DEMERGER AS A CORPORATE RESTRUCTURING STRATEGY IN INDIA: AN INTEGRATIVE REVIEW OF CONCEPTS, DRIVERS, REGULATION, AND VALUE CREATION

Monica Sethi

Assistant Professor
Sri Aurobindo College of Commerce and Management, Ludhiana

ABSTRACT

This paper synthesizes existing literature on demerger as a corporate restructuring strategy in India, examining its conceptual foundations, regulatory framework, strategic drivers, and research gaps through a structured integrative literature review and thematic synthesis of studies across conceptual, legal-regulatory, and strategic dimensions. The review draws upon selected empirical studies categorized into key thematic areas to provide a consolidated understanding of demerger-related research. Findings indicate that demerger announcements are generally associated with positive abnormal returns for shareholders across both global and Indian contexts. The tax-neutral provisions under Section 2(19AA) of the Income Tax Act, 1961 have played a significant enabling role in facilitating demerger activity in India since the late 1990s. Evidence from Indian corporate cases further suggests a transition from ownership-driven restructuring to strategically motivated demergers aimed at value unlocking, enhanced operational focus, and improved capital market positioning. The study suggests that corporate boards should increasingly view demergers as proactive strategic restructuring tools, while regulators may benefit from streamlining NCLT approval processes and strengthening SEBI disclosure requirements, particularly regarding valuation methodologies and post-demerger strategic articulation.

Keywords: demerger, corporate restructuring, spin-off, shareholder value, diversification discount, India, strategic restructuring, integrative review

1. INTRODUCTION

The rapidly changing business environment has encouraged organizations to continuously evaluate their corporate structures and strategic priorities. Globalization, technological transformation, increasing competition, and changing investor expectations have compelled firms to adopt restructuring mechanisms aimed at improving efficiency, strengthening competitiveness, and enhancing long-term value creation (Hoskisson & Hitt, 1994; Bowman & Singh, 1993; Srivastava & Mushtaq, 2011; Owers & Sergi, 2021). Corporate restructuring encompasses various strategies including mergers, acquisitions, divestitures, capital restructuring, buybacks, and demergers, each designed to realign organizational resources with evolving business objectives (Hoskisson & Hitt, 1994; Weston et al., 1998).

While mergers and acquisitions focus on combining business resources to achieve growth and synergy, demergers represent a strategic approach involving the separation of business units to create more focused and independent entities. The underlying rationale of demerger is based on the premise that business components operating separately may generate greater value than when managed together within a diversified corporate structure (Miles & Rosenfeld, 1983; Schipper & Smith, 1983). The separation of business units can improve transparency, reduce organizational complexity, and allow investors to evaluate individual businesses more effectively (Krishnaswami & Subramaniam, 1999).

A diversified organization may face challenges such as managerial complexity, inefficient allocation of resources, difficulty in accurate valuation of individual business segments, and reduced strategic flexibility (Berger & Ofek, 1995). In such situations, demerger provides an opportunity to separate unrelated or mature business divisions, allowing each entity to align its strategies, management capabilities, and investment priorities according to its specific requirements (Schipper & Smith, 1983; Reitzig & Wagner, 2022). The literature on corporate spin-offs further suggests that separation of business units may help eliminate negative synergies and address valuation inefficiencies associated with diversified firms (Krishnaswami & Subramaniam, 1999; Owers & Sergi, 2021).

The Indian corporate landscape has witnessed increasing adoption of demergers, particularly after regulatory reforms introduced in the late 1990s. The demerger movement gained formal momentum when, in paragraph 87 of the Union Budget 1999–2000, the then Finance Minister proposed specific tax-neutrality provisions for demergers to facilitate corporate restructuring (Ministry of Finance, Government of India, 1999). Initially, demergers were often associated with family settlements and ownership restructuring among business groups (Singh et al., 2009). However, over time, the rationale has expanded towards strategic objectives such as improving operational focus, unlocking shareholder value, enhancing transparency, and enabling independent growth of business divisions (Khurana & Gupta, 2013; Vyas et al., 2015). Recent research also highlights that corporate restructuring decisions in emerging markets increasingly reflect strategic refocusing and value unlocking objectives rather than merely financial reorganization (Potharla, 2025).

Several Indian companies have undertaken demergers across diverse sectors, reflecting different strategic motivations. These include restructuring initiatives by large business groups for ownership realignment, separation of unrelated businesses, and creation of focused entities. Demergers have increasingly emerged as a strategic corporate restructuring mechanism, enabling firms to separate distinct business segments, improve managerial focus, enhance operational efficiency, and unlock shareholder value (Halder & Rakshit, 2015)

Although demergers have attracted considerable attention in corporate practice, academic research remains comparatively fragmented. Existing studies have examined aspects such as shareholder wealth effects, stock market reactions, operational efficiency, and strategic motives (Miles & Rosenfeld, 1983; Vyas et al., 2015; Aggarwal & Garg, 2019; Krishnaswami & Subramaniam, 1999; Bendre & Apte, 2017). However, there remains a need for a consolidated review integrating conceptual, regulatory, and strategic perspectives (Owers & Sergi, 2021; Deng et al., 2025).

Accordingly, this paper addresses this gap and aims to synthesize existing literature on demergers and examine the evolution of demerger as a corporate restructuring mechanism in India. The paper focuses on four major dimensions: (i) conceptual framework, (ii) regulatory framework governing demergers in India, (iii) the key strategic drivers of demerger activity among Indian corporates, supported by a structured review of existing literature, and (iv) emerging research gaps and future directions.

