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De-Merger and Its Effect on Performance: A Case Study of Piramal Enterprise Limited

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Anjali Gupta
N.P Singh

Anjali Gupta

Research Scholar, School of Business Management & Commerce, MVN University, Palwal-121105, Haryana, India

N.P Singh

Professor, School of Business Management & Commerce, MVN University, Palwal-121105, Haryana, India

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Abstract

This research paper presents the analysis of the demerger of Piramal Enterprises Limited into two entities, Piramal Pharma Limited and Piramal Financial Services Limited. The research paper examines the impact of demergers on the share prices of Piramal Enterprise Limited, Piramal Financial Services Limited, and Piramal Pharma Limited. On May 8, 2024, PEL completed a reverse merger with its subsidiary, Piramal Capital & Housing Finance Limited (PCHFL), and the combined entity, Piramal Finance Limited (PFL). In addition, the research paper examines the impact of this demerger on the financial metrics such as net sales, net profit, return on equity, and market capitalization. In this manner, the study highlights pre- and post-demerger fluctuations in these metrics, showcasing the demerger's impact on the entities' financial performance. The study also delves into the demerger process, the reason behind the demerger, and its framework in the context of relevant regulations and emphasizes the growing importance of demergers as a strategic tool for business growth.

Keywords: financial performance, operational efficiency, growth opportunities & shareholder value

Introduction

The management of business entities is highly dependent on the effectiveness of corporate strategic decisions and the implementation of these strategic decisions. Management has always been concerned with generating adequate profits from corporate activities for its shareholders and future growth. However, no one can assure with certainty that the firm's policies or strategic decisions will be effective in every case. External factors such as market conditions in the context of firms' acceptability of products and services, economic scenarios, and technological and political factors have an everlasting impact on a firm's performance. The management of a business must develop and implement the best possible policies, keeping in view the internal and external factors. One of the popular strategies that emerged during the 20th century was demerger. Dittmar (2013) reported that demergers were first seen in the USA in the 1920s. It became extremely popular during the 1950s across many countries across the globe (Singh et al. 2009). With time, it became an important policy instrument in all parts of the world. Njeri (2013) reported that the insurance sector was the most active in terms of demergers, carve-outs, split-offs, and break-ups in Kenya. Smith (2015) observed that the telecommunications sector in Europe, which observed many regulatory changes and intense market competition, experiences the highest frequency of demergers and carve-outs. Gonzalez (2017) highlighted that the mining sector witnessed a significant number of split-offs and break-ups due to volatile commodity prices. Chen (2018) reported that the technology sector, notably in China and India, leads in terms of a number of carve-outs and demergers, fuelled by the innovation and market expansion strategies of the firms. The healthcare sector in the United States has seen a surge in demergers and spin-offs, particularly among pharmaceutical companies focusing on specific therapeutic areas, as noted by Roberts and Thompson (2018). Furthermore, Smith and Williams (2020) analyzed the factors of the retail sector in Australia that had experienced a wave of demergers, with major conglomerates breaking into smaller entities to better adapt to market dynamics and consumer preferences.

In the Indian context, demerger, as defined by the Company's Act of 2013 (Ministry of Corporate Affairs, 2013), represents a corporate restructuring in which an entity is separated into two or more entities. These entities can be created as standalone entities, sold, or liquidated. It permits large companies to be separated into multiple companies. Section 2(19AA) of the Income Tax Act, 1961 of India defines a demerger as "the transfer of one or more undertakings from a demerged company

to another company." The phrase has meaning because it shows the scope of legislation concerning demergers.

Keeping this in view, this research paper presents an analysis of Piramal Enterprises Limited, which is demerged into Piramal Financial Services Limited & Piramal Pharma Limited (later known as Piramal Healthcare Limited), and the impact on the performance of Piramal Enterprises Limited as a result of demerger. The objectives are to comprehend the financial and operational performance of Piramal Pharma Limited & Piramal Financial Limited, the de-merged entities of parent company Piramal Enterprises Limited, i.e.:

1. To identify reasons for the demerger of the Piramal Enterprise Limited into Piramal Pharma Limited & Piramal Financial Limited.
2. To study the impact on the capital structure and the market valuation of new entities visa-a-vis Piramal Enterprise Limited.
3. To study the operating performance of Piramal Enterprise Limited visa-a-vis its demerged entities.

To achieve these objectives, this research paper follows a structure of seven sections, starting with a section on brief introduction and followed by the framework of demerger in section 2.0, a literature review in section 3.0, an explanation of the research methodology in section 4.0, results and discussion on the conducted analysis on the reasons behind the demerger and the financial and operational performance before and after the demerger in section 5.0, the impact of the demerger on the financial performance of Piramal Pharma Limited & Piramal Financial Limited in section 6.0.

Framework of Demerger in Regard to Indian Companies Act 2013 and Income Tax Act 1961

According to the Indian Companies Act (Ministry of Corporate Affairs, 2013), demerger can take place in India as part of an arrangement under Section 230 or through the sale of an undertaking via Section 180(1) (a) of the Companies Act 2013. The framework of the arrangement may include the payment of consideration to the demerged firm or its shareholders. It is not necessary to move all properties along with liabilities to the resulting firm. The transferred properties and/or liabilities can be valued at shared values, which are determined based on an agreement between the parties concerned or as per a valuation report provided by

an independent valuer, ensuring compliance with applicable accounting and legal standards.

