

Case Study

A leading manufacturer of bearings and lubrication systems

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

Sector/Industry: **Automobiles & Auto Components**



Restructuring involving revival of loss-making company and achieving economies of scale

The Client

The client, situated in Bengaluru, India, is a global leader in the manufacture of bearing and lubrication systems.

The client had separate entities in Bengaluru. The transferor company was engaged in the manufacturing of oil seals, large industrial-size bearings and rendering technical services. It sustained operating losses.

The transferee company was engaged in designing and manufacturing centralized lubrication systems.

Context

The transferor company had made heavy capital investments to manufacture large industrial-size bearings. However, the business did not progress as projected. Furthermore, heavy capital investments and moderate manufacturing of industrial-size bearings resulted in the underutilization of capacities, thereby resulting in the company incurring huge operating losses. The losses made the transferor company's net worth negative.

That necessitated the client to consider the revival of the transferor company. Therefore, Nexdigm was approached to advise and project manage the entire business restructuring process end-to-end as desired by the management in the given timeframe.

Case Highlights

- Conceptualization of restructuring plan
- Advice on allowability of carried forward losses
- Drawing of scheme of amalgamation
- Advice on stamp duty efficient transaction
- Liaised with regulatory authorities for seeking their reports on the merger transaction

Our Approach

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

The 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, including the initiation of the company's merger and merger integration. The team managed the project in the following areas:

Initial Advisory

Nexdigm advised an efficient way to merge the entities, which involved tax and regulatory advice. The advisory involved understanding the objective of the client, perusal of information and detailed evaluation of issues involved in restructuring.

Conceptualization of Merger Option

Nexdigm conceptualized the merger of the transferor company into the transferee company as a reverse merger. This enabled the loss-making company to merge with the profit-making company. The restructuring resulted in the revival of loss-making company and achieved economies of scale. The conceptualization of the reverse merger was finalized after extensively evaluating the available options from tax and regulatory perspectives. This involved drawing up of consolidated projected financials as to test the business case, review of the conditions of tax-neutral merger, stamp duty implications, valuation amongst others.

Initiation of Merger Process

The merger process broadly involved determining the share exchange ratio, drafting the scheme of merger, 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 merger from the Tribunal, at Hyderabad Bench and Mumbai Bench and adjudication of stamp duty payable on merger order.

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

Time-bound Merger Process

The project was strictly time-bound due to the timeline set up by the client to consolidate the business to achieve economies of scale.

Critical Issues

The project faced certain issues that involved preparing a strong business case for a reverse merger and obtaining approval from the tribunal. Furthermore, having with regard to the underlying facts, a detailed evaluation to ascertain tax and regulatory impact was inevitable.

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 merger, 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 brought substantial tax savings due to carried forward losses. The merger ensured the revival of prospects of a loss-making company and offered an optimum product mix for the customers.

Our Project Management service helped the client 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