2. CONCEPTUAL AND THEORETICAL FRAMEWORK

2.1 Meaning and Nature of Demerger

Corporate growth strategies have historically favoured expansion through mergers and acquisitions. However, experience has shown that larger does not always mean better. When diversification leads to complexity, inefficiency, or misalignment of business interests, separation rather than consolidation becomes the more rational strategic choice (Bowman & Singh, 1993).

Demerger refers to the corporate restructuring process whereby a company separates one or more of its business undertakings into distinct, independently operating entities. Unlike a merger, which combines two or more entities into one, a demerger disaggregates an existing corporate structure to allow each resulting entity to pursue its own strategic direction, attract its own investors, and be evaluated on its own merits (Gaughan, 2018). The underlying premise is that business units, when freed from the constraints of a diversified parent, may generate greater value independently than they would collectively (Schipper & Smith, 1983).

In the Indian context, demerger is broadly understood as the transfer of one or more undertakings by a demerged company to a resulting company, with the resulting company issuing shares to the shareholders of the demerged company in consideration of such transfer (Ministry of Finance, 1961). This distinguishes demerger from a simple asset sale or liquidation — the business continues as a going concern, and existing shareholders retain an economic interest in the separated entity.

2.2 Forms of Demerger

Demerger can take one of three principal forms, each distinct in its mechanism and shareholder implications (Gaughan, 2018). In a spin-off, the parent company distributes shares of the subsidiary to its existing shareholders on a pro rata basis, typically as a special dividend, with no cash consideration received by the parent; the spun-off entity becomes an independent company with its own management (Schipper & Smith, 1983), and in India this form attracts capital gains tax exemption under Section 47(vib) of the Income Tax Act, 1961, making it the most widely adopted form. In a carve-out, the parent sells some or all of the subsidiary's shares to the public through an IPO, thereby receiving a cash inflow and establishing an entirely new shareholder base in the subsidiary; a carve-out often serves as an intermediate step preceding a full spin-off (Allen, 1998). In a split-off, shareholders of the parent are offered shares in the subsidiary but must choose between retaining their parent company shares or exchanging them for subsidiary shares, making participation voluntary and distribution non-pro rata — a structure typically employed when the parent wishes to consolidate its own shareholder base or when the subsidiary's expected investor profile differs substantially from the parent's (Weston, Chung & Siu, 1998).

2.3 Theoretical Underpinnings

Several theoretical perspectives explain why demergers create value, and understanding these provides the analytical foundation for the discussion that follows in this paper.

The information asymmetry argument holds that diversified firms are inherently difficult for outside investors to value accurately, as multiple unrelated businesses obscure each division's true performance and growth potential. Separation resolves this by allowing each entity to be evaluated independently, improving price discovery and reducing the cost of capital (Krishnaswami & Subramaniam, 1999).

The diversification discount theory provides a related but distinct rationale. Empirical evidence consistently shows that diversified firms trade at a discount relative to a portfolio of comparable focused firms, implying that the market assigns lower value to conglomerate structures (Berger & Ofek, 1995; Lang & Stulz, 1994). Demerger addresses this by dismantling the conglomerate and allowing each unit to be priced on its own fundamentals.

ISSN: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
Journal Website www.nrjbfm.in

The focus hypothesis extends this logic to operations. When a firm separates a division that operates in a different industry from its core business, management attention, capital allocation, and strategic planning all become more focused. Studies have documented that focus-increasing demergers — where parent and resulting company operate in distinct industries — generate stronger post-demerger operating performance improvements than demergers within the same industry (Daley, Mehrotra & Sivakumar, 1997).

Finally, agency theory offers a governance-based rationale. Large diversified organisations create conditions for managerial entrenchment, cross-subsidisation of underperforming divisions, and misalignment between management incentives and shareholder interests. Demerger reduces organisational complexity, tightens accountability, and aligns management focus with clearly defined business objectives (Jensen, 1986).

3. LITERATURE REVIEW METHODOLOGY

This paper adopts an integrative literature review approach to collate and synthesize existing conceptual, empirical, and regulatory literature on demergers as a corporate restructuring strategy in the Indian context. An integrative review enables researchers to combine diverse forms of evidence, including theoretical discussions, empirical studies, and practical perspectives, to develop a comprehensive understanding of a research area (Torraco, 2005; Snyder, 2019). This approach is particularly suitable for examining demergers as a multi-dimensional corporate restructuring strategy involving strategic motivations, shareholder value implications, legal provisions, and corporate restructuring practices.

Relevant literature was identified through academic databases and research repositories, including Google Scholar, Scopus-indexed publications, Web of Science sources, JSTOR and institutional repositories. The search process focused on key terms such as "demerger", "corporate restructuring", "spin-off", "shareholder wealth", "value creation", "Indian corporate restructuring", and "demerger regulations". The use of multiple databases and keyword combinations helps improve coverage and reduces the possibility of overlooking relevant literature (Snyder, 2019).

The review included research articles, conceptual papers, legal statutes, regulatory documents and published studies focusing on demergers and related restructuring strategies. Priority was given to studies examining shareholder reactions, strategic motivations, financial performance, governance implications, and regulatory aspects. Selection of literature based on relevance and thematic alignment is consistent with integrative review practices (Torraco, 2005). To ensure transparency and traceability of the reviewed literature, individual studies are presented in a structured tabular format documenting the title, key variables, major findings, and research gaps identified by each study (Table 1).

