalgamation** is an arrangement whereby the assets of two or more companies become vested in one company (which may or may not be one of the original two companies). It is a legal process by which two or more companies are joined together to form a new entity or one or more companies are absorbed by another company and as a consequence the amalgamating company loses its existence and its shareholders become the shareholders of the new or amalgamated company.

De-merger is an arrangement whereby some part /undertaking of one company is transferred to another company which operates completely separate from the original company. Shareholders of the original company are usually given an equivalent stake of ownership in the new company.

De-merger is undertaken basically for two reasons. The first as an exercise in corporate restructuring and the second is to give effect to kind of family partitions in case of family owned enterprises. A de-merger is also done to help each of the segments operate more smoothly, as they can now focus on a more specific task.

Examples of Mergers & Demergers:

1. Maruti Motors operating in India and Suzuki based in Japan amalgamated to form a new company called Maruti Suzuki (India) Limited
2. DCM Ltd. demerged into DCM Ltd., DCM Shriram Industries Ltd., DCM Engineering Industries Ltd., and Rath Foods Ltd.

SECTION 2 – UNDERSTANDING SOME IMPORTANT CONCEPTS

I. AMALGAMATION/MERGER –

Accounting Standard 14 defines amalgamation as –

“Amalgamation means an amalgamation pursuant to the provisions of Companies Act, 1956 or any other statute which may be applicable to companies”.

AS 14 provides for two types of amalgamation – “Amalgamation in the nature” of merger and “Amalgamation in the nature of purchase”. **Amalgamation in the nature of merger** is an amalgamation which satisfies all the following conditions.

- (i) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(ii) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(iii) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(iv) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(v) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

Amalgamation in the nature of purchase is an amalgamation which does not satisfy any one or more of the conditions specified in sub-paragraph (e) above.

According to Income Tax Act amalgamation means:

"amalgamation", in relation to companies, means the merger of one or more companies with another company or the merger of two or more companies to form one company (the company or companies which so merge being referred to as the amalgamating company or companies and the company with which they merge or which is formed as a result of the merger, as the amalgamated company) in such a manner that –

(i) all the property of the amalgamating company or companies immediately before the amalgamation becomes the property of the amalgamated company by virtue of the amalgamation ;

(ii) all the liabilities of the amalgamating company or companies immediately before the amalgamation become the liabilities of the amalgamated company by virtue of the amalgamation;

(iii) shareholders holding not less than three-fourths in value of the shares in the amalgamating company or companies (other than shares already held therein immediately before the amalgamation by, or by a nominee for, the amalgamated company or its subsidiary) become shareholders of the amalgamated company by virtue of the amalgamation.

II. DEMERGER

Section 2(19AA) of the Income Tax Act, 1961 added by the Finance Act, 1999 provides that “demerger” in relation to companies, means the transfer, pursuant to a scheme of arrangement under sections 391 to 394 of the Companies Act, 1956 (1 of 1956), by a demerged company of its one or more undertakings to any resulting company in such a manner that—

- (i) all the property of the undertaking, being transferred by the demerged company, immediately before the demerger, becomes the property of the resulting company by virtue of the demerger;
- (ii) all the liabilities relatable to the undertaking, being transferred by the demerged company, immediately before the demerger, become the liabilities of the resulting company by virtue of the demerger;
- (iii) the property and the liabilities of the undertaking or undertakings being transferred by the demerged company are transferred at values appearing in its books of account immediately before the demerger;
- (iv) the resulting company issues, in consideration of the demerger, its shares to the shareholders of the demerged company on a proportionate basis;
- (v) the shareholders holding not less than three-fourths in value of the shares in the demerged company (other than shares already held therein immediately before the demerger, or by a nominee for, the resulting company or, its subsidiary) become share-holders of the resulting company or companies by virtue of the demerger, otherwise than as a result of the acquisition of the property or assets of the demerged company or any undertaking thereof by the resulting company;
- (vi) the transfer of the undertaking is on a going concern basis;
- (vii) the demerger is in accordance with the conditions, if any, notified under sub-section (5) of section 72A by the Central Government in this behalf.

In cases of demergers where only one of the many undertakings or part of an undertaking is transferred as an exercise in corporate restructuring, the transferor company would continue to exist to carry on its other businesses. However in case where all the undertakings of a business are transferred to different transferee companies, there is no need for the transferor company to exist and therefore it can be dissolved without winding up.

