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AN IMPERIAL WAY OF CORPORATE RESTRUCTURING FOR EXPANSION - A CASE STUDY OF EMAMI AND KESH KING

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AN IMPERIAL WAY OF CORPORATE RESTRUCTURING FOR EXPANSION - A CASE STUDY OF EMAMI AND KESH KING

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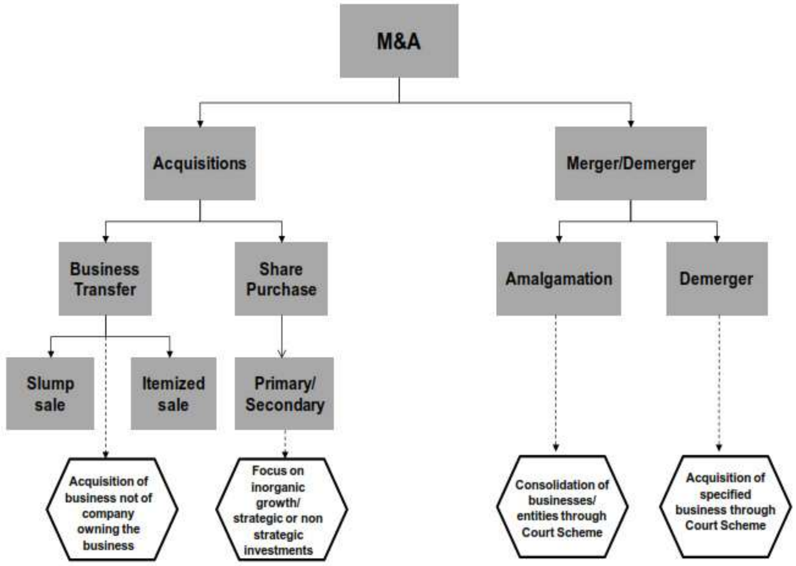
Abstract: This essay examines the acquired company's performance. Merger and acquisition is the most popular method of business reorganization. Comparable examination of performance on particular financial criteria has been carried out using statistical tools and financial data. This study compares the financial outcomes of the acquirer company before and after in an effort to determine the impact of mergers and acquisitions. This essay outlines the theoretical underpinnings of the approach, deal information, the objective, a hypothesis, and an analysis. It is an example of a slump sale.
Key Words:Business Reorganization, Financial Information, Mergers and Acquisitions, Most valued, Slump Sale.

I. STRATEGIC INTRODUCTION:

Corporate restructuring is a tool to overcome obstacles and facilitate business operations. Portfolio and asset restructuring, internal restructuring, divestment, merger and acquisition, and financial restructuring are all parts of this process. Corporate entities reorganize their operations in an effort to manage their portfolios more effectively, which increases shareholder value and competitiveness. The effects of India's economic reforms include increased competition, imports, diversification, scale economies, etc. Indian companies must think about restructuring right away if they want to make their sector competitive on a global scale and profitable for their shareholders. Companies are attempting to merge in their main business areas and exit businesses where they lack a profitable and competitive advantage. Corporate restructuring comes in four different flavors.

- Financial Restructuring
- Market Restructuring
- Technological Restructuring
- Organizational Restructuring

The most popular and commonly used method of business restructuring is merger and acquisition. The following chart lists various merger and acquisition types.



(Figure 1- Source: ICSI Study Material for Professionals)

Numerous transactions, including mergers, acquisitions, amalgamations, consolidations, tender offers, asset purchases, and management buyouts, are included in the category of merger and acquisition. "Merger" refers to a combination of two or more entities wherein one or more entities' identities are lost and a single entity is created. Acquisition refers to the taking over of ownership of stock, equity interests, or assets by one company over another. It entails investing in a controlling stake in the stock of another established business.

"Slump sale" refers to the transfer of the concerned undertaking as a going concern. One technique that is popular in India for corporate restructuring involves a lump sale, in which the corporation sells its undertaking. The following are the key causes of slump sales that are typically observed in India:

- To improve poor performance of business.
- To strengthen financial position of the company.
- It removes the negative synergy and facilitates Strategic Investment.
- To get tax and regulatory advantage associated with slump sale.