The provision in the Income Tax Act (Government of India, 1961) states that merger and demerger is a regular feature of the corporate world, and it is duly recognized by Indian Income tax laws. As per the income tax laws, conformance to the norms of "tax neutrality" is a must as part of restructuring requirements. The provisions as mentioned in section 2(19AA) of the Income Tax Act, 1961, state that unless the context otherwise requires, the term demerger to companies means the transfer, under a scheme of arrangement under sections 391 to 394 of the Companies Act (Government of India, 1956), by a demerged company of its one or more undertakings to any resulting company. As per the income tax laws, the seller company is liable to pay capital gain tax on capital profit earned through slump sales. Here are four methods of divestiture such as:

- **Spin-off:** It is a process by which a division or department is converted into a separate company. Shareholders get equity shares in the new company that is created. It is done for better accountability and also profitability accounting. The objectives for spin-offs are (i) focusing on core competency, (ii) enhancing responsibility, and (iii) dividing family business.
- **Split-off:** It is a process by which a single company is divided into two or more companies without any company being a subsidiary. The shareholder gets the shares in all the companies created.
- **Sell-off:** It is the sale of a part firm to a third party. The shareholders of the selling firm do not either get cash or securities. The selling company usually receives cash for the sale.
- **Equity crave-out:** Equity crave-out is the sale of shares of a subsidiary company getting additional cash. Cash is available only to the holding company and not to the shareholders. Venture capital and private equity have contributed to a major extent to the equity crave-out deals.

Piramal Enterprises Limited (PEL) recently went through the demerger process, which was classified as a spin-off. In this kind of corporate restructuring, a corporation creates a new, independent company and distributes shares of the new entity to its existing shareholders.

Review of Literature

The demergers and their financial implications provide a detailed examination of corporate restructuring's multidimensional effects, as seen across various global markets and industries. The literature covering these effects is reviewed in the following part.

Cecchetti (2017) and Rose (2010) emphasized the connection between corporate financial strategies and broader economic systems. Cecchetti's (2017) mentioned that financial ratios help in assessing corporate health, Rose (2010) explored comprehensive insights into effective bank management practices and financial services, highlighting strategies for optimizing financial performance, managing risk, and enhancing customer service within banking institutions.

Singh et al. (2009) focused on demergers in India, emphasizing their strategic role in eliminating negative synergies and restructuring during mature phases of the companies to enhance organizational efficiency. Kirchmaier (2003) examined wealth creation from demergers in Europe, revealing significant positive outcomes and shareholder approval, indicating their financial benefits. Bergh and Lim (2008) explored shareholder reactions to demergers in Europe, finding positive responses that underscore demergers' perceived benefits in value creation and strategic realignment across different regions.

Paramasivan (2009) and Brigham and Houston (2010) mentioned that the principles of financial management and corporate restructuring apply universally across different types of organizations and economic conditions. These studies collectively illustrate the complex dynamics of financial management in the context of demergers, highlighting the importance of strategic planning and effective fund management.

Chai et al. (2018) discussed the long-term benefits, of Australian spin-offs and concluded favourable stock performance. Basak (2016) reported Unilever India Exports Limited's demerger from Hindustan Unilever Limited revealed that this strategic move, assessed through both traditional and modern performance measures, resulted in value creation for stakeholders.

Metha et al. (2019) and Padmanabhan (2018) used statistical methods to measure market reactions, noting mixed instant responses but generally positive abnormal returns, suggesting an overall favorable perception of demergers. Vyas et. al (2015) and Zakaria & Arnold (2012) reported significant positive returns following de-

merger announcements in Indian and Malaysian companies highlighting the context-dependent nature of such corporate actions.

Bao (2017) presents a case where demerger activities at ABN AMRO Bank had little impact on financial performance, illustrating that not all demergers lead to immediate financial benefits. Duguleana (2021) shows post-demerger improvement in financial metrics for Romanian companies and emphasizes the role of internal management in the context of external conditions. Baba et al. (2021) analyzed post-demerger profitability ratios and organizational structure. They inferred that financial performance is not significantly changed but strategic refocusing is a key benefit of demerger.

Based on these studies, it can be inferred that demerger has a positive impact on the performance of the majority of companies with exceptions. This research paper's literature review, as shown in Table 1, also presents an analysis of the impact of demerger on the performance of newly emerged entities and the citations of the findings.

Table1.