III. STAMP DUTY

Stamp duty is a state subject and the states in India are empowered by the Constitution to frame their own laws for imposing tax in the nature of stamp duty. Indian Stamp Act, 1862 (the "ISA") is the mother law under which states have framed their own stamp laws with amendments. Almost all states except States of Tamilnadu, Assam and other eastern States have adopted the ISA with suitable amendments for stamp duty. The States of Tamilnadu, Assam and North Eastern States have suitably amended rates of ISA wherever they thought it necessary. States of Kerala, Karnataka, Gujarat and Maharashtra have made their own Acts with separate schedules and rates for various instruments.

The core issue is whether stamp duty is payable in respect of assets transferred by transferor companies to transferee companies through amalgamations that are sanctioned by various High Courts

Government of India issued a notification dated in the year 1937 which exempted the payment of stamp duty on instrument evidencing transfer of property between companies, which are more or less under the same ownership. The companies wishing to obtain relief from stamp duty must satisfy the authorities that the deal sought to be exempted evidences the transfer of properties between the two companies, one of which is the beneficial owner of at least 90% of the issued share capital of the other or if the transfer takes place between parent and its subsidiary. Provided in this case a **certificate** is obtained by the parties from the officer appointed in this behalf by the local Government concerned that the conditions prescribed in the notification are fulfilled.

In order to examine whether an amalgamation order would attract Stamp Duty, States can be divided into

- States who have adopted Indian Stamp Act, 1899, and
- Other States who have not issued any notification either to give concession or exemption from levy of stamp duty under their respective enactments as done by State of Tamilnadu.

Earlier Legal Position on Levy of Stamp Duty on Amalgamation

The issue /argument of applicability of stamp duty on the High Court's order approving /sanctioning the Scheme of Arrangement /Scheme of Amalgamation under Section 391 /Section 394 of the Companies Act 1956 had always been under intense debate in States other than those States such as Maharashtra, Gujarat, Karnataka, Rajasthan, Chhattisgarh, Madhya Pradesh and Andhra Pradesh, i.e. States which have already amended their stamp duty laws to include court order approving a Scheme of Amalgamation under Section 394 of the Companies Act in the definition of 'Conveyance' as those days Companies in India were taking lenient position that court orders approving amalgamations are not 'conveyance' under the definition of stamp duty law.

Hence, it has always been a matter of argument that stamp duty is not payable on Scheme of Arrangement /Scheme of Amalgamation sanctioned under Section 391 /Section 394 of the Companies Act 1956. Subsequently, some corporate have taken the view that stamp duty is payable only in States that have made a specific amendment to include court order in their stamp duty laws as above States have amended their stamp duty laws specifically to include court order (approving amalgamations) under the definition of 'conveyance'.

Till date we were witnessing similar debate in the State of Tamil Nadu for Schemes of Arrangement/Amalgamation which have been approved by the Honourable High Court, Madras, Tamil Nadu as State of Tamil Nadu has not made any amendments to its stamp duty laws to include court orders in amalgamation cases within the definition of 'conveyance'.

Current Legal Position on Levy of Stamp Duty on Amalgamation in TamilNadu

Now this debate shall come to an end in the State of Tamil Nadu with the introduction by Government of Tamil Nadu, a new amendment to include Court order approving a Scheme of Amalgamation under Section 394 of the Act in the definition of 'Conveyance' and as a result of which stamp duty shall be levied on the Scheme of Amalgamation under Section 394 of the Act that are approved by the Honourable High Court in Tamil Nadu.

Therefore Mergers and Restructuring of companies in Tamil Nadu is henceforth expected to attract Stamp Duty with the State Government of Tamil Nadu introducing an amendment to such an effect.

Such amendment namely Indian Stamp (Tamil Nadu Second Amendment) Act, 2012, was introduced in the Assembly on May 3, 2012 which provides for levy of Stamp Duty on transfer of properties as a part of Amalgamation or Reconstruction of Companies.

This applies to such transfers through High Court order under Section 394 of the Companies Act, 1956, or the order of the Reserve Bank of India under Section 44A of the Banking Regulation Act, 1949, in the case of banking companies.

They will be subject to a **Stamp Duty of 2 per cent of the market value** of the immovable property of the transferor company or **0.6 per cent of the aggregate market value of the shares** or other marketable securities issued as a part of the transaction, whichever is higher.

The Indian Stamp (Tamil Nadu Second Amendment) Act, 2012 is yet to be made public. As on date, this is the legal position with respect to levy of stamp duty on Amalgamation.

IV. APPOINTED DATE AND EFFECTIVE DATE

The 'Appointed Date' connotes the date of amalgamation i.e. the date from which the undertaking including assets and liabilities of the transferor company vest in transferee company. The 'Effective Date' signifies the completion of all the formalities of merger.