The selected literature was analysed through thematic categorization to identify recurring research patterns and emerging perspectives. The selected literature was analysed through thematic categorization by grouping studies into key themes such as conceptual foundations, drivers, regulatory dimensions, operational and managerial focus, shareholder wealth effects, ownership restructuring in Indian business groups, and value creation outcomes of demergers. The thematic synthesis is presented in a consolidated table (Table 2) mapping each theme to its key insights and representative studies, enabling a systematic comparison of research contributions across dimensions.

The review approach enables a broader understanding of demerger beyond individual corporate cases by integrating theoretical perspectives with practical experiences and identifying areas requiring further research (Snyder, 2019).

The existing literature on demerger as a corporate restructuring strategy is reviewed in this section through two complementary approaches. Section 2.1 presents a study-wise review of selected literature documenting key variables, findings, and research gaps. Section 2.2 synthesizes the reviewed studies through thematic categorization to identify dominant research patterns and conceptual clusters.

4. REVIEW OF LITERATURE AND EMERGING THEMES

4.1 Study-wise Review of Selected Literature

Table 1 presents a synthesized review of significant studies on corporate restructuring, demerger, and shareholder value creation relevant to the Indian and global context. The literature collectively affirms that demergers, particularly spin-offs, are associated with positive abnormal returns for shareholders and improved post-demerger financial performance:

Table 1: Study-wise Review of Selected Literature on Demerger

Author(s) & Year	Title of Study	Key Focus / Variables	Major Findings	Research Gap / Implications
Miles & Rosenfeld (1983)	The Effect of Voluntary Spin-off Announcements on Shareholder Wealth	Spin-off announcements, shareholder wealth, abnormal returns	Found significant positive abnormal returns around voluntary spin-off announcements in the US market, establishing the foundational evidence for spin-off value creation.	Called for investigation into the long-term sustainability of post-spin-off gains across different market conditions.
Schipper & Smith (1983)	Effects of Recontracting on Shareholder Wealth: The Case of Voluntary Spin-offs	Recontracting, voluntary spin-offs, shareholder wealth effects	Demonstrated that spin-offs create value primarily by resolving negative synergies between unrelated business divisions and improving operational focus of parent firms.	Recommended research into regulatory and tax determinants of spin-off frequency across jurisdictions.

ISSN: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
Journal Website www.nrjbfm.in

Krishnaswami & Subramaniam (1999)	Information Asymmetry, Valuation, and the Corporate Spin-Off Decision	Information asymmetry, valuation, spin-off decision, capital market access	Established that firms with higher pre-spin-off information asymmetry benefit the most from spin-offs. Post-spin-off, information problems decrease significantly and firms with higher growth opportunities show greater propensity to spin off.	Suggested further examination of information asymmetry effects in emerging markets where disclosure norms differ from developed economies.
Singh, Bhowal & Bawari (2009)	Impact of Demerger on Shareholders' Wealth	Demerger, shareholders' wealth, negative synergy, value unlocking	Found that after demerger there is an increase in the total wealth of shareholders in almost all cases studied in India. Demergers remove negative synergy and unlock previously trapped value.	Noted that results are time-specific (bullish market conditions) and called for longitudinal studies across different market cycles.
Khurana & Gupta (2013)	Effectiveness of Demerger as a Tool for Wealth Creation	Demerger effectiveness, wealth creation, Indian companies	Established through selected Indian cases that demerger results in measurable wealth creation for shareholders of both parent and resulting companies, validating demerger as a strategic tool.	Recommended a larger, sector-wide empirical study to generalize findings across the Indian corporate landscape.
Halder & Rakshit	Corporate Restructuring Through	EPS, DPS, ROCE, RONW, EVA, MVA,	Conducted a case study-based analysis	Suggested use of the Kinked Exponential

(2015)	Demerger in India	SVA, share prices, demerger	of the impact of demerger on key financial indicators — EPS, DPS, ROCE, RONW, EVA, MVA and SVA — and found broadly positive effects on corporate performance post-demerger in India.	Model for share price analysis and called for broader multi-sector sampling.
Vyas, Pathak & Saraf (2015)	Impact of Demerger Announcement on Shareholder Value: Evidences from India	Demerger announcements, abnormal returns, event study methodology	Studied 51 demergers of listed Indian companies (2012–2014) using event study methodology. Found significant outperformance over benchmark indices post-announcement, with 1.74% average abnormal return on announcement day.	Recommended extension of the event window and inclusion of post-demerger operational performance metrics.
Bendre & Apte (2017)	Effect of Spin-Off on Shareholders' Wealth	Spin-offs, shareholder wealth, abnormal returns, India	Studied 24 spin-offs in India (2012–2017) and found that demerger activity has an overall positive effect on shareholders' wealth, consistent with findings from developed market studies.	Suggested cross-sectional analysis comparing spin-off performance across different market capitalisation categories.

ISSN: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
Journal Website www.nrjbfm.in

Aggarwal & Garg (2019)	Impact of Spin-Off Restructuring Strategy on Performance of Parent Company: Evidence from India	Parent company performance, spin-off, stock price reaction	Found that average abnormal return (AAR) is highest on announcement day (Day 0) and cumulative AAR peaks at Day +1, consistent with US-based studies. Established that Indian spin-offs create shareholder value similar to developed market counterparts.	Recommended investigation of post-restructuring operational and governance outcomes beyond short-term price effects.
Padmanabhan (2018)	Impact of Demerger Announcement on Shareholder Value: Evidences from India	Demerger announcement, price reaction, listed Indian companies	Confirmed that demerger announcements in India generally lead to positive abnormal returns, with evidence of information leakage prior to formal announcement dates.	Called for stronger regulatory monitoring of pre-announcement trading activity and disclosure standards.