Review of Literature

	Authors	Objective	Result	Citations
2003	Kirchmaier	Study wealth creation from demergers in Europe	Found significant positive wealth creation and shareholder approval	44
2009	Paramasivan	Discuss broad financial management theories	Highlighted the universal application of financial management across different organizational types	473
2008	Bergh & Lim	Explore shareholder reactions to demergers in Europe	Positive shareholder reactions to demergers	338
2009	Singh et al.	Compare effects of demergers in India	Elimination of negative synergies, often as strategic restructuring in mature phases	22
2010	Brigham and Houston	Explore the complexities and multifaceted nature of finance	Emphasized the intricacies of finance in asset acquisition and capital funding	553

2012	Zakaria & Arnold	Examine impact of demerger announcements on Malaysian market	Significant positive returns, influenced by spin-off nature and market conditions	4
2015	Vyas et. al	Investigate effects of demerger announcements on stock returns in India	Significant positive returns post-demerger	15
2016	Basak	Analyze long-term financial value post-demerger of Unilever India	Increased financial value, emphasized strategic refocusing	8
2017	Bao	Evaluate the financial performance of ABN AMRO Bank post-demerger	Minimal impact on financial performance	10
2017	Cecchetti	Discuss the use of financial banking ratios	Illustrated the use of ratios as crucial for assessing financial health and operational efficiency	513
2018	Chai et al.	Examine long-term benefits of spin-offs in Australia	Favourable stock performance up to 24 months post-event	1
2018	Padmanabhan	Study market responses to demerger announcements	Generally positive abnormal returns indicating favourable market perception	7
2019	Metha et al.	Assess market reactions to demerger announcements	Mixed immediate reactions but generally positive abnormal returns	1
2021	Baba et al.	Analyse profitability ratios and organizational structure post-demerger	No significant changes in financial performance, but strategic refocusing noted as key benefit	1
2021	Duguleana	Explore impact of demergers on financial metrics in Romanian companies	Improvement in financial metrics post-demerger, highlighting effective internal management	3

Source: Compiled by Author (s)

Table2.

Summary of Demergers in Indian Companies

Year	Company	Demerged in to		Sources
16-12-2010	Hero Honda Limited	Hero Motor Crop Limited	Honda Limited	1,2 & 3
27-11-2012	Zuari Global Limited	Zuari Agro Chemicals Limited	Zuari Global Limited	2 & 3
15-04-2013	NRB Bearings Limited	NRB Industrial Bearings Limited	NRB Bearings Limited	1,2 & 3
12-06-2013	Orient Paper & Industries Limited	Orient Cement	Orient Paper & Industries	2 & 3
14-08-2013	ITC Limited	ITC Limited	ITC hotel Limited	2 & 3
01-10-2013	Future Retail Limited	Future Lifestyle Fashions Limited	Future Retail Limited	2 & 3
24-10-2013	Century Plyboards Limited	Star Ferro & Cement Limited	Century Plyboards Limited	2 & 3
11-11-2013	Jindal Poly Firms Limited	Jindal Poly Inv. & Fin. Limited	Jindal Poly Firms Limited	1,2 & 3
24-01-2014	Welspun Crops Limited	Welspun Crops Limited	Welspun Enterprises Limited	2 & 3
02-07-2014	Marico Limited	Marico Kaya Enterprises Limited	Marico Limited	2 & 3
31-07-2014	Gulf Oil Corporation Limited	Gulf Oil Lubricants India Limited	Gulf Oil Corporation Limited	2 & 3
18-12-2014	Polaris Financial Technology Limited	Intellect Design Arena Limited	Polaris Financial Technology Limited	2 & 3
02-03-2015	Greenply Industries Limited	Greenlam Industries Limited	Greenply Industries Limited	2 & 3
23-10-2018	Ganesh Benzoplast Ltd (GBL)	GBL chemical Ltd	GBL LPG Private Limited	2 & 3
23-07-2021	Jubilant Life Sciences limited (JLS)	Jubilant Pharma limited	Jubilant Life Sciences Limited	1,2 & 3
31-10-2021	Piramal Enterprises Limited	Piramal Pharma limited	Piramal Financial Services Limited	1,2 & 3
12-01-2022	GMR Infrastructure Limited	GMR Airports Infrastructure	GMR Power and Urban Infra	1,2 & 3

03-05-2022	Dhampur Sugar Mill limited	Dhampur Bio Organic limited	Dhampur Sugar Mill limited	2 & 3
03-04-2023	Haldiram Snacks and Food limited	Haldiram Snacks limited	Haldiram Food limited	2 & 3
20-07-2023	Reliance Investment Limited	Jio Financial Services Limited	Reliance Investment Limited	2 & 3

Source: Compiled and adapted according to:

1. Trade Brains. (2023, July 1). Popular demergers in India. Retrieved March 25, 2024, from https://tradebrains.in/popular-demergers-in-india/

2. Moneycontrol. Demerger news and updates. Retrieved March 25, 2024, from https://www.moneycontrol.com/news/tags/demerger.html

3. Business Standard. (2015, March 31). Demerged entities emerge as value creators. Retrieved March 25, from https://www.business-standard.com/article/companies/demerged-entities-value-creators-115033100894_1.html

Additionally, table 2 highlights examples of successful demergers in India, such as the separation of Hero MotoCorp from Hero Honda, etc. These demergers have often resulted in enhanced financial performance by allowing companies to focus on their respective core businesses. For instance, Hero MotoCorp, after its demerger, achieved significant growth in market share and profitability by concentrating on the two-wheeler segment and Hero Honda mainly on the four-wheeler segment.

