Turkish Online Journal of Qualitative Inquiry (TOJQI)
Volume 12, Issue 7, July 2021: 6349- 6366

Research Article

Revamping of Companies through Demerger: A Case Study of Gulf Oil Corporation Ltd

CA. Monica. P. Chakrabartty
Assistant Professor, SIR K. P. College of Commerce
monicachakrabartty1987@gmail.com

Dr. Martina. R. Noronha
Principal, SIR K. P. College of Commerce
martinamarian1@yahoo.com

Abstract
This research paper focuses on the study of the impact of demerger in Gulf Oil Corporation Ltd. In today's competitive world of business, there is a paradigm shift observed in the manner that the businesses are carried out by the corporate entities with a view to ameliorate their business operations and processes so as to survive the cut throat competition from the competitors in the industry in which they operate. This in turn may result in the organization to gain a competitive advantage over its competitors especially in the long run. The study performs an analysis of the effects of the demerger in case of the Gulf Oil Corporation Ltd. to determine the changes in the Earnings per share, Net profit margin and Return on Capital employed, of the said company. The paired T test technique has been employed in the present study. The study revealed that there was no significant impact of demerger on Earnings per share and Return on Capital Employed, but the demerger had a significant impact on Net Profit Margin.

Keywords: Corporate restructuring, Earnings per share, Net Profit margin and Return on Capital Employed.

Introduction
The world today is witnessing a lightning and tremendous growth in the technology, industrialization, businesses and other areas wherein the organizations experience severe competition from number of players operating in the same industry both domestic as well as internationally. Surviving in such a highly competitive environment is a challenge that every corporate entity faces today and thus these entities make strenuous efforts to ensure their viability for the coming years. With an intention to prosper and expand their businesses, the organizations have the target to sustain themselves thereby combating fierce competition from the competitors and also accomplish the business objectives with an aim to create value for their shareholders and thus maximize their wealth. Besides this, while intending to conduct the business operations effectively and efficiently, the business organizations aim at minimizing the unproductive activities which do not contribute towards any value addition, reducing the waste, and making the judicious use of the resources-financial, intellectual, operational and other which in turn ensures creation of wealth for the corporate entity and its various stakeholders. Thus bringing significant changes in the structure of the organization, capital structure, investment and assets portfolio, governance and the management of the entity, changes in the technology and such other alterations may tantamount to the process of what is called "Corporate

restructuring". The corporate restructuring can be carried out by the corporate entities through various forms which include mergers and acquisitions, demergers, takeovers, strategic alliances, joint ventures, leveraged buy outs, shares buy back, employees stock ownership plan (ESOP).

Demergers

Demerger is a process by which the corporate entities may segregate their undertakings or divisions or departments so as to result into a new company with a view to ameliorate their operations in a more focussed and an efficient manner. Thus the parent company that separates or hives off its undertakings or divisions or departments is known as the "Demerged Company" and the new company hence formed is known as the "Resulting Company". "If a company hives off a division and lists it as a new company, the combined valuation of the demerged entities is often greater than the market price of the parent company before the split".[1]

Literature Review

Deepika Dhingra and Nishi Aggarwal (2014) mainly focussed on the concept of corporate restructuring process and has analysed the same as to whether it turns out to be a useful equipment so as to gain a competitive advantage over the competitors in the industry. The study laid down various procedural aspects related to the corporate restructuring in the corporate entities. A detailed analysis by way of case study of the corporate restructuring employed by the Reliance Industries Limited India (RIL) has been made by the authors in this research paper. The demerger of the RIL India was approved by its Board of Directors and the said company got demerged in August 2005 so as to result into five listed companies. The analysis of the figures of the Share prices of the company before the demerger and that after the demerger of the combined resulting demerged companies depicted that there was a significant increase in the price of the shares which was apparent form the fact that the price of the shares after the demerger rose to Rs. 1235 as against Rs. 978 prior to the demerger.