The above studies are further synthesized thematically in Table 2 to identify dominant research patterns and conceptual clusters.

4.2 Thematic Categorization of Literature

The selected literature was analysed again through thematic categorization to identify recurring research patterns and conceptual clusters. The reviewed studies were organized under seven broad themes as presented in Table 2. This thematic synthesis provides a structured foundation for the conceptual and empirical analysis undertaken in this paper:

Table 2: Thematic Categorization of Reviewed Literature on Demerger

Theme	Key Insights	Representative Studies
Conceptual Perspectives of Demerger	Early literature established the conceptual distinction between spin-offs, carve-outs, and split-offs. Spin-offs were identified as the most prevalent form due to their tax-neutrality advantages and shareholder distribution benefits. These foundational studies defined the theoretical basis upon which subsequent empirical research has been built.	Schipper & Smith (1983); Miles & Rosenfeld (1983); Hite & Owers (1983); Weston, Chung & Siu (1998)
Motives and Drivers of Demerger	Literature identifies a spectrum of demerger drivers including elimination of negative synergies in diversified conglomerates, managerial complexity reduction, improved strategic focus, tax neutrality incentives, and capital market access. The diversification discount — whereby diversified firms trade at lower market valuations than comparable focused firms — provides the core financial rationale for dismantling conglomerates through demerger.	Schipper & Smith (1983); Berger & Ofek (1995); Lang & Stulz (1994); Daley, Mehrotra & Sivakumar (1997); Singh, Bhowal & Bawari (2009); Hoskisson & Hitt (1994)
Legal and Regulatory Framework	The legal architecture governing demergers in India is defined by the Companies Act, 2013 and the Income Tax Act, 1961. Tax neutrality provisions have been identified as a critical enabler of demerger activity since 1999. Procedural complexity under the NCLT approval process and SEBI disclosure requirements remain areas requiring reform. Compliance with going concern transfer and proportionate share issuance conditions is mandatory for tax-neutral treatment.	Ministry of Corporate Affairs (2013); Ministry of Finance (1961); Schipper & Smith (1983); Bowman & Singh (1993); Weston, Chung & Siu (1998)
Impact on Financial Performance	Post-demerger studies examining accounting-based financial indicators — including EPS, DPS, ROCE, RONW, EVA, MVA, and SVA — broadly report positive changes in financial performance following demerger. The consensus suggests that performance improvements are more pronounced when the separated entities operate in distinct industries, as focus-increasing demergers tend to generate stronger	Halder & Rakshit (2015); Daley, Mehrotra & Sivakumar (1997); Khurana & Gupta (2013); Vyas, Pathak & Saraf (2015)

	operational gains than purely financial restructuring.	
Value Creation and Market Reaction	The largest body of demerger literature examines shareholder wealth effects using event study methodology. Studies consistently document positive average abnormal returns around demerger announcement dates in both global and Indian markets. Indian market evidence further reveals instances of pre-announcement information leakage, raising concerns about disclosure standards and regulatory monitoring of trading activity prior to formal announcements.	Miles & Rosenfeld (1983); Schipper & Smith (1983); Singh, Bhowal & Bawari (2009); Vyas, Pathak & Saraf (2015); Bendre & Apte (2017); Aggarwal & Garg (2019); Padmanabhan (2018); Krishnaswami & Subramaniam (1999)
Ownership Restructuring and Family Business Considerations	A distinctive feature of the Indian demerger landscape is the prominence of ownership restructuring and family partition as demerger triggers. In promoter-driven business groups, demerger is often the instrument through which business interests are separated among family branches or across generations. Empirical evidence suggests that even family-driven demergers generate positive market reactions, as investors interpret ownership simplification as a reduction in agency conflicts and conglomerate complexity.	Singh, Bhowal & Bawari (2009); Khurana & Gupta (2013); Aggarwal & Garg (2019); Hoskisson & Hitt (1994); Bowman & Singh (1993)
Sector-Specific Evidence and Case Studies	Case-specific research provides granular insight into demerger outcomes at the company and sector level. Indian studies have examined demergers across manufacturing, infrastructure, information technology, consumer goods, and diversified conglomerate sectors. Such sector-level and company-level studies are important for contextualizing aggregate statistical findings and understanding the operational realities of post-demerger performance.	Halder & Rakshit (2015); Khurana & Gupta (2013); Singh, Bhowal & Bawari (2009); Aggarwal & Garg (2019); Bendre & Apte (2017)

The thematic categorization presented above provides the conceptual foundation for the subsequent discussion in this paper. The reviewed literature highlights several recurring themes relating to the strategic, financial, and governance dimensions of demergers. These themes are further synthesized to develop a broader understanding of the key drivers and implications of demergers.

5. LEGAL FRAMEWORK FOR DEMERGER IN INDIA

Demerger as a corporate restructuring mechanism in India is primarily governed by the Companies Act, 2013, the Income Tax Act, 1961, and applicable regulations issued by the Securities and Exchange Board of India (SEBI) for listed entities. Together, these provisions establish the legal procedure, tax treatment, disclosure requirements, and investor protection framework within which demergers are implemented (Ministry of Corporate Affairs [MCA], 2013; Ministry of Finance, 1961; SEBI, 2015).