Research Methodology and Data

The research methodology of the study is exploratory and based on secondary data collected from different sources on the internet, websites, and company reports. The data of the balance sheet, profit and loss statement, and cash flow statement are considered for the purpose. The interpretation of the net profitability ratio, net sales, market capitalization, total value of addition, return on capital employed, earning per share, debt to equity ratio, and dividend per share can reveal financial success. Inventory turnover ratios, asset turnover ratios, current asset turnover ratios, working capital turnover ratios, and total capital employed ratios can be used to assess operating performance. To analyze the impact of demerger, the restructuring net profitability ratio, debt to equity ratio, inventory turnover ratios, asset turnover ratios, current asset turnover ratios, working capital turnover ratios, and total capital employed ratios of financial and operational performance are considered in this study.

The usage of case studies in analyzing the impact of demergers on financial performance is crucial for understanding the nuanced effects of such corporate actions. Case studies provide in-depth insights into specific instances, allowing researchers to explore the complexities and outcomes associated with demergers in real-world contexts. For example, the case study of **Piramal Enterprises Limited** illustrates how the demerger into distinct financial services and pharmaceutical entities led to improved financial metrics, such as increased net profitability and enhanced operational efficiency. This aligns with findings from Gupta and Singh (2021), who emphasized the strategic benefits of demergers, including better resource allocation and focus on core competencies. Similarly, the demerger of **Hindustan Unilever Limited** into separate entities, as analyzed by Basak (2016), demonstrated significant value creation for stakeholders. The case study approach allowed for a detailed examination of financial ratios and market reactions, providing evidence of the positive impact of demergers on shareholder value.

This study analyzes data (both quantitative & qualitative) of the demerger of Piramal Enterprises Limited into Piramal Pharma Limited and Piramal Financial Services Limited available from different sources. These sources are annual reports, financial statements, press releases and existing literature. The collected data was analyzed in the context of the impact on financial metrics and shareholder wealth. Financial data such as net sales, net profit, return on equity, and market capitalization were compiled to assess the performance of Piramal Enterprises Limited and its demerged entities.

Result and Discussion

This section presents the analysis of qualitative and quantitative data collected for the purpose from different sources to achieve the three objectives of the research.

Reasons Behind the Demerger of Piramal Enterprise Limited

This section analyzes the statements with respect to the factors, i.e.reasons responsible for the demerger of Piramal Enterprise Limited into two entities, Piramal Pharma Limited and Piramal Financial Services Limited.

Reason1. Simplification of the Corporate Structure:

Singh (2021) reported that the demerger would simplify the business process. Kumar (2022) mentioned that it would simplify the corporate structure. Poddar

(2021) inferred that the objective of the demerger of Piramal Enterprises Limited was to simplify the company structure and create more focus by dividing the business into two demerged entities. The Press Release (2021) by Piramal Enterprises announced the company's decision to split and streamline its corporate structure. Business Today (2021) also concluded that the demerger would simplify the corporate structure of Piramal Enterprises Limited by forming two listed entities: Piramal Financial Services and Piramal Pharmaceuticals.

Reason 2. Large Pharma Company in India:

Business Today (2021) reported that, because of the demerger, Piramal Pharma Limited will become a large Indian-listed pharmaceutical company with established capabilities in contract development and manufacturing, global distribution of complex hospital generics, and a substantial presence in the consumer products market in India. The press release (2021) further highlighted that Piramal Pharma Limited is expected to be one of the prominent pharmaceutical companies listed on both the National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE). This indicates that one of the key motivations behind the demerger was to establish a significant pharmaceutical entity.

It is evident from the data given in table 3 that Piramal Pharma Limited is still to become the largest company.

Table 3

Market Capitalisation of Big Pharma Companies in India (2022-2023)

Rank	Companies Name	No. of shares	Share price (INR)	Market capitalisation (Million (INR))	Market capitalisation (USD Million)
1	Sun Pharmaceutical ltd.	2381603774	1,590	3786750	45,291.80
2	Cipla Ltd	799777290	1,526.65	1220980	14,603.65
3	Divis Laboratories Ltd.	262635291	4,587.35	12,04,800	14,410.13
4	Zydus Lifesciences Ltd.	991753356	1,192	11,82,170	14,139.46
5	Dr. Reddys Laboratories Ltd.	163788533	6,846.45	11,21,370	13,412.26
6	Torrent Pharmaceuticals Ltd.	338306165	2,950.70	9,98,240	11,939.55
7	Apollo Hospitals Enterprise Ltd.	142425518	6,414.30	9,13,560	10,926.73

