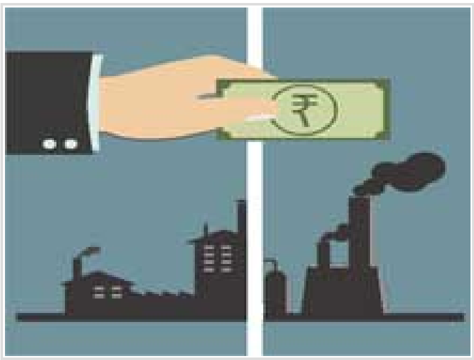
Business Standard

Spin-off season on Dalal Street

Listed entities demerge businesses from lubricants and skincare to textiles, tea and information technology

Sachin P Mampatta | Mumbai July 07, 2014 Last Updated at 22:50 IST



There have been at least five such instances this year of listed companies spinning off their subsidiaries.

These were Gulf Oil and Marico, beside companies whose operations span the textile, tea and metals sectors. Market watchers say the spinoffs were largely driven by subsidiaries attaining maturity and companies trying to take advantage of the better valuations offered by having separately listed companies, as opposed to putting these under one holding company.

Ajay Saraf, executive director, ICICI Securities, said companies choose to spin off their subsidiaries when the latter aren't a strategic fit with core activity. “The business is not synergetic with the main business of the company…in some of the recent cases, it has been seen that they are entirely different businesses, which operate in different ways and are valued differently,” he said.

Mehul Savla, director at RippleWave Equity, said investors also prefer to invest in focused plays. “Today, investors are looking to put their money in a specific business, rather than a company with different operations...Some of these companies are part of a larger entity because of the need for support in the initial days. Once it is able to sustain itself, it can look at a separate listing,” he said.

Gulf Oil Corporation recently demerged its lubricants business to list it as a separate entity, Gulf Oil Lubricants India, after it had reached a certain level of revenue. “It was so planned that on demerger, the lubricants business would have reached annual turnover of around Rs 1,000 crore and will have several business initiatives and a large expansion project in hand to grow the business further,” stated the company.

The original listed entity would now include its other businesses such as mining, real estate and explosives.

Marico, the consumer goods major, known for oil brands such as Parachute, spun off its skincare and wellness division under the name of Marico Kaya Enterprises.

Suryavanshi Spinning Mills recently divided its six business units among three companies, including the original one. Another diversified company, Dhunseri Petrochem & Tea, has decided to spin off its tea division to Dhunseri Services Ltd. Additionally, a division managing its information technology Special Economic Zone has been demerged and transferred to Dhanurveda Infrastructure Pvt Ltd.

RECENT DEMERGERS

Company	Division spun off
Marico	Skincare
Gulf Oil Corporation	Lubricants
Suryavanshi Spinning Mills	Different textile units
Dhunseri Petrochem & Tea	Tea, IT SEZ
VHCL Industries	Metals

VHCL Industries is another company which has announced plans to demerge and list a subsidiary. The company announced on April 2 a plan to demerge its new metal division into a separate entity, to eventually be listed on the stock market.

Gautam Gupte, director at Ambit Corporate Finance, said companies look at spin-offs for many reasons, ranging from simple restructuring of businesses to a reorganisation, with the intention of inducting a strategic or financial partner in a specific business.

“Separation of businesses usually facilitates easier and more focused capital raising. If there is a company with multiple businesses, it is easier to raise funding in separate businesses, rather than diluting capital across the board. Restructurings linked to potential fund-raising can pick up in more buoyant markets,” he said.

Such moves tend to create more value for investors, say experts. “Many holding companies have three or four businesses under them. The company trades at a discount to the sum of the valuations of the individual entities,” said Savla.