V. COMPANY/TRANSFEROR COMPANY/TRANSFeree COMPANY

As per Section 390 of the Companies Act, the expression '**company**' means **any company liable to be wound up under the Act**. The said definition is only for the purposes of Section 391 and 393 of the Act.

The definition of the term "company" as defined above has to be understood from two different perspectives – one in the context of a Compromise and another in relation to an arrangement not being in the nature of a compromise.

The term 'compromise' presupposes a dispute and hence in such cases the involved companies should be deemed to be in some kind of financial embarrassment. For other Schemes of Arrangement, the Company concerned need not necessarily be in financial difficulties.

Initially it was interpreted that the phrase "liable to be wound up under the Act" refers to only financially strained companies which are on the brink of winding up. (**Seksaria Cotton Mills Ltd. vs A.E. Naik And Ors. on 15 March, 1965**). However, over time, the interpretation has changed and in various cases it has been held that the

expression includes all types of companies whether financially sick or sound, provided they can be wound up under the Companies Act. **(Rossell Industries Ltd. and another)**. Further, the expression “company” covers unregistered companies and foreign companies also as these companies can also be wound up under the Companies Act. **(Malayalam Plantations India Limited and Harrisons and Crossfield India Limited)**

Thus, for the purpose of section 391, company means “any company liable to be wound up under the Act.

Section 394 defines the phrases “Transferee Company” and “Transferor Company” in relation to a scheme of arrangement. It contains that **“transferee company” does not include any company other than a company within the meaning of this Act**, but **“transferor company” includes any body corporate, whether a company within the meaning of this Act or not.**

The expression “Company” used in section 390 cannot be equated to convey the meaning of Company in section 394 of the Act. From this it may be inferred that financial condition of a Company is not of any consequence for Schemes under section 394 of the Act.

Section 2(7) defines body corporate as – **‘body corporate’ or ‘corporation’ includes a company incorporated outside India but does not include –**

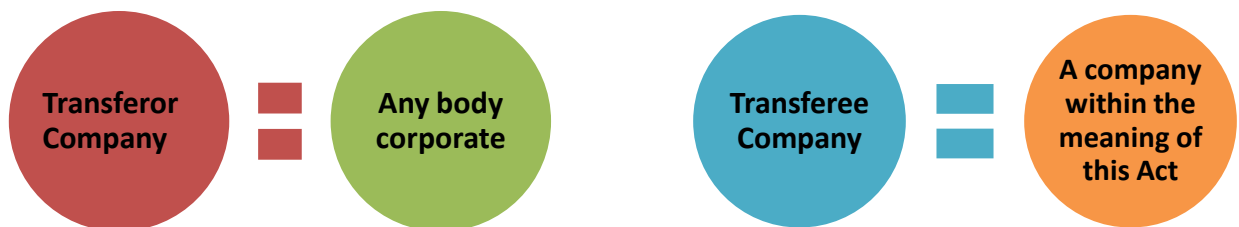
(a) a corporation sole

(b) a co-operative society registered under any law relating to co-operative societies, and

(c) any other body corporate (not being a company as defined in this Act), which the Central Government may by notification in the Official Gazette, specify in this behalf.

An entity is considered to be a body corporate only if it is registered under a statute and has certain characteristics like separate legal entity, perpetual succession, transferability of shares, common seal, capacity to sue, entitlement to own properties etc.

Thus for the purpose of Section 394,



Food for thought –

- 1. Can a section 25 company be amalgamated with another section 25 company?*
- 2. Can a LLP get merged with a company and vice versa?*
- 3. Can a partnership firm be amalgamated with a company / LLP?*

VI. DEMERGED COMPANY AND RESULTING COMPANY

According to Sub-section (19AAA) of Section 2 of the Income-tax Act, 1961, “**de-merged company**” means the company whose undertaking is transferred, pursuant to a de-merger, to a resulting company.

According to Sub-section (41A) of Section 2 of the Income-tax Act, 1961 “**resulting company**” means one or more companies (including a wholly owned subsidiary thereof) to which the undertaking of the de-merged company is transferred in a demerger and, the resulting company in consideration of such transfer of undertaking, issues shares to the shareholders of the de-merged company and includes any authority or body or local authority or public sector company or a company established, constituted or formed as a result of demerger.

The definition of ‘resulting company’ has clearly brought out three important requirements while establishing its relationship with de-merging company:

1. Consideration for transfer of undertaking would be by issue of shares only by resulting company. [Price Consideration]
2. Such consideration would be paid only to the shareholders of de-merged company.
3. Resulting company can also be a subsidiary company of a de-merged company.