8	Max Healthcare Institute Ltd.	959173155	911.9	8,74,670	10,461.58
9	Mankind Pharma Ltd.	398285899	2,164.40	8,62,050	10,310.64
10	Lupin Ltd.	449318674	1,823.65	8,19,400	9,800.52
11	Aurobindo Pharma Ltd.	555724700	1,399.20	7,77,570	9,300.20
12	Alkem Laboratories Ltd.	115772397	5,362.85	6,20,870	7,425.98
13	Abbott India Ltd.	20626357	28,311.35	5,83,960	6,984.51
14	Glaxosmithkline Pharmaceuticals Ltd.	170091779	2,560.50	4,35,520	5,209.08
15	Biocon Ltd.	1174783580	358.1	4,20,690	5,031.70
16	Glenmark Pharmaceuticals Ltd.	275412506	1,412.10	3,88,910	4,651.60
17	Fortis Healthcare Ltd.	744494659	486.8	3,62,420	4,334.76
18	Gland Pharma Ltd.	165746021	2,016.70	3,34,260	3,997.95
19	Global Health Ltd.	269073017	1,209.30	3,25,390	3,891.86
20	Ipca Laboratories Ltd.	251422089	1,234.10	3,10,280	3,711.13
21	Syngene International Ltd.	400360842	748.25	2,99,570	3,583.04
22	Ajanta Pharma Ltd	122865738	2,243.75	2,75,680	3,297.30
23	JB Chemicals & Pharmaceuticals Ltd.	152717345	1,776.55	2,71,310	3,245.03
24	Laurus Labs Ltd.	533946131	467.8	2,49,780	2,987.52
25	Narayana Hrudayalaya Ltd.	198419414	1,252.70	2,48,560	2,972.93
26	Dr. Lal Pathlabs Ltd.	82150839	2,997.90	2,46,280	2,945.66
27	Pfizer Ltd.	45601816	4,867.35	2,21,960	2,654.77
28	Suven Pharmaceuticals Ltd.	254832812	847.85	2,16,060	2,584.21
29	Natco Pharma Ltd.	171355871	1,237.95	2,12,130	2,537.20
30	Poly Medicure Ltd.	96613080	2,096.30	2,02,530	2,422.38
31	Piramal Pharma Ltd.	1304622396	153.6	2,00,390	2,396.78

Source: Compiled and adapted according to

1. MoneyWorks4Me. *Top pharma companies in India*. MoneyWorks4Me. Retrieved April 6, 2024, from https://www.moneyworks4me.com/best-index/bse-stocks/top-pharma-companies-in-india/

2. Companies Market Cap. (2023). On Holding market capitalization. Retrieved April 6, 2024, from https://companiesmarketcap.com/on-holding/marketcap

Reason 3. To Make Piramal Enterprises a Large NBFC in India:

The press release (2021) of Primal Enterprises mentioned that Fininvest Private Limited, the non-banking financial company (NBFC), will amalgamate with Piramal Enterprises Limited to create a large listed NBFC. Business Today (2021) also reported that the amalgamation of Fininvest Pvt Ltd with Piramal Enterprises Limited will result in the formation of a large, listed non-banking financial services (NBFC) entity.

Reason 4. Enhance Global Competition

Singh (2021) and Kumar (2022) both suggested that the demerger would enhance the global competitiveness of Piramal Pharma Limited. Similarly, Poddar (2021) indicated that the demerger could boost the company's competitiveness globally. These assertions were further reflected in the Press Release (2021) and Business Today (2021), which highlighted the potential for increased global competitiveness post-demerger.

Reason 5. Future Growth

Business Today (2021) reported that, according to experts, the demerger will boost the valuation and future growth prospects by transforming Piramal Pharma Limited into an independent entity rather than a subsidiary of a non-banking financial company (NBFC). The Press Release (2021) of Piramal Enterprises also highlighted that the valuation and future growth outlook for Piramal Pharma Limited as an independent entity would be more positive compared to its previous status as a subsidiary of a non-banking financial company (NBFC). Poddar (2021) mentioned that the valuation and potential for future growth of Piramal Pharma Limited as an independent entity would be higher than when it was a subsidiary of an NBFC. Additionally, Kumar (2022) suggested that the valuation and future growth prospects would be better realized by establishing Piramal Pharma Limited as an independent entity instead of being a subsidiary of Piramal Enterprises Limited.

Reason 6.Unlocking Shareholder Value

EDT (2021) reported that the demerger of Piramal Enterprises Limited was expected to unlock significant shareholder value by creating two distinct listed entities—Piramal Pharma Limited (PPL) and Piramal Enterprises Limited (NBFC). This strategic move was anticipated to allow each business to concentrate on its specific sector, which could have led to potentially higher valuations for both enti-

ties. Akash (2021) indicated that the separation enabled the management teams of both entities to focus solely on their respective industries, which may potentially lead to more streamlined decision-making, improved operational efficiency, and more agile responses to market opportunities.

Reason 7. Operational Efficiency

Kumar (2022) stated that with the consolidation of operations into two distinct entities, the demerger had been designed to enhance operational efficiency, enabling faster decision-making and resource allocation in both sectors.

IST (2022) mentioned the Board of Piramal Enterprises Limited approved the demerger of its pharma business, simplifying the corporate structure to enhance operational efficiency. The separation into two listed entities, Piramal Enterprises Limited (NBFC) and Piramal Pharma Limited, aimed to create a sharper focus for each entity, allowing for more efficient management, resource allocation, and accelerated growth.

Financial Ratios of Piramal Enterprises Limited & its Demerged Entities

This section presents the financial performance and wealth creation of Piramal Enterprises Limited, and its demerged entities Piramal Pharma Limited and Piramal Financial Services Limited which is referred to as Piramal Enterprise Limited at stock Market.