Daniel Chai, Ken Lin, Chris Veld (2016) through their study aimed to understand the impact of the announcements of the spin offs by the companies that were listed in the Australian Securities Exchange and analysed the performances of the Stocks in the long run. The study took within its ambit the data pertaining to 87 companies that effected spin off in between the period of January 99 and December 2013 wherein the authors gathered the requisite data from various available resources such as Aspect Huntley Database, Securities Industry Research Centre of Asian Pacific database, etc. Cumulative abnormal returns which is a financial tool and other statistical tools such as Non-parametric Rank Test and Event study methodology were employed to carry out this study which unfolded the facts that the spin-off announcements made by the aforementioned companies in most of the cases had a positive impact which could be seen from the high returns after a time period of 3 years.

Rachit Goel (2013) undertook the study on the effect of demerger of companies on the wealth of the shareholders in respect of those companies in India which got demerged in the year 2006. Five such companies constituted the study sample drawn on the basis of random sampling which included Camlin India Limited, Great Eastern Shipping Company Limited, India Bulls Financial Services, Television 18 India Limited and Zee Entertainment Enterprise Limited. The study revealed that a considerable impact of the demerger on the wealth of the shareholders were observed in all the companies except in case of Camlin India Limited which became apparent from the fact that the

[1] Corporate Restructuring Merger, acquisition and Other Forms By Bhagaban Das, Debdas Rakshit and Sathya Swaroop Debashish, Himalaya Publishing House, 2019 Edition.

wealth of the shareholders showed an appreciation after the demerger as compared to the respective figures before the demerger.

Significance of Study

The corporate entities operate in highly intense competitive markets whereby their survival and growth are under threats posed upon by the competitors. Besides this, several other factors such as government policies, statutory regulations and compliances, changes in the customer preferences, changes in the demand and supply pattern, technological glitches, labour unrests, international competition, etc. may lead to problems in the business operations, revenues and profitability and hence hamper the growth of the business entity. Such a situation may cause a financial turmoil for the corporate entity and hence there may be a strong need felt by the company for the revamping or restructuring of its business. Consequently such entities may opt for the demerger of the company as a tool for the corporate restructuring process. Therefore it becomes inevitable to analyse the impact of the demergers on the entities involved in the said process to understand as to whether the process would be advantageous for the organization.

Objective of the Study: - The study basically has three objectives:

- To find the impact of demerger on earnings per share.
- To find the impact of demerger on net profit margin.
- To find the impact of demerger on return on capital employed.

Hypothesis:-

H_{01}: There is no significant impact of demerger on Earnings Per Share.

H_{02}: There is no significant impact of demerger on Net Profit Margin.

H_{03}: There is no significant impact of demerger on Return on Capital Employed.

Research Methodology:-

The main purpose of the study was to analyse the effect of demerger on earnings per share, net profit margin and return on capital employed. For the purpose of the said study, we have used a case study approach of Gulf Oil Corporation Ltd, and have taken data for 5 years prior and post demerger, from money control website. Further, we have applied paired T – test for the statistical analysis.

Discussion:-

EPS:-

EXAMINE VARIABLES=Before After

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Before Demerger	5	100.0%	0	0.0%	5	100.0%
After Demerger	5	100.0%	0	0.0%	5	100.0%

Descriptives

			Statistic	Std. Error
Before Demerger	Mean		5.5360	.43649
	95% Confidence Interval for Mean	Lower Bound	4.3241	
		Upper Bound	6.7479	
	5% Trimmed Mean		5.5861	
	Median		6.0600	
	Variance		.953	
	Std. Deviation		.97603	
	Minimum		3.91	
	Maximum		6.26	
	Range		2.35	
	Interquartile Range		1.56	
	Skewness		-1.611	.913
	Kurtosis		2.262	2.000
After Demerger	Mean		4.8460	.47388
	95% Confidence Interval for Mean	Lower Bound	3.5303	
		Upper Bound	6.1617	
	5% Trimmed Mean		4.8433	
	Median		4.6200	
	Variance		1.123	
	Std. Deviation		1.05964	
	Minimum		3.55	

Descriptives

		Statistic	Std. Error
	Maximum	6.19	
	Range	2.64	
	Interquartile Range	2.01	
	Skewness	.172	.913
	Kurtosis	-1.484	2.000