VII. SHARE-SWAP RATIO

Swap ratio refer to the exchange ratio in a scheme of amalgamation or demerger that the transferee/resulting company offers to the transferor/demerged company which defines how many shares of the transferee/resulting company is being offered to the share holders of the transferor/demerged company for each share held by them in the transferor/demerged company. This ratio is derived based on the valuation of companies done for the purpose of the scheme and needs to be specified in the scheme of amalgamation/demerger and supported by a valuation report.

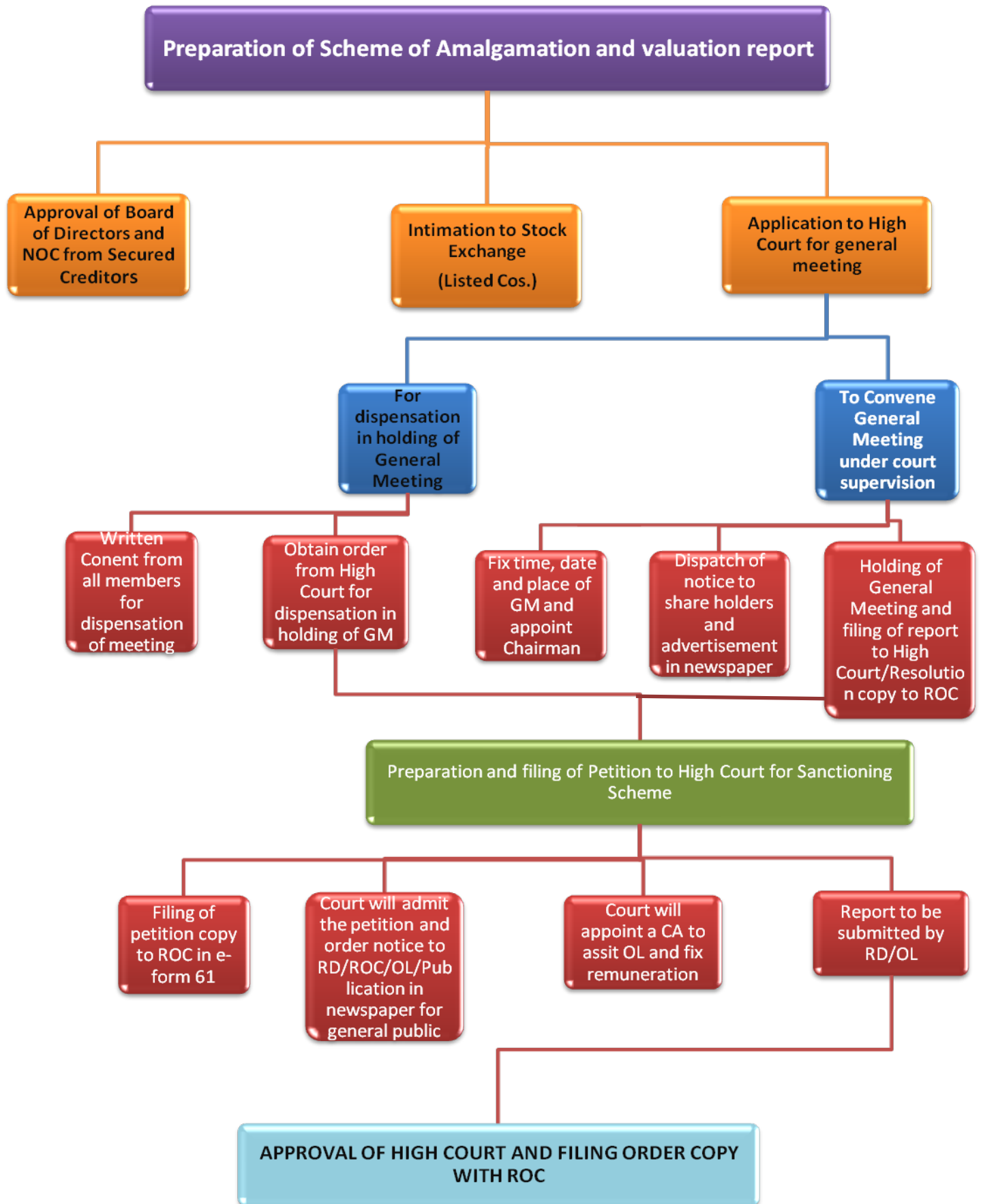
VIII. PURCHASE CONSIDERATION

Deciding and arriving at the purchase consideration is very crucial for any scheme of amalgamation/demerger.

For the purpose of amalgamation, AS 14 defines ‘**consideration**’ as the aggregate of the shares and other securities issued and the payment made in the form of cash or other assets by the transferee company to the shareholders of the transferor company.

