CORPORATE RESTRUCTURING THROUGH CONTRACTION:
A STUDY WITH REFERENCE TO SELECT INDIAN COMPANIES

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ABSTRACT
In the present era of LPG (Liberalization, Privatization and Globalization), a corporate entity often attempts to restructure its business in order to exist and grow within the dynamic business environment and highly competitive market condition prevailing across the globe. Thus, the term ‘Corporate Restructuring’ is of greater significance and consequently has gained a huge acceptance, globally, as it enables a firm to restructure its business mainly from financial and organizational standpoints with a view to increasing its efficiency and profitability and thereby achieving its short-term as well as long-term goals. In India, corporate restructuring also gets an enormous popularity as it results into availing huge amount of tax benefit, increasing corporate control and enhancing shareholders’ value for the Indian corporate enterprises. The corporate restructuring may be classified into four broad groups- Expansion, Contraction, Corporate Control and Changes in Ownership Structure. The term ‘Contraction’ may also be divided into various sub-groups: Spin-Off, Split-Off, Divestitures, Equity Carved Out and Split up. The main objective of the study is to make a case study based analysis of the Corporate Restructuring through contraction in India and to analyze the impact of such corporate practice on various aspects of an organization namely, its impact on EPS, DPS, ROCE, RONW, EVA, MVA, SVA as well as its influence on Share Prices. For analyzing the impact of contraction on companies share prices, the concept of sub-periodic growth rates has been applied by employing ‘Kinked Exponential Models’. In order to facilitate the analysis of all the financial parameters and share prices’ growth rates, the ‘Control Sample Methodology’ has been applied.

As findings, the study has revealed a positive impact of contraction on all the selected traditional and modern financial parameters. The study has further disclosed a significant impact of contraction on stock prices in both the directions especially the negative one. Finally, the findings of the present case study cannot be generalized for the industry as well as the economy as a whole in the long run, which demands a broad based research study.

KEY WORDS: Corporate Restructuring, Contraction, Kinked Exponential Model.