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Before Demerger	.304	5	.146	.802	5	.084
After Demerger	.184	5	.200*	.968	5	.864

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

T-TEST PAIRS=Before WITH After (PAIRED)

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before Demerger	5.5360	5	.97603	.43649
	After Demerger	4.8460	5	1.05964	.47388

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Before Demerger & After Demerger	5	-.851	.067

Paired Samples Test

		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	95% Confidence ... Lower
Pair 1	Before Demerger - After Demerger	.69000	1.95867	.87595	-1.74201

Paired
Samples Test

		Paired ...			
		95% Confidence ...			
		Upper	t	df	Sig. (2-tailed)
Pair 1	Before Demerger - After Demerger	3.12201	.788	4	.475

By applying the t- test it was found that, in case of earnings per share before demerger (mean= 5.5360 , S.E= .43649) , after demerger (mean=4.8460 , S.E=.47388) , $t(4)=0.788$, $p>0.05$. Now, since $p>0.05$, we accept H_{01}. Thus it can be said that, there is no significant impact of demerger on EPS.

Net Profit Margin:-
EXAMINE VARIABLES=Before After

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Before Demerger	5	100.0%	0	0.0%	5	100.0%
After Demerger	5	100.0%	0	0.0%	5	100.0%

Descriptives

			Statistic	Std. Error
Before Demerger	Mean		5.1580	.59418
	95% Confidence Interval for Mean	Lower Bound	3.5083	
		Upper Bound	6.8077	
	5% Trimmed Mean		5.1978	
	Median		5.6000	
	Variance		1.765	
	Std. Deviation		1.32863	
	Minimum		3.13	
	Maximum		6.47	
	Range		3.34	
	Interquartile Range		2.37	
	Skewness		-.992	.913
	Kurtosis		.232	2.000
After Demerger	Mean		24.0840	2.15789
	95% Confidence Interval for Mean	Lower Bound	18.0927	
		Upper Bound	30.0753	
	5% Trimmed Mean		24.2333	
	Median		25.9200	
	Variance		23.282	

	Std. Deviation	4.82519	
	Minimum	17.23	

Descriptives

		Statistic	Std. Error
	Maximum	28.25	
	Range	11.02	
	Interquartile Range	9.05	
	Skewness	-.784	.913
	Kurtosis	-1.403	2.000

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Before Demerger	.230	5	.200*	.928	5	.585
After Demerger	.248	5	.200*	.876	5	.292

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

T-TEST PAIRS=Before WITH After (PAIRED)
T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before Demerger	5.1580	5	1.32863	.59418
	After Demerger	24.0840	5	4.82519	2.15789

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Before Demerger & After Demerger	5	-.098	.875

Paired
Samples Test

		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	95% Confidence ...
					Lower
Pair 1	Before Demerger - After Demerger	-18.92600	5.12919	2.29385	-25.29474

Paired
Samples Test

	Paired ...			
	95% Confidence ...			
	Upper	t	df	Sig. (2-tailed)

Pair 1	Before Demerger - After Demerger	-12.55726	-8.251	4	.001

By applying t test it was found that, in case of net profit margin before demerger (mean= 5.1580 , S.E=.59418) , after demerger (mean=24.0840 , S.E= 2.15789) , $t(4)= -8.251$, $p<0.05$. Now, since $p<0.05$, we reject H_{02}. Thus it can be said that, demerger has a significant impact on the net profit margin.