5.1 Demerger under the Companies Act, 2013

The Companies Act, 2013 does not expressly define the term *demerger*. However, demergers are undertaken through the framework of compromise or arrangement provided under Sections 230–232 of the Act. Section 230 enables a company to propose an arrangement between itself and its members or creditors, subject to approval by the National Company Law Tribunal (NCLT) (MCA, 2013).

The Explanation to Section 230(1) provides an inclusive understanding of *arrangement*, covering corporate reorganizations undertaken through restructuring schemes. Accordingly, a demerger is implemented through a scheme that specifies the transfer of the identified undertaking, associated assets and liabilities, share entitlement ratio, and other terms of restructuring.

The process generally involves preparation of the scheme, approval by shareholders and creditors as directed by the NCLT, regulatory scrutiny, and final sanction by the Tribunal. For listed companies, additional compliance requirements relating to disclosures, valuation, and investor protection apply under SEBI regulations (MCA, 2013; SEBI, 2015).

5.2 Demerger under the Income Tax Act, 1961: Definition and Tax Neutrality

The Income Tax Act, 1961 provides a specific definition of demerger under **Section 2(19AA)**. A demerger refers to the transfer of one or more undertakings of a demerged company to a resulting company pursuant to a scheme of arrangement, subject to prescribed conditions (Ministry of Finance, 1961).

For a transaction to qualify as a demerger under tax law, the following requirements must be satisfied:

- All assets of the transferred undertaking become the property of the resulting company;
- Liabilities relating to the undertaking are transferred to the resulting company;
- Assets and liabilities are transferred at their book values;
- The resulting company issues shares to shareholders of the demerged company on a proportionate basis;
- Shareholders continue to hold ownership in the resulting company as prescribed under the Act; and
- The transfer takes place on a going concern basis.

Compliance with these conditions enables the transaction to qualify as a tax-neutral demerger. Such a demerger does not attract immediate capital gains tax on transfer of assets to the resulting company, and shareholders are not taxed merely on receipt of shares in the resulting company. This tax-neutral treatment has significantly supported the adoption of demergers as a restructuring strategy in India by allowing companies to reorganize businesses without immediate tax burden (Ministry of Finance, 1961).

5.3 Demerger under SEBI Framework

For listed companies, demergers are additionally governed by SEBI regulations to ensure transparency, adequate disclosures, and protection of shareholder interests (SEBI, 2015). Under the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, listed entities undertaking schemes of arrangement are required to disclose material information relating to the restructuring, including the rationale, valuation details, fairness opinion, and impact on shareholders.

The scheme is reviewed by stock exchanges, and regulatory observations or a no-objection letter are required before the matter is placed before the NCLT for approval. This framework aims to promote fair valuation, informed decision-making by investors, and equitable treatment of shareholders (SEBI, 2015).

Thus, the Indian legal framework enables demergers by combining corporate law provisions, tax incentives, and securities market regulation, thereby balancing restructuring flexibility with stakeholder protection.

6. INDIAN CORPORATE EXPERIENCES OF DEMERGER

The Indian corporate sector provides several examples demonstrating different motivations behind demerger decisions. Table 3 presents selected instances of corporate demergers in India, highlighting the underlying strategic motivations and post-demerger outcomes.

Table 3. Indian Corporate Experiences of Demerger

Company	Year	Rationale for Demerger	Outcome
Reliance Industries Limited	2005–2006	Family settlement and strategic separation of diversified businesses to reduce intra-group conflict and unlock shareholder value	Creation of independently governed entities with distinct strategic directions and improved market-driven valuation
Bajaj Auto	2007–2008	Portfolio restructuring to separate automotive manufacturing from financial services and investment operations	Improved capital allocation efficiency and sharper strategic focus across resulting entities
Larsen & Toubro	2016–2019	Strategic portfolio rationalisation and value unlocking through separation of non-core businesses	Emergence of independent listed entities with enhanced valuation visibility and operational autonomy
Wipro	2013	Structural simplification through separation of diversified non-IT businesses from core IT services	Improved managerial focus on IT services and enhanced operational efficiency in demerged entity

ISSN: 2349-6762
Peer Reviewed & Refereed Journal (IF: 7.56)
Journal Website www.nrjbfm.in

Crompton Greaves	2016	Demerger of power systems and consumer businesses to improve transparency and organisational focus	Formation of CG Power and Industrial Solutions with improved standalone financial visibility
Vardhman Textiles Limited	2010	Strategic separation of steel division to enable focused growth and independent strategic management	Formation of Vardhman Special Steels Limited with enhanced investor visibility and operational autonomy

Note: Author's compilation based on secondary data from company annual reports, stock exchange filings (NSE/BSE), and official scheme of arrangement documents.

7. FINDINGS AND DISCUSSION

This section synthesizes the key insights emerging from the literature review, thematic analysis, and Indian corporate evidence on demergers. The discussion integrates empirical findings, theoretical interpretations, and regulatory context to evaluate demerger as a corporate restructuring mechanism in India.

7.1 Shareholder Wealth Effects and Market Interpretation

A consistent finding across the literature is that demergers generate positive shareholder wealth effects, particularly around announcement events. Empirical studies on Indian firms document significant positive abnormal returns associated with demerger announcements (Singh et al., 2009; Vyas et al., 2015; Bendre & Apte, 2017; Aggarwal & Garg, 2019). These results align with global evidence (Miles & Rosenfeld, 1983; Schipper & Smith, 1983), suggesting that capital markets interpret demergers as value-enhancing restructuring events.