From the above definition, it can be inferred that the purchase consideration does not include the liabilities taken over directly or the amounts paid directly to creditors.

SECTION 3 – PROCEDURAL FLOW CHART FOR AMALGAMATION



SECTION 4 – TYPES OF MERGERS/DEMERGERS

Mergers and demergers can take various forms depending on the purpose for which they are contemplated and the resultant benefit arising from them. Given below is an illustrative list of some common types of mergers and demergers with a brief explanation.

TYPES OF MERGERS			
HORIZONTAL MERGER	VERTICAL MERGER	CO-GENERIC MERGER	CONGLOMERATE MERGER
This kind of merger exists between two companies who compete in the same industry segment. The two companies combine their operations and gains strength in terms of improved performance, increased capital, and enhanced profits. This kind substantially reduces the number of competitors in the segment and gives a higher edge over competition.	A kind in which two or more companies in the same industry but in different fields combine together in business. In this form, the companies in merger decide to combine all the operations and productions under one shelter. It is like encompassing all the requirements and products of a single industry segment.	A kind in which two or more companies in association are some way or the other related to the production processes, business markets, or basic required technologies. This kind offers great opportunities to businesses as it opens a hue gateway to diversify around a common set of resources and strategic requirements.	Conglomerate merger is a kind of venture in which two or more companies belonging to different industrial sectors combine their operations. All the merged companies are no way related to their kind of business and product line rather their operations overlap that of each other. This is just a unification of businesses from different verticals under one flagship enterprise or firm.

Mergers can also take the form of **Forward Merger** (Merger of target into acquirer), **Reverse Merger** (Merger of acquirer into target) and **Triangular Merger** (use of an SPV for undertaking)

TYPES OF DEMERGERS

SPIN-OFF

This type of demerger involves division of company into wholly owned subsidiary of parent company by distribution of all its shares of subsidiary company on Pro-rata basis. By this way, both the companies i.e. holding as well as subsidiary company exist and carry on business.

SPLIT-UP

This type of demerger involves the division of parent company into two or more separate companies where parent company ceases to exist after the demerger.

EQUITY CARVE OUT

This is similar to spin offs, except that same part of shareholding of this subsidiary company is offered to public through a public issue and the parent company continues to enjoy control over the subsidiary company by holding controlling interest in it.

DIVESTITURES

These are sale of segment of a company for cash or for securities to an outside party. Divestitures, involve some kind of contraction

SECTION 5 – REASONS AND BENEFITS OF MERGERS/DEMERGERS

RATIONALE AND BENEFITS OF DEMERGER

- **To focus on core business** - Companies which have more than one business and the smaller business is not recognized in valuations of these companies, demerger helps to separate this investment out of the core business. They can focus on core business and exploit the benefits of core competencies and utilize surplus cash in a productive way.
- **To attract investors** - Demerger of a company can attract specific institutional investors having interest in particular sectors.
For example, retail company Pantaloon was attracting only retail investors. By spinning off a private equity fund, Kshitij, it attracted a different set of investors.

A demerger generates cash for the parent company that can be used to pay off its debt. This saves the interest on the debt and increases the cash flow to equity holders. The prospect of getting a higher dividend pushes up the share price of the parent company. This gives investors a chance to exit at a higher price.

- **To improve valuation** - The benefits of a greater focus to each of the businesses does get reflected in the market and it is possible to realize the actual value of each business.

Examples:

1. The combined market capitalization of Sun Pharma and its demerged R&D firm SPARC has been 10 to 15 per cent higher than the market capitalization of Sun Pharma since SPARC listed in July 2007
2. Demerger of Dabur India into two segments comprising of the FMCG business including personal care, healthcare and ayurvedic speciality products and pharmaceuticals business which include allopathic, oncology formulations and bulk drugs.