It is the transfer of one or more undertakings as a result of a sale for a one-time payment without assigning individual assets and liabilities in the sale a monetary value. Transfer of an asset from one person to another for some price, which may be in the form of cash or kind, is referred to as a sale.

II. A CASE OF EMAMI AND KESH KING:

Through a corporate development strategy known as a slump sale, The Emami Ltd. purchased the Kesh King hair oil product unit from Himachal Pradesh-based SBS Biotech Pvt. Ltd. (the hair and scalp care business) for Rs. 1,651 crore. This transaction involves the selling of the entire business unit for a predetermined price without valuing the specific assets and liabilities.The Emami is a reputable business with a significant market share that offers a wide range of products, but it is new to the Ayurvedic hair and scalp care sector. According to the agreement, Sanjeev Juneja, owner and promoter of SBS Biotech, will transfer to Emami the brand portfolio of Ayurvedic medicinal oil, herbal shampoo and conditioner, and Ayurvedic capsules as well as its formulations, assets, rights, and liabilities, including working capital.

As a private firm, Kesh King and affiliated companies did not publish their profit, but they asserted that their margin was superior to Emami. In 2014–15, they had revenue of 300 crore and have been expanding at an average rate of 68% per year for the last three years.

"The transaction envisages transfer of the business as a going concern on a slump-sale basis and will include the brand portfolio of ayurvedic medicinal oil, herbal shampoo, conditioner and ayurvedic capsules along with its respective formulations and all related assets, rights and liabilities, including working capital, for a total consideration of ₹1,651 crore," Emami said in a statement. *"Emami is now in a dominant position in the Ayurvedic and herbal space. In the Ayurvedic hair oil segment, Kesh King is the market leader and this will help Emami consolidate its position,"* said Abneesh Roy, associate director, institutional equities, research, Edelweiss Securities Ltd. Emami added that the companies had 5.4 lakh locations nationwide and had established themselves as top competitors in the industry.

"*We are very happy to announce the acquisition of the Kesh King business, which offers great synergy with our business of personal and healthcare products. This acquisition is a part of our aggressive growth strategy and marks our foray into the ayurvedic hair- and scalp-care segment. The transaction is a perfect strategic fit for Emami,*" said Harsha V Agarwal, Director, Emami.

Emami Ltd. shares dropped 5.8% from the previous close to settle at Rs. 1,066.15 per share on the BSE, while the benchmark Sensex slid 2.37% to close at 27,188.38 points. The funding : *"The acquisition will be funded by a judicious mix of surplus funds and short- and long-term debt. The process is expected to be completed in a month's time,"* said NH Bhansali, CEO, Finance, Strategy and Business Development, Emami.

Owner of Kesh King Sanjeev Juneja introduced the ayurvedic formulations in 2009. Navratna Cool Oil and Emami 7 Oils in One are two of the hair oils that Emami currently offers.

III. FRAMEWORK OF OBJECTIVES AND HYPOTHESIS:

This matter is being studied from the perspective of the Acquirer Company. Generally speaking, business expansion objectives such as production, market share, worldwide presence, competitive advantage, etc. are many in a merger and acquisition agreement. The study took into account the company's financial performance over a six-year period, including the three years before the merger and acquisition and the three years afterward.

The objectives and Hypothesis for the present study are as follows:

- ***OBJECTIVES*** :
  - ✓ To ascertain effect on profit of the company before and after merger and acquisition.
  - ✓ To ascertain utilization of debt, equity and asset of the company before and after merger and acquisition.
  - ✓ To ascertain effect on revenue from operations of the company before and after merger and acquisition.