Return on Capital Employed
EXAMINE VARIABLES=Before After

Case Processing Summary

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
Before Demerger	5	100.0%	0	0.0%	5	100.0%
After Demerger	5	100.0%	0	0.0%	5	100.0%

Descriptives

			Statistic	Std. Error
Before Demerger	Mean		6.6380	.99655
	95% Confidence Interval for Mean	Lower Bound	3.8711	
		Upper Bound	9.4049	
	5% Trimmed Mean		6.6083	
	Median		5.7200	
	Variance		4.966	
	Std. Deviation		2.22836	
	Minimum		4.34	
	Maximum		9.47	
	Range		5.13	
	Interquartile Range		4.25	
	Skewness		.492	.913
	Kurtosis		-2.418	2.000
After Demerger	Mean		3.8140	.70922
	95% Confidence Interval for Mean	Lower Bound	1.8449	
		Upper Bound	5.7831	
	5% Trimmed Mean		3.8439	
	Median		4.5600	
	Variance		2.515	
	Std. Deviation		1.58585	
	Minimum		1.59	

Descriptives

	Statistic	Std. Error

	Maximum	5.50	
	Range	3.91	
	Interquartile Range	2.87	
	Skewness	-.661	.913
	Kurtosis	-1.202	2.000

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Before Demerger	.260	5	.200*	.897	5	.393
After Demerger	.281	5	.200*	.920	5	.532

*. This is a lower bound of the true significance.

a. Lilliefors Significance Correction

T-TEST PAIRS=Before WITH After (PAIRED)

T-Test

Paired Samples Statistics

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Before Demerger	6.6380	5	2.22836	.99655
	After Demerger	3.8140	5	1.58585	.70922

Paired Samples Correlations

		N	Correlation	Sig.
Pair 1	Before Demerger & After Demerger	5	-.389	.518

Paired Samples Test

		Paired Differences			
		Mean	Std. Deviation	Std. Error Mean	95% Confidence ...
					Lower
Pair 1	Before Demerger - After Demerger	2.82400	3.19809	1.43023	-1.14695

Paired Samples Test

		Paired ...			
		95% Confidence ...			
		Upper	t	df	Sig. (2-tailed)
Pair 1	Before Demerger - After Demerger	6.79495	1.975	4	.120

By applying t test it was found that, in case of return on capital employed before demerger (mean= 6.638 , S.E= .99655) , after demerger (mean=3.8410 , S.E=.70922) , $t(4)=1.975$, $p>0.05$. Now, since $p>0.05$, we accept H_{03}. Thus, it can be said that demerger has no significant impact on the return on capital employed.

Conclusions

Demergers are often perceived to increase the value for the shareholders of the corporate entities which may materialize in the long run as the rating of the shares take place post the demerger. However, from the present study it was revealed that, there is no significant impact of demerger in Earnings per share and Return on capital Employed whereas, in case of Net Profit Margin the demerger had a significant impact. Here in the case of Gulf Oil Corporation Ltd. it can be inferred that, the demerger effected as a tool for the corporate restructuring process did not create a significant impact on the Earnings per share and the return on capital employed but had created a positive impact on the net profit margin, which is revealed from the results of the paired T test performed in this study by comparison of the relevant figures both pre and post demerger. This study was done in relation to only one specific company, focusing only on three financial parameters. However, further research can be done by including other financial parameters.

References

1. Das B, Rakshit D and Sathya Swaroop D (2019). Corporate Restructuring Merger, Acquisition and Other Forms Himalaya Publishing House, 2019 Edition, 250.
2. Dhingra D and Aggarwal N (2014). Corporate Restructuring in India : A Case Study of Reliance Industries Limited (RIL). Global Journal of Finance and Management. ISSN 0975-6477 Volume 6, Number 9 (2014), pp. 813-820 http://www.ripublication.com
3. Chai. D, Lin K and Veld C (2016). Value creation through spin-offs: Australian Evidence. SSRN : http://ssrn.com/abstract=2832528
4. Goel R. (2013). Impact of Demerger on Shareholder's wealth. https://www.academia.edu/4663960/IMPACT_OF_DEMERGER_ON_SHAREHOLDERS_WEALTH
5. https://www.gulfoilindia.com/investors/investor-information/scheme-of-arrangement/
6. https://www.moneycontrol.com/financials/goclcorporation/ratiosVI/GOC01#GOC01
7. https://www.moneycontrol.com/financials/goclcorporation/ratiosVI/GOC01/2#GOC01
8. https://www.moneycontrol.com/financials/goclcorporation/ratiosVI/GOC01/3#GOC01