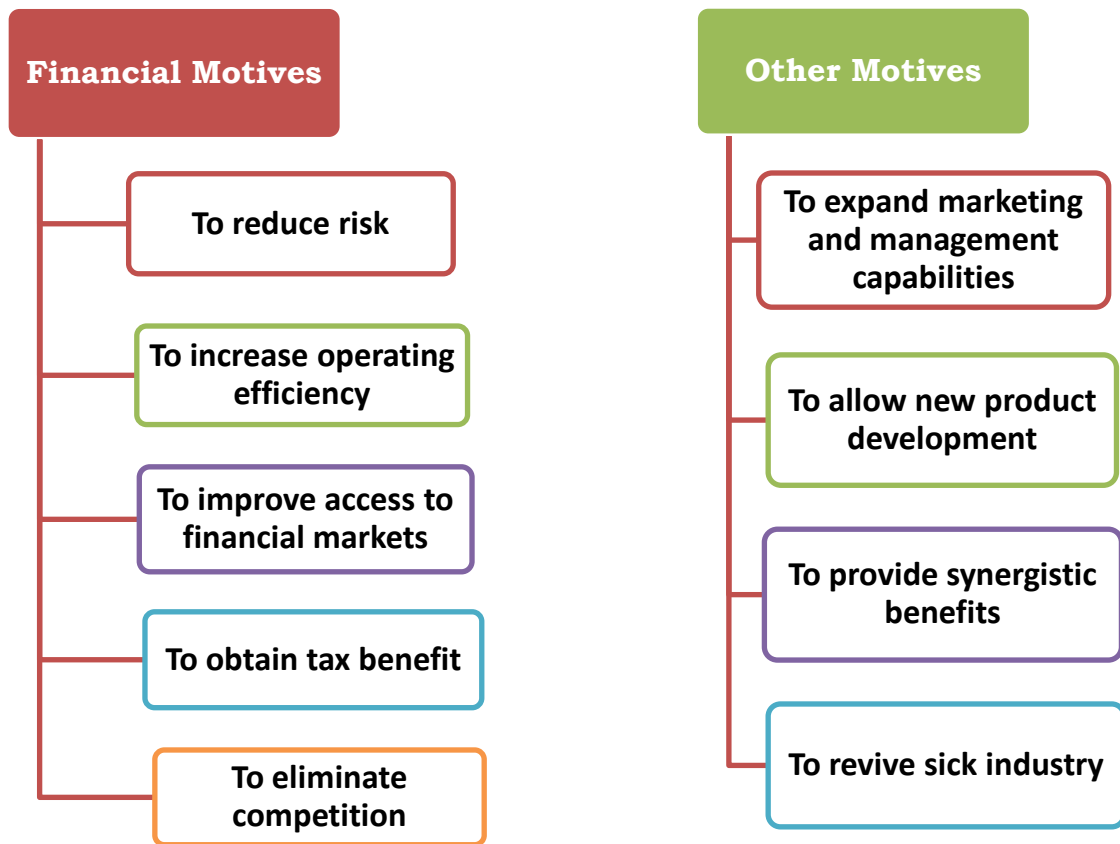
Demerger was done to create a global presence for Dabur's pharmaceuticals business and provide focus to maximise penetration in global markets. The FMCG business also benefited from this move as it lead to better and more efficient management of its resources and facilitated more accurate benchmarking with industry which lead to improvement in valuations for both businesses.

- **Family Settlement** - Split among family members can be reason for demerger.

Example: Reliance split into - Reliance Capital Ventures, Reliance Communication Ventures, Reliance Energy Ventures and the Global Fuel Management Services.

- Corporate attempt to adjust to changing economic and political environment of the country through demergers.
- Strategy to enable others to exploit opportunity effectively to optimize returns when the parent company is unable to do so.
- To correct the previous investment decisions where the company moved into the operational field having no expertise or experience to run the show on a profitable basis.
- To help finance an acquisition.
- To realize capital gains from the assets acquired at the time when they were under performing and on no better performance, capital gain can be realized.
- To make financial and managerial resources available for developing other more profitable opportunities.
- Selling unwanted and surplus or unconnected parts in the business as a restructuring strategy to get rid of sick part of the company.

RATIONALE AND BENEFITS OF MERGER



- A merger may be accomplished tax-free for both parties.
- A merger lets the target (in effect, the seller) realize the appreciation potential of the merged entity, instead of being limited to sales proceeds.
- A merger allows the shareholders of smaller entities to own a smaller piece of a larger pie, increasing their overall net worth.
- A merger of a privately held company into a publicly held company allows the target company shareholders to receive a public company's stock, despite the liquidity restrictions.
- A merger allows the acquirer to avoid many of the costly and time-consuming aspects of asset purchases, such as the assignment of leases and bulk-sales notifications.
- Of considerable importance when there are minority stockholders is the fact that upon obtaining the required number of votes in support of the merger, the transaction becomes effective and dissenting shareholders are obliged to go along.

SECTION 6 – METHODS OF ACCOUNTING

Para 7 of AS 14 provides for methods of accounting in case of an amalgamation. It contains that –

Pooling of Interest Method

This method can be used only in case of Amalgamation in the nature of merger

The assets, liabilities and reserves of the transferor company are recorded by the transferee company at their existing carrying amounts

Purchase Method

This method is used in accounting for amalgamations in the nature of purchase.