- ***HYPOTHESIS:***

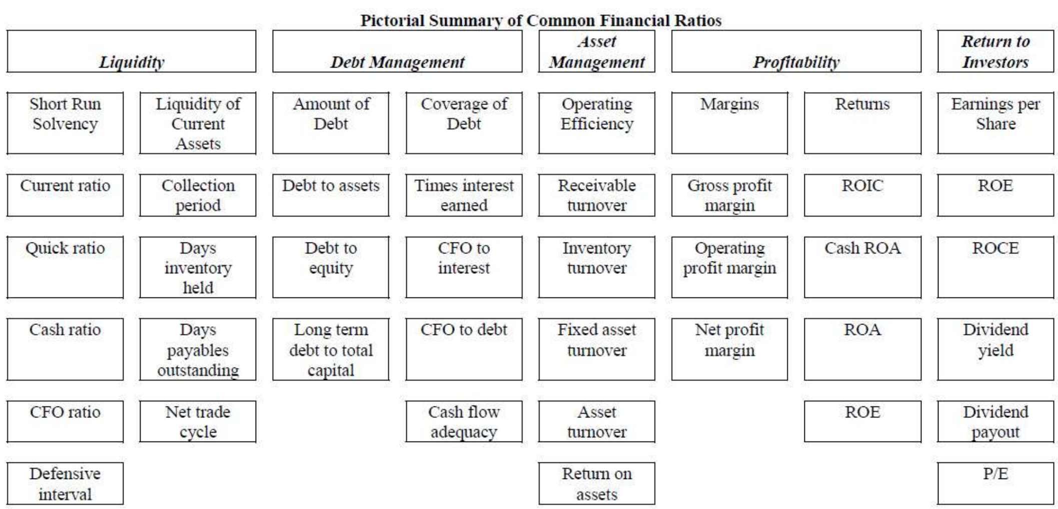
  Null hypothesis has been framed for the following:

  - ✓ There is no significant effect of merger and acquisition on company's;
    1. Debt equity structure
    2. Liquid asset
    3. Turnover
    4. Profitability

IV. BASIS OF ANALYSIS – FINANCIAL AND STATISTICAL:

Financial ratios are numerical measurements that are employed in the evaluation of enterprises. Financial analysts, stock research analysts, investors, and asset managers utilize these statistics to assess the general financial health of organizations with the ultimate goal of improving investment choices. Financial managers and C-suite executives frequently utilize corporate finance ratios to better understand how their companies are operating.Comparing two businesses with differing sizes, operations, and management philosophies using ratio analysis is a terrific idea. It's also a terrific tool to gauge how effectively a firm runs its operations and how profitably the organization is structured. For instance, a company's ability to satisfy its financial obligations can be assessed using solvency ratios.

Liquidity ratios, operational risk ratios, profitability ratios, and efficiency ratios are the four categories of corporate finance ratios that measure various financial variables for a corporation:



(Figure 2 – Source: FSA Note – Summary of ratios)

- **Debt to Equity** : This ratio is a leverage ratio that calculates the proportion of total debt and liabilities against total shareholders' equity. The ratio staates that, whether a company's capital structure utilizes more debt or equity financing. Debt means total debt which consists of short-term debt, long-term debt, and other fixed payment obligations (such as capital leases).

- **Current Ratio** : This ratio, commonly referred to as the working capital ratio, assesses a company's capacity to pay short-term debts that are due within a year. Total current assets are compared to total current liabilities in this ratio. A company's ability to optimise the liquidity of its current assets to pay down its debt commitments is examined by the current ratio.

- **Return On Capital Employed** : A profitability ratio called ROCE gauges how effectively a business uses its capital to produce profits. Investors frequently use the return on capital employed (ROCE), one of the best profitability statistics, to assess if a firm is a good investment.

- **EBITDA Margin** : The percentage of profit a business generates from its operations before deducting taxes and interest expenses is determined by the operating profit margin, a profitability ratio. It is determined as a percentage by subtracting the operating profit from the total revenue. EBIT (Earnings Before Interest and Tax) margin is another name for the margin.

- **PAT Margin** : A financial ratio used to determine the percentage of profit a company generates from its total revenue is also known as "profit margin" or "net profit margin ratio." The ratio of net profit, also known as net income, to total sales, stated as a percentage, is known as the net profit margin. Depending on the industry a firm is in, each company's usual profit margin ratio may vary.

- **Sales** :The activities of the business are primarily correlated with turnover. It is a significant source of income. Any change in sales will directly impact the company's other financial measures.