The positive market reaction is generally attributed to expectations of improved transparency, sharper managerial focus, and more efficient capital allocation in the resulting entities. However, the evidence remains largely concentrated on short-term announcement effects, with limited understanding of whether such gains persist over longer horizons. This reflects a broader limitation in the Indian literature, where long-term operational and financial consequences of demergers remain underexplored.

7.2 Ownership Structure and India-Specific Demerger Dynamics

The Indian demerger landscape is structurally distinct due to the dominant role of promoter-led and family-owned business groups. Unlike developed markets, where demergers are primarily driven by strategic portfolio optimisation, a significant proportion of Indian demergers are influenced by ownership restructuring, succession planning, and family settlements.

High-profile cases such as the restructuring of Reliance Industries and Bajaj Auto illustrate how demergers have been used to divide business interests among promoter groups while simultaneously creating independently listed entities. Similarly, demergers within diversified Indian conglomerates, including Crompton Greaves and Larsen & Toubro, reflect a shift toward separating unrelated business segments to improve organisational clarity.

Importantly, even ownership-driven demergers tend to generate positive market reactions. This indicates that investors perceive structural separation as a mechanism for reducing agency conflicts, improving governance clarity, and enhancing valuation transparency, regardless of underlying motives.

7.3 Regulatory Framework and Institutional Enablement

The Indian regulatory framework plays a dual role in shaping demerger activity. On one hand, provisions under the Companies Act, 2013 and Section 2(19AA) of the Income Tax Act, 1961 provide a structured legal foundation that enables tax-neutral restructuring. The availability of tax neutrality has been a critical catalyst in promoting demerger activity in India since the late 1990s (Ministry of Finance, 1961).

On the other hand, the procedural requirements involving the National Company Law Tribunal (NCLT), SEBI disclosures, valuation scrutiny, and creditor/shareholder approvals introduce significant procedural complexity. While these safeguards enhance investor protection and transparency, they also increase compliance costs and extend execution timelines. Thus, the regulatory framework simultaneously facilitates restructuring while imposing institutional constraints on its speed and flexibility.

7.4 Evolution of Demerger as a Strategic Tool

The findings indicate a clear evolution in the use of demergers within Indian corporate strategy. Earlier instances were largely reactive in nature, driven by ownership division or resolution of intra-group conflicts. In contrast, more recent demergers reflect a proactive strategic orientation focused on value unlocking, business simplification, and capital market re-rating.

For example, the demerger initiatives of Wipro and Crompton Greaves demonstrate deliberate attempts to separate diversified businesses in order to improve managerial focus and operational efficiency. Similarly, Larsen & Toubro's restructuring reflects a strategic effort to unlock value from non-core divisions and enhance visibility of distinct business segments.

The Vardhman Textiles–Vardhman Special Steels separation further illustrates how demergers in Indian manufacturing firms can be used to create focused entities with independent growth trajectories and clearer investor positioning. Collectively, these cases indicate that demergers in India are increasingly being used as strategic transformation tools rather than purely financial restructuring mechanisms.

The major strategic drivers emerging from the literature are summarized in Table 4.

Table 4: Thematic Synthesis of Strategic Drivers Emerging from Demerger Literature

Emerging Theme	Insights from Literature	Representative Studies	Illustrative Indian Context
Reduction of Conglomerate Complexity	Demergers enable separation of diversified business segments, reduce organizational complexity, and address valuation challenges associated with diversified firms.	Berger & Ofek (1995); Krishnaswami & Subramaniam (1999)	Separation of distinct business verticals by Indian corporate groups
Strategic Focus and Operational Efficiency	Independent entities allow focused strategies, dedicated management attention, improved accountability, and business-specific resource allocation.	Schipper & Smith (1983); Sudarsanam (2010)	Demergers undertaken to create focused business entities

Shareholder Value Creation and Value Recognition	Separation may allow markets to independently evaluate business units, improve transparency, and unlock hidden value. However, value creation depends on execution and governance quality.	Miles & Rosenfeld (1983); Owers & Sergi (2021)	Listed company restructuring aimed at improving value visibility
Reduction of Information Asymmetry and Better Market Access	Standalone -entities provide clearer financial information, enabling better investor assessment, price discovery, and access to sector-focused capital.	Krishnaswami & Subramaniam (1999)	Focused entities attracting specialized investors
Ownership Restructuring and Governance Improvement	Demergers facilitate promoter realignment, succession planning, and clearer governance structures, especially in emerging markets.	Weston et al. (2004); Reitzig & Wagner (2022)	Family business restructuring in India

7.5 Theoretical Integration of Findings

The empirical and case-based evidence aligns strongly with multiple theoretical perspectives. The diversification discount hypothesis suggests that conglomerates trade at lower valuations due to complexity and inefficiencies, which demergers help eliminate by separating unrelated business units (Berger & Ofek, 1995). Similarly, the focus hypothesis argues that standalone entities benefit from improved managerial attention, better resource allocation, and enhanced strategic clarity, particularly when businesses operate in distinct industries.

Information asymmetry theory further explains the observed market reactions, as demergers improve transparency by enabling investors to value each business independently. Agency theory complements this view by highlighting how demergers reduce managerial inefficiencies, cross-subsidisation, and internal resource misallocation, thereby improving governance outcomes.

Together, these theoretical frameworks explain why demergers are generally perceived positively by capital markets and why they are increasingly adopted as strategic restructuring tools in India.

