

Case Study

Manufacturer of Specialty Chemicals

Service(s) offered: **M&A Tax & Regulatory Services**

Sector/Industry: **Chemicals**



Restructuring involving demerger to create distinct entities

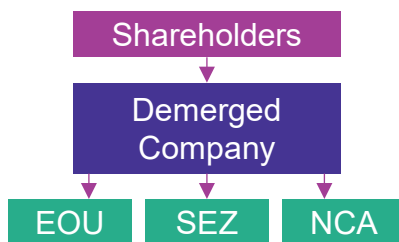
The Client

The client, situated in India is engaged in the manufacturing of specialty chemicals.

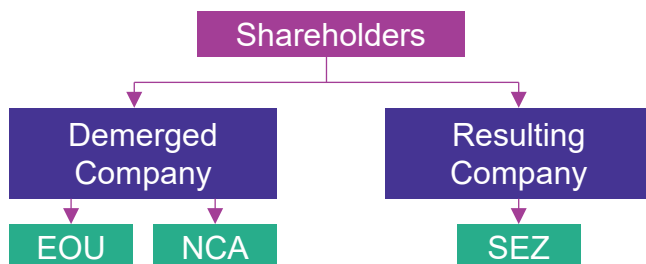
The client had Export Oriented Unit (EOU), Special Economic Zone unit (SEZ) and certain Non-core Assets (NCA) under a single entity.

The present structure and structure desired after restructuring are depicted below:

Present structure



Proposed structure



Case Highlights

- Review of family shareholding structure
- Advice on SEZ related issues involved in demerger
- Determining the undertaking to meet income tax condition
- End-to-end tax and regulatory advisory
- Advice on stamp duty efficient transaction
- Liaised with regulatory authorities for seeking their reports in the demerger transaction

Context

The client company was owned by the family members in proportion. The client held EOU, SEZ unit and NCA in a single entity. The client desired to unlock the value by segregating units into separate entities.

Nexdigm was approached to advise and project manage the entire business restructuring process end-to-end as desired by the management within the given timeframe.

Our Approach

The assignment's primary requirement was to assess the existing situation, build a roadmap for business reorganization and manage complex regulatory issues.

The assigned dedicated team ensured adherence to the timelines by closely coordinating with the management, and other stakeholders.

Project Management Support

Nexdigm provided support across several phases of the project, from initiating the company's demerger (and even post-demerger integration). The team managed the project in the following areas:

Initial Advisory

Nexdigm advised an efficient way to segregate the business units, which involved tax and regulatory advice. The advisory involved understanding the client's objective, perusal of information and detailed evaluation of issues involved in restructuring. Nexdigm also advised on SEZ related aspects concerning the demerger.

Conceptualization of Demerger Option

Nexdigm conceptualized the demerger of EOU in a separate entity to segregate the business and unlock the value for shareholders. The conceptualization of the demerger option was finalized after extensively evaluating the available options from tax and regulatory perspectives. This involved a review of conditions of tax-neutral demerger, nature of the undertaking, a requirement before the Board of Approval, stamp duty implications, valuation of non-core assets, and its tax and stamp duty impact. A new entity was incorporated as a resulting company with the same set of shareholders to ensure the transition of smooth economic benefits of shareholders in the same proportion as they held in the demerged company.

Initiation of Demerger Process

The demerger process broadly involved determining the share exchange ratio, drafting the scheme of demerger, approval of shareholders, application to the Tribunal, holding of creditors meeting, filing of a petition for confirmation of the scheme, procuring reports from regulatory authorities such as the Registrar of Companies, Regional Director, Ministry of Corporate Affairs, verifying exemption notification under Competition Act, 2002, obtaining final approval to the demerger from the Tribunal, and adjudication of stamp duty payable on merger order.

Nexdigm extensively worked with the company's existing consultants to ensure that they were also aligned with project sensitivity and timelines.

Time-bound Demerger Process

The project was strictly time-bound due to the timeline set up by the client to commence production from the SEZ unit.

Solution

Nexdigm tackled the client's Accounts Receivable challenges with a holistic approach aimed at optimizing efficiency and accuracy. Conducting a thorough background analysis, we meticulously mapped existing processes, infrastructure, and performance metrics to identify areas for improvement. Prioritizing time management, accuracy, and productivity considerations, we crafted a tailored solution focused on automation. Leveraging robotic process automation (RPA) software bots, we designed and implemented a streamlined cash application process. This solution not only reduced manual effort and processing time but also enhanced accuracy and real-time tracking capabilities. By automating repetitive tasks and standardizing processes, we empowered the client to meet SLAs consistently while freeing up resources to focus on value-added activities and customer query resolution. Ultimately, our solution drove tangible improvements in operational performance and customer satisfaction for the specialty chemical company in the APAC regions.

Critical Issues

The project faced certain issues that involved advice on SEZ laws. One of the critical issues was to determine whether the 'undertaking' qualifies as a tax-neutral demerger. The client had certain non-core assets located in other states, which required detailed evaluation to ascertain tax and regulatory impact.

Nexdigm represented the company before regulatory authorities to obtain their clean reports and satisfied all their observations on the proposal, including a rationale for the demerger and protection of creditors' interest, and stated that the scheme is in compliance with the applicable laws.

Impact

Nexdigm's overall project management approach helped achieve the management's objective of completing the project within the desired timeline, delivering to the management's expectations.

The structure segregated EOU and SEZ undertakings into separate entities, enabling the management to focus on its core. Demerger also enabled the management to unlock value for shareholders by presenting an attractive investment opportunity.

Our Project Management service helped the client to complete the transaction from various perspectives successfully.

For more information on this case study, please write to us at:

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You can also visit our website to know how our services resulted in tangible business benefits:

www.nexdigm.com