Table 4

Financial Ratios & Other Parameters Before Demerger of Piramal Enterprises Limited

Particular	Pre- demerger									
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Net Sales (₹ Million) ($ Million	11534.0 (216.07)	14031.0 (239.43)	18431.0 (302.14)	24014.0 (374.6)	35165.0 (523.28)	37662.0 (578.52)	32886.0 (505.16)	36714.0 (536.75)	20128.0 (285.9)	18247.0 (246.24)
Net Profit (₹ Million) ($ Million)	1307.2 (24.48)	-2315.6 (-39.52)	-3700 (-60.66)	3727.4 (58.14)	10611.5 (157.94)	7767.8 (119.32)	5184.7 (75.80)	-8619.8 (-122.43)	1448.5 (19.55)	399 (5.37)
RONW (%)	1.17	-2.19	-4.05	3.25	8.71	5.38	2.42	-4.41	0.68	13.93
ROCE (%)	1.12	1.51	-3.75	2.92	5.86	4.51	2.04	8.19	7.87	15.71
EPS (₹)	7.7	-13.4	-21.4	21.6	61.49	44.83	28.52	-43.4	6.87	9.11
Debt-Equity Ratio (%)	0.11	0.42	0.64	0.33	1.02	0.54	0.56	0.58	0.31	0.04

Market Capitalisation ($ Billion)	1.64	1.54	2.26	2.6	4.11	7.72	6.24	4.35	4.4	8.47
DPS (₹)	17.5	17.5	52.5	20	17.5	21	25	28	14	0
Total Value Addition (₹ Million) ($ Million	5711.4 (107)	3702 (63.17)	4350.8 (71.32)	3845.1 (59.99)	4241.2 (63.11)	3713 (57.04)	6830.7 (99.86)	5175.8 (73.52)	6675.3 (90.09)	981 (13.20)
Net Profitability Ratio (%)	11.33	-16.5	-20.07	15.52	30.17	20.62	15.76	-23.47	7.19	2.18
Inventory Turnover Ratio	4.32	5.36	6.13	7.48	9.37	10.98	2.23	2.05	4.75	1.27
Asset Turnover Ratio	8.39	8.58	10.89	14.61	13.16	14.78	0.11	0.1	5.83	0.06
Current Asset Turnover Ratio	6.37	3.53	4.91	4.71	10.04	9.67	6.67	12.61	7.38	5.81
Working Capital Turnover Ratio	35.8	14.3	5.57	17.15	6.84	8.59	5.13	3.41	3.09	20.77
Total Capital Employed Ratio	4.55	16.95	25.27	18.59	5.95	13.57	8.13	7.68	7.73	5.21

Source: Compiled and adapted from Moneycontrol. Piramal Enterprises: Balance sheet. Retrieved March 6, 2024, from https://www.moneycontrol.com/financials/piramalenterprises/balance-sheetVI/PH05, and Piramal Enterprises Limited. (2012–2021). Annual reports (2012–2024). Piramal Enterprises Limited. https://www.piramal.com/investor/piramal-enterprises-limited/financial-reports/quarterly-results/

Table 5

Financial Ratios & Other Parameters After the Demerger of Piramal Enterprises Limited Into Piramal Pharma Limited and Piramal Financial Services Limited

Particular	Piramal Pharma Limited			Piramal Financial Services Limited			Piramal Pharma Limited + Piramal Financial Services Limited		
Year	2022	2023	2024	2022	2023	2024	2022	2023	2024
Net Sales (₹ Million) ($ Million	29775.7 (378.8)	33495.9 (408.5)	43253.1 (518)	19277.8 (245.3)	22120.7 (269.8)	27862.3 (333.7)	49053.5 (624.09)	55616.6 (78.25)	71115.4 (851.68)
Net Profit (₹ Million) ($ Million)	3430.5 (43.6)	695 (8.5)	3912.2 (46.9)	5722.8 (72.8)	143333 (1748)	4740.5 (56.8)	9153.3 (116.45)	144028 (1756.4)	8652.7 (103.63)
RONW (%)	6.76	1.32	5.82	59.63	2.47	2.19	27.54	1.78	4.4
ROCE (%)	8.61	4.04	8.39	10.87	5.24	2.19	9.5	4.52	5.96
EPS (₹)	2.91	0.58	3.05	600.56	24.02	20.5	603.47	24.6	23.55
Debt-Equity ratios (%)	0.22	0.31	0.17	0.36	0.25	0.36	0.58	0.56	0.53
Market Capitalisation ($ Billon)	1.65	2.2	3.45	2.38	2.51	2.83	4.03	4.71	6.28
DPS (₹)	0	0	0.11	31	33	10	31	33	10.11
Total value Addition (Million)	3409.7 (43.38)	4347 (53.01)	2668.6 (31.96)	4811.1 (61.21)	29093.5 (354.8)	10389.8 (124.4)	8220.8 (104.59)	33440.5 (407.81)	13058.4 (156.39)
Net Profitability ratio,	11.08	2.01	8.91	25.71	299.53	12.69	18.65	150.77	10.33
Inventory Turnover ratios	2.23	1.79	1.57	1.87	0	0	2.07	1.39	1.22
Asset Turnover ratios,	0.48	0.45	0.5	0.07	0.15	0.12	0.28	0.3	0.31

Current Asset Turnover ratios,	15.2	14.3	13.1	6.15	0.73	0.91	10.7	7.5	6.93
Working Capital Turnover ratios	67.5	84.3	40.7	103.3	0.85	1.06	85.4	42.6	20.3
Total Capital Employed ratios	47.8	40.4	70.8	5.06	4.83	7.11	26.4	22.6	39

Source: Compiled and adapted from: Moneycontrol. Piramal Enterprises: Balance sheet. Retrieved March 6, 2024, from https://www.moneycontrol.com/financials/piramalenterprises/balance-sheetVI/PH05; Piramal Pharma Limited. (2021–2024). Annual reports (2021–2024). Piramal Pharma Limited. https://www.piramal.com/investor/piramal-pharma-limited/financial-reports/annual-reports/

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***$: US$, DPS: Dividend per share.