7.6 Key Research Gaps

Despite growing academic interest, the Indian literature on demergers remains limited in several respects. First, there exists a significant gap in Indian academic literature between the volume of demerger activity and the depth of empirical research examining post-demerger operational and financial performance over the medium to long term. Most studies rely heavily on short-term event study methodologies, focusing primarily on stock price reactions around announcement dates. This leaves a significant gap in understanding long-term operational, financial, and strategic performance outcomes.

Second, there is limited cross-sectoral and longitudinal research examining how demerger outcomes vary across industries, ownership structures, and market cycles. Third, governance-related dimensions such as managerial efficiency, capital structure evolution, dividend policy adjustments, and employee-level impacts remain underexplored.

These gaps indicate the need for more comprehensive empirical designs that integrate market-based, accounting-based, and qualitative governance indicators to fully assess the effectiveness of demergers in emerging market contexts such as India.

7.7 Concluding Synthesis

Overall, the evidence suggests that demerger in India operates as a multi-dimensional restructuring mechanism shaped by strategic, financial, governance, and ownership considerations. While short-term market reactions provide strong support for value creation, the long-term success of demergers depends on post-separation execution, managerial capability, and the ability of resulting entities to sustain independent competitive advantage.

The Indian experience demonstrates a transition from ownership-driven restructuring to strategically motivated demergers aimed at value unlocking and organisational simplification. Cases such as Reliance Industries, Bajaj Auto, Wipro, Crompton Greaves, Larsen & Toubro, and Vardhman Textiles collectively illustrate this evolution. Ultimately, demergers should not be viewed as an end in themselves, but as a strategic process whose effectiveness is determined by the quality of implementation and post-restructuring governance.

8. IMPLICATIONS FOR PRACTICE AND POLICY

The findings of this study have significant implications for corporate managers, investors, and regulators in India. For corporate boards, demergers should be treated as a proactive portfolio restructuring tool rather than a reactive response, with regular assessment of whether the conglomerate structure enhances or dilutes value; successful outcomes further depend on aligning managerial competencies with the specific needs of each resulting entity, supported by early engagement of legal, financial, and valuation experts given the procedural complexity under the Companies Act, 2013. For investors, demerger announcements are generally associated with positive abnormal returns and may signal value unlocking, particularly in cases of negative intra-firm synergies; however, careful evaluation is essential to distinguish genuine strategic restructuring from market-driven announcements, with emphasis on governance quality, managerial capability of the resulting entities, and the transparency of valuation and exchange ratios in scheme documents to ensure fair value realization for minority shareholders. For regulators and policymakers, there is a clear need to streamline NCLT approval timelines to reduce transaction costs, strengthen SEBI disclosure norms around valuation methodology, related-party considerations, and post-demerger strategic plans, and preserve as well as potentially expand the tax-neutral framework under Section 2(19AA) of the Income Tax Act to encourage economically driven restructurings.

9. CONCLUSION

Demerger has emerged as a significant and increasingly mainstreamed corporate restructuring strategy in the Indian corporate landscape, driven by the twin imperatives of family partition and strategic value creation. The conceptual forms of demerger — spin-off, carve-out, and split-off — offer companies varied mechanisms to restructure based on specific organizational and financial objectives. The legal framework under the Companies Act, 2013 and the Income Tax Act, 1961 provides the necessary regulatory architecture, with tax neutrality under Section 2(19AA) serving as a powerful fiscal incentive.

The review of academic literature confirms a broad consensus that demerger activity is associated with positive abnormal returns for shareholders in both global and Indian contexts. High-profile Indian cases such as Reliance Industries, Bajaj Auto, Larsen & Toubro, Wipro, and Vardhman Textiles demonstrate the practical potential of demerger to unlock latent shareholder value, enhance management focus, remove negative synergies, and improve capital market access. The strategic logic of demerger — captured in the maxim that "the parts can be greater than the whole" — is well supported by both theory and evidence.

However, demergers are complex, time-consuming, and can be vulnerable to misuse for stock price manipulation in the absence of strong corporate governance and robust regulatory oversight. The future research agenda should include longitudinal studies examining post-demerger operational and financial performance over three-to-five-year windows, sector-specific analyses of demerger outcomes, the impact of demerger on corporate governance quality and management incentive alignment, and comparative studies of family partition-driven versus strategy-driven demergers in terms of long-term value creation. As Indian corporate structures grow more sophisticated and capital markets deepen, demerger is likely to remain a critical instrument in the corporate restructuring toolkit.