- **Paired T Test**:When we are interested in the difference between two variables for the same subject, we utilise a paired t-test. The two variables are frequently separated in time. The paired t-test reduces to the one sample t-test since the difference between two variables in one sample is what we are ultimately interested in.

V. TEST RESULTS AND ANALYSIS:

Debt to Equity Ratio				
Year	**Before M&A**	**After M&A**	**T Value**	**P value**
1	0.09	0.42		
2	0.03	0.25		
3	0.02	0.14	-3.68	0.10
Mean	0.05	0.27		
	0.22			

(Table No. 1)

The average debt equity ratio of corporations following mergers has increased slightly (0.22%), according to table no. 1. The average debt equity ratio before and after M&A differs significantly (t=-3.68, p0.10), according to the results of the paired sample t-test. The rise in the cost of debt financing for M&A can be blamed for the growth in the debt equity ratio.

Current Ratio				
Year	Before M&A	After M&A	T Value	P value
1	2.18	0.97		
2	2.93	0.49		
3	3.63	0.14	3.61	0.10
Mean	2.91	0.53		
	-2.38			

(Table No. 2)

The average current ratio of the companies following the merger has significantly dropped (2.38%), according to table no. 2. The average current ratio before and after M&A is significantly different, according to the results of the paired sample t-test (t=3.61, p0.10). The rise in short-term debt is the cause of the current ratio's decline.

EBITDA Margin				
Year	Before M&A	After M&A	T Value	P value
1	30.45	31.67		
2	28.35	33.49		
3	29.63	30.78	-1.90	0.30
Mean	29.48	31.98		
	2.50			

(Table No. 3)

The average EBITDA margin of companies following mergers has improved somewhat (2.50%), according to table no. 3. The average EBITDA margin before and after M&A differs significantly (t=-1.90, p0.30), according to the results of the paired sample t-test. An increase in operational revenue before finance costs and tax obligations following acquisitions might be linked to an increase in EBITDA margin.

Net Sales				
Year	Before M&A	After M&A	T Value	P value
1	16270.91	21499.25		
2	17050.76	23017.11		
3	20306.41	23539.9	-5.89	0.04
Mean	17876.03	22685.42		
	4809.39			

(Table No. 4)

The average sale of the companies after merging has increased significantly (26.9%), as can be seen in table number 4. The average Sale before and after M&A differed significantly, according to the results of the paired sample t-test (t=-5.89, p=0.04). An increase in sales can be attributable to the purchase of a unit by a going concern with a firmly established product market.

ROCE				
Year	Before M&A	After M&A	T Value	P value
1	44.98	25.53		
2	50.36	21.96		
3	52.99	19.21	6.51	0.03
Mean	49.44	22.233333		
	-27.21			

(Table No. 5)

The average Return on Capital Employed of companies after mergers has drastically fallen (27.21%), as can be seen in table number 5. The average Return on Capital Employed before and after M&A differs significantly (t=6.51, p0.03), according to the results of the paired sample t-test. Increased finance costs and other costs of M&A utilizing debt are to blame for the decline in return on capital employed.

PAT Margin				
Year	Before M&A	After M&A	T Value	P value
1	19.48	15.17		
2	22.91	14.79		
3	22.78	13.09	4.62	0.07
Mean	21.72	14.35		
	-7.37			

(Table No. 6)

According to table No. 6, the average Profit after Tax Margin of companies following mergers has slightly dropped (7.37%). The average Profit after Tax before and after M&A differs significantly (t=4.62, p0.07), according to the results of the paired sample t-test. The rise in financing costs and other M&A costs associated with significant acquisition investment can be blamed for the increase in profit after tax.

CONCLUSION

Executives use a very ambitious corporate strategy to get a competitive advantage. Every single deal has been seen to have no overall benefits for either the acquirer or the acquiree company. There has always been a case where something was sacrificed to obtain something else. Corporate leaders work to create situations where both companies can benefit. The success of the merger and acquisition deal is also influenced by the business environment considerations. It is abundantly evident that, regardless of the outcome of the transaction, the only viable course of action in today's complicated and fiercely competitive global corporate climate is one of survival and growth.

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