The object of the purchase method is to account for the amalgamation by applying the same principles as are applied in the normal purchase of assets.

The transferee company accounts for the amalgamation either by incorporating the assets and liabilities at their existing carrying amounts or by allocating the consideration to individual identifiable assets and liabilities of the transferor company on the basis of their fair values at the date of amalgamation.



AS 14 discusses in detail about the various methods of accounting for amalgamations. However, the standard is silent on accounting treatment to be given to various assets and liabilities in the books of demerging and resulting companies in case of demerger. In a recent judgment given by the Delhi High Court in the matter of Sony India Private Limited and Sony India

Software Centre Private Limited on 06.07.2012, it has been held that AS 14 is not applicable to demerger. In the above context, the learned Regional Director observed that excess, if any, in the value of the net assets of the demerged undertaking should be adjusted to the capital reserve as prescribed in AS-14 and not to the general reserve as proposed in the scheme of arrangements. In response to the aforesaid observation it is clarified that AS-14 is applicable only to amalgamations and not to demerger.

SECTION 7 – METHODS OF VALUATION

Valuation of shares of the companies involved in the scheme of amalgamation / demerger is a very crucial and complex issue. However, the subject of valuation itself is a debatable issue and open to easy criticism. Though the Court will not sit in judgment on the commercial aspects of the exchange ratio, the Court not only will but must look into the valuation if there is opposition and if not satisfied about the same it would be justified in refusing the sanction. (Bank of Baroda V. Mahindra Ugin Steel Co. Ltd.)

A Share Exchange valuation will have to be approved unless it shocks the conscience of the Court. (Miheer H. Mafatlal's Case)

There is no single prescribed method of valuation for the purpose of valuation of shares of companies involved in a scheme of amalgamation / demerger. Usually, valuation is done under different methods and their mean is taken to arrive at the final valuation to ensure that the value of shares is properly reflected while calculating the exchange ratio. Discussed below are some of the generally followed methods of



Market Value of Shares

- Mean of Stock Exchange quotations for last 6/12 months is taken to arrive at the value



Intrinsic value or Book Value

- Assets and liabilities are valued on the "going concern" premise and difference between them is taken as Networth



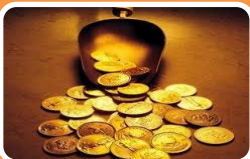
Yield Method

- Rate or amount of dividend is compared to the industry rate of return to arrive at value of shares.



Earnings Per Share Method (EPS)

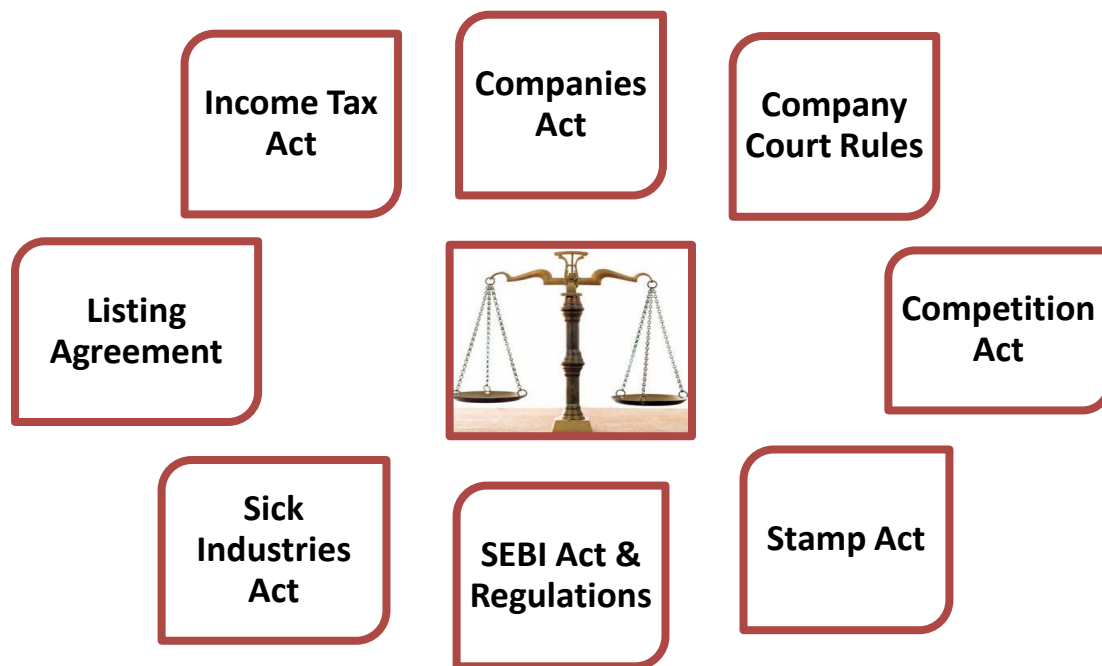
Price of the share is arrived at by multiplying the EPS with the Price Earning Ratio