REFERENCES

1. Aggarwal, P., & Garg, S. (2019). Impact of spin-off restructuring strategy on performance of parent company: Evidence from India. *Journal of Management & Public Policy, 10*(1), 12–24.
2. Allen, J. W. (1998). Capital markets and corporate structure: The equity carve-out. *Journal of Financial Economics, 48*(3), 275–299. https://doi.org/10.1016/S0304-405X(98)00009-3
3. Bendre, A., & Apte, G. (2017). Effect of spin-off on shareholders' wealth. *International Journal of Creative Research Thoughts (IJCRT), 8*(3), 1–8.
4. Berger, P. G., & Ofek, E. (1995). Diversification's effect on firm value. *Journal of Financial Economics, 37*(1), 39–65. https://doi.org/10.1016/0304-405X(94)00798-6
5. Bowman, E. H., & Singh, H. (1993). Corporate restructuring: Reconfiguring the firm. *Strategic Management Journal, 14*(S1), 5–14. https://doi.org/10.1002/smj.4250140903
6. Daley, L., Mehrotra, V., & Sivakumar, R. (1997). Corporate focus and value creation: Evidence from spinoffs. *Journal of Financial Economics, 45*(2), 257–281. https://doi.org/10.1016/S0304-405X(97)00018-4
7. Deng, Y., Song, C., Jiang, Y., & Zhao, R. (2025). Corporate spin-offs and corporate value: A systematic review and future research agenda. *Journal of Economics, Finance and Management Studies, 8*(1), 1–15. https://doi.org/10.54254/2754-1169/2024.26894
8. Halder, S., & Rakshit, D. (2015). *Corporate restructuring through demerger in India: A case study-based analysis.* LAP Lambert Academic Publishing.
9. Hite, G. L., & Owers, J. E. (1983). Security price reactions around corporate spin-off announcements. *Journal of Financial Economics, 12*(4), 409–436. https://doi.org/10.1016/0304-405X(83)90044-4
10. Hoskisson, R. E., & Hitt, M. A. (1994). *Downscoping: How to tame the diversified firm.* Oxford University Press.
11. Jain, N., Parashar, A., & Kumar, S. (2025). Creating value through corporate demergers: A study of finance companies listed on the BSE. *The Journal of Indian Management & Strategy, 30*(3), 44–55.

12. Jensen, M. C. (1986). Agency costs of free cash flow, corporate finance, and takeovers. *American Economic Review, 76*(2), 323–329.
13. Khurana, V. K., & Gupta, M. (2013). Effectiveness of demerger as a tool for wealth creation. *JIM QUEST, 9*(1), 42–50.
14. Krishnaswami, S., & Subramaniam, V. (1999). Information asymmetry, valuation, and the corporate spin-off decision. *Journal of Financial Economics, 53*(1), 73–112. https://doi.org/10.1016/S0304-405X(99)00017-3
15. Lang, L. H. P., & Stulz, R. M. (1994). Tobin's q, corporate diversification, and firm performance. *Journal of Political Economy, 102*(6), 1248–1280. https://doi.org/10.1086/261970
16. Miles, J. A., & Rosenfeld, J. D. (1983). The effect of voluntary spin-off announcements on shareholder wealth. *The Journal of Finance, 38*(5), 1597–1606. https://doi.org/10.1111/j.1540-6261.1983.tb03847.x
17. Nazir, S., & Chisti, K. A. (2025). Corporate spin-offs and the wealth of shareholders: Evidence from India. *Global Business Review.* https://doi.org/10.1177/09721509251321613
18. Owers, J. E., & Sergi, B. S. (2021). The ongoing contributions of spin-off research and practice to understanding corporate restructuring and wealth creation. *Humanities and Social Sciences Communications, 8,* Article 134. https://doi.org/10.1057/s41599-021-00807-9
19. Padmanabhan, P. A. (2018). Do demerger announcements impact shareholders wealth? An empirical analysis using event study. *Vision: The Journal of Business Perspective*, 22(1), 22–31. https://doi.org/10.1177/0972262917750233
20. Potharla, S. (2025). *From debt to divestiture: How Indian and global firms reshaped through corporate restructuring* [SSRN working paper]. https://doi.org/10.2139/ssrn.5348941
21. Reitzig, M., & Wagner, S. (2022). Reaping the financial and strategic benefits of a divestiture by spin-off. *Business Horizons, 65*(3), 291–301. https://doi.org/10.1016/j.bushor.2021.03.001
22. Schipper, K., & Smith, A. (1983). Effects of recontracting on shareholder wealth: The case of voluntary spin-offs. *Journal of Financial Economics, 12*(4), 437–467. https://doi.org/10.1016/0304-405X(83)90045-6
23. Singh, R., Bhowal, A., & Bawari, V. (2009). Impact of demerger on shareholders' wealth. *Enterprise Risk Management, 1*(1), 44–59. https://doi.org/10.5296/erm.v1i1.64
24. Snyder, H. (2019). Literature review as a research methodology: An overview and guidelines. *Journal of Business Research, 104,* 333–339. https://doi.org/10.1016/j.jbusres.2019.07.039
25. Srivastava, V., & Mushtaq, G. (2011). Corporate restructuring: A financial strategy. *Asian Journal of Technology & Management Research, 1*(1), 1–12.
26. Torraco, R. J. (2005). Writing integrative literature reviews: Guidelines and examples. *Human Resource Development Review, 4*(3), 356–367. https://doi.org/10.1177/1534484305278283

27. Vyas, P., Pathak, B. V., & Saraf, D. (2015). Impact of demerger announcement on shareholder value: Evidences from India. *Journal of Management & Public Policy, 7*(1), 1–18.

28. Weston, J. F., Chung, K. S., & Siu, J. A. (1998). *Takeovers, restructuring, and corporate governance* (2nd ed.). Prentice Hall.

STATUTORY AND REGULATORY REFERENCES

1. Ministry of Corporate Affairs. (2013). *The Companies Act, 2013* (Sections 230–232). Government of India.
2. Ministry of Corporate Affairs. (2016). *Companies (Compromises, Arrangements and Amalgamations) Rules, 2016.* Government of India.
3. Ministry of Finance. (1961). *The Income Tax Act, 1961* (Section 2(19AA)). Government of India.
4. Ministry of Finance. (1999). *Budget speech 1999–2000: Speech of Shri Yashwant Sinha, Minister of Finance.* Government of India.
5. Securities and Exchange Board of India. (2015). *SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.* Securities and Exchange Board of India.
6. Securities and Exchange Board of India. (2019). *SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2018* (as amended). Securities and Exchange Board of India.