From the data presented in Table 4 and Table 5, it can be inferred that before the demerger, Piramal Enterprises Limited demonstrated significant growth in net sales, rising from ₹11,534.0 million INR in 2012 to ₹18,247.0 million INR in 2021. Despite this growth in sales, net profit fluctuated, ranging from ₹1,307.2 million (US$216.07 million) in 2012 to ₹399 million (US$5.37 million) in 2021. The company's net profitability ratio showed a decline over the years, reflecting the challenges in maintaining consistent profit margins. In terms of operational efficiency, key ratios such as Return on Net Worth (RONW) and Return on Capital Employed (ROCE) exhibited considerable volatility, peaking at 27.54% and 9.50% in 2022, respectively, but then sharply declining to 1.78% and 4.52% by 2023. Despite these fluctuations, Earnings Per Share (EPS) and market capitalization demonstrated an overall upward trend, suggesting that the company was able to generate value for its shareholders despite challenges in profitability. Additionally, the debt-to-equity ratio remained low, indicating that the company used minimal leverage, with the ratio falling from 0.11 in 2012 to 0.04 in 2021, signalling a conservative approach to financing.

After the demerger, the financial performance of both Piramal Pharma Limited and Piramal Financial Services Limited improved significantly. Combined net sales for both companies rose substantially to ₹4,905.35 million (US$588.64 million) in 2022, and further increased to ₹5,561.66 million (US$667.40 million) in 2023, marking an increase of 168.83% in 2022 and 13.38% in 2023 compared to 2021. The combined net profit surged, particularly for Piramal Financial Services Limited, which saw its profit rise from ₹915.33 million in 2022 to ₹14,402.8 million in 2023, an increase of 166.78% in 2022 and 320.67% in 2023 compared to 2021. The post-demerger period also witnessed improvements in key financial ratios, such as RONW and ROCE, which saw significant increases in 2022, reflecting better capital efficiency. Additionally, EPS experienced a notable boost, signalling improved shareholder returns. While the debt-to-equity ratio increased slightly post-demerger, it remained within manageable limits, with both companies showing a prudent approach to financial leverage. Market capitalization and total value addition also experienced substantial growth, further underlining the positive impact of the demerger on the companies' financial health and value creation.

However, despite an increase in net sales, Piramal Pharma Limited experienced a decline in net profit from 2022 to 2023. This decline was largely attributed to higher operational costs related to capacity expansions and necessary maintenance. The EBITDA margin decreased from 19% in 2022 to 12% in 2023, highlighting the negative impact of increased expenses. The company's inventory turnover ratio and asset turnover ratio showed mixed results, indicating challenges in effectively managing resources. Specifically, the Contract Development and Manufacturing Organization (CDMO) business faced difficulties, although there was a recovery towards the end of the year. Furthermore, the India Consumer Healthcare segment underperformed, exacerbating the overall decline in profits. Additionally, increased borrowings and higher interest rates led to a rise in finance costs, further squeezing net profits. The working capital turnover ratio and current asset turnover ratio reflected the company's efforts to improve short-term asset management, though profitability pressures persisted.

In summary, prior to the demerger, Piramal Enterprises Limited showed growth in net sales and market capitalization but faced challenges with fluctuating net profits and returns. Key ratios such as net profitability, debt-equity, and total capital employed indicated that while sales were growing, operational efficiency and profitability were under strain. Post-demerger, both Piramal Pharma Limited and Piramal Financial Services Limited saw marked improvements in net sales, net

profit, and market capitalization, along with better returns on equity and capital employed. These improvements were accompanied by enhanced operational ratios, including inventory turnover, asset turnover, working capital turnover, and current asset turnover ratios, reflecting the positive operational and financial impact of the demerger on both companies.

Impact of Demerger

The demerger of Piramal Enterprises Limited into Piramal Pharma Limited (PPL) and a financial services company is viewed positively by the investors and shareholders. It facilitated specialized management and targeted development strategies, which increased shareholder value. Bandose (2022) mentioned that Piramal Pharma Limited, following the demerger from Piramal Enterprises Limited, integrates two subsidiaries (Piramal Pharma Limited & Piramal Financial Services) of Piramal Enterprise Limited to achieve a focus on both organic and inorganic growth strategies. The demerger looks to leverage existing assets and increase valuation, with no additional tax obligations projected because of the restructuring. It resulted in optimal corporate operations and market presence in two sectors of the economy. This restructuring permits both companies to continue to operate independently, with their own unique management and governance structures, potentially leading to more efficient operations and targeted performances (Piramal Group 2021). Shareholders obtain direct share allocation in Piramal Pharma Limited , allowing them to keep positions in both the newly formed companies, possibly leading to higher valuations and performance in their respective markets.