Earnings Method

Average return of the company is compared with average return in the Industry

SECTION 8 – REGULATORS



SECTION 9 – SOME PECULIAR CASES

❖ **Merger with retrospective/prospective effect**

A merger can be made effective from a past date, i.e. it can be retrospective. However, effective date, which is too far in the past, can create problems and adverse implication for such a merger in the form of non-compliance of various laws cannot be ruled out. There is no bar to have the effective date of amalgamation in future. Incidentally, majority of the mergers are effective from a future date.

❖ **Manner of Voting at General Meetings for approval of Scheme**

The voting at Court convened meetings of members or creditors are to done through poll only. Voting by show of hands is not permissible.

❖ **Obligation under Listing Agreement**

The only obligation of listed companies, as provided in clause 24 of the Listing Agreement, is to file any scheme/petition proposed to be filed before any Court/Tribunal under sections 391, 394 & 101 of the Act with the stock exchange for approval at least one month before it is presented to the Court or Tribunal. The requirement is, therefore, to file the Scheme/Petition at least 30 days prior to filing it with the Court/Tribunal. It is not necessary to obtain prior approval of the stock exchange. The Courts have ruled that non-receipt of approval from stock exchange does not bar the Courts to approve the amalgamation/merger as the approval of the stock exchanges is a mere procedural formality.

❖ **Treatment of Goodwill arising on amalgamation**

Goodwill arising on amalgamation represents a payment made in anticipation of future income and it is appropriate to treat it as an asset to be amortized to income on a systematic basis over its useful life.

❖ **Purchase consideration – to whom and in what manner payable**

Both equity and preference share holders are entitled to receive purchase consideration. It may be paid by issuing preference shares and/or equity shares or sometimes even loan bonds like debentures and partly by cash.

SECTION 10 – WRAP UP

Despite the above stamp duty implication, the following are advantages that are normally available to the corporate sector by virtue of any Schemes of Arrangement as per the Section 391 to 394 of the Companies Act 1956:

In case of Amalgamation /Merger

- The operational costs will be considerably reduced and the management will be able to operate and run the amalgamated company as a single unit more effectively and economically resulting in better turnover and profits.
- With the enhanced capabilities and resources at its disposal, the amalgamated company will have greater flexibility to market and meet customer needs and will be able to compete more effectively.
- The facilities available with the companies could be pooled together and the amalgamated company will be better able to exploit the facilities available as one single unit for the benefit of the amalgamated company and such amalgamation will be conducive to better and more efficient and economic control and conduct of the companies.
- It would bring in greater economies in operation and will help in reducing expenditure considerably and a larger and growing company will mean enhanced financial and growth prospects for the people and organizations connected with the company and will be in public interest.
- It would result in better and optimum utilization of the assets of the companies by pooling their resources and reducing their overheads. An integration of activities would be economic and in the interests of all the companies concerned. The amalgamation when it materializes would result in centralized administration, economy of operations, integrated business approach, greater efficiency and investment in professional management.

In case of Demerger

- The demerger of relevant Division of the concerned Applicant Company in a different company would enable the said division to grow as a focused business entity and help attract capital /strategic investors and facilitate the Company in becoming a major market player in the said business.
- It will unlock the value of the relevant Division for the shareholders of the Demerged Company and paves way for funding future growth of the relevant Division by attracting equity from various sources, globally. Further upon the approval of the Scheme of Arrangement, the shareholders of the Applicant Company would also become shareholders in another company namely Resulting Company thereby providing them with an opportunity to participate in the management, operations, decision making process and profits of the Applicant Company as well as the Resulting Company.
- It will ensure better operational management and focus on accelerated growth of individual units and will also ensure higher returns to the shareholders, creditors, employees and is also in general public interest.
- The growth in size of the business of the Applicant Company normally may result in a situation where the need for focus and operational and financial independence begin to overshadow the need for the earlier strategy of diversification. The restructuring will enable greater focus on the respective business operations and products.

Therefore, in the ordinary course of business of any Company in India, the Scheme of Amalgamation, Merger, Demerger and other type of scheme of arrangements as per Section 391 to 394 of the Companies Act 1956 will benefit the companies for their effective growth and prospect and would produce effective results and attractive returns not only to the shareholders of the Company but also to all the stake holders of Company besides economy of the country at large.

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