Impact of Demerger on Financial Performance

The demerger of Piramal Enterprises Limited into separate financial services and pharmaceutical entities is expected to have a major financial impact and maximize wealth for both companies and their shareholders. ICICI Securities valued Piramal Enterprises Limited's financial services valued at Rs 33,200 core, post-demerger (annual report FY22). The Piramal Enterprises Limited is estimated to achieve an 8-9% return on equity during FY24. The demerger also seeks to optimize capital utilization and achieve a net debt-to-equity ratio of 3.5-4.5 times over the next five years, with goals of doubling assets under management by 2027 and considerably increasing retail disbursements. This is yet to be seen. On the pharmaceutical side, Piramal Enterprises Limited's demerger signifies the consolidation of its pharma business under Piramal Pharma Limited, which is estimated to deliver near-term

growth of roughly 15% and perhaps 25%-28% over the following three years. According to the Piramal Annual Report 2022, Piramal Pharma Limited plays a pivotal role in the contract development and manufacturing organization (CDMO) industry, bolstered by a strong product pipeline and extensive global production and distribution capabilities. The pharmaceutical division's strategic goals include growing its complicated generics and consumer healthcare solutions. Piramal Enterprises Limited shareholders were expected to receive four Piramal Pharma Limited shares along with every Piramal Enterprises Limited share, indicating an obvious financial benefit from the demerger process. This restructure aims to provide more focused management and strategic flexibility to both the financial services and pharmaceutical fields, potentially boosting shareholder value and market performance. The demerger allows each firm to concentrate on its core competencies, operational efficiency, and development objectives while avoiding the limits of a diverse conglomerate structure.

Impact in the Form of Representation on the Board

Prior to the demerger, the representation on the board is significantly influenced by the need to align with the distinct business priorities of the upcoming separate entities. The restructuring phase often leads to changes in board membership and composition to better reflect the strategic goals of each sector-focused company. For instance, the demerger of Piramal Enterprises Limited resulted in the formation of independent boards for its Financial Services and Pharmaceuticals divisions, each equipped with a management team tailored to its specific operational needs.

This shift in board representation is crucial as it allows for more focused governance, enabling each entity to concentrate on its core competencies and strategic objectives. By establishing dedicated boards, the companies can enhance decision-making processes and accountability, ultimately fostering improved operational efficiency and stakeholder engagement.

In summary, the pre-demerger impact on board representation is vital for setting the foundation for effective governance and strategic direction in the newly formed entities.

Post Demerger

Piramal Enterprises Limited's demerger and simplification of the corporate structure are likely to influence the board of directors' representation before the demerger. The demerger resulted in the formation of separate sector-focused listed companies in Financial Services and Pharmaceuticals, each of which has its board of directors and management team. This means that pre-demerger board participation changed to meet the distinct businesses' unique business priorities. As a result, the demerger most likely resulted in changes to the board of directors' membership and structure to better correspond with the new independent listed corporations. (Board of director's Report 2012-2023 & Piramal Group (2021))

Table 6

Member of Board of Piramal Enterprises Limited Before and After Demerger

Piramal Enterprises Limited	Piramal Pharma Limited	Piramal Financial Services limited
Mr. Vaghul	Mr. Peter De Young	Mr. Rajiv Mehrishi
Dr. Swati Piramal	Mr. Vivek Valsaraj	Mr. S Ramadorai
Ms. Nandini Piramal	Mr. Jairaj Purandhare	Mr. Suhail Nathani
Mr. Anand Piramal	Mr. S Ramodorai	Ms. Shikha Sharma
Mr. S. Ramadorai	Ms. Vibha Paul Rishi	Dr. Swati Piramal
Mr. Gautam Banerjee	Mr. Sridhar Gorthi	Mr. Kunal Bahl
Mr. Suhail Nathani	Ms. Nathalie Leitch	Mr. Gautam Doshi
Ms. Anjali Bansal	Mr. Neeraj Bhardwaj	Ms. Anjali Bansal
Mr. Kunal Bahl		Mr. Puneet Dalmia
Mr. Khushru Jijina		Ms. Anita George
Mr. Rajesh Laddha		Mr. Anand Piramal
Mr. Vijay Shah		Ms. Nandini Piramal
Mr. Deepak Satwalekar		Mr. Vijay Shah
Source:		

Source: Adapted according to: Piramal Pharma Limited. (2021;2023). AGM report 2021. Piramal Pharma Limited. https://www.piramal.com/investor/piramal-pharma-limited/corporate-governance/board-committees/; Piramal Enterprises Limited. (2021;2023). AGM report 2021. Piramal Pharma Limited. https://www.piramal.com/investor/piramal-enterprises-limited/corporate-governance/board-of-directors/

Demerger Scheme

The demerger of Piramal Enterprises Limited was executed via a stock swap which aimed to simplify the corporate structure without involving cash flow and to enhance global competitiveness. As reported by Pilla (2022), in the Composite Scheme of Arrangement of Piramal Group (2021) and the Valuation Report of Piramal Group (2021), Piramal Enterprises Limited shareholders received 4 (four) fully paid-up equity shares of Piramal Pharma Limited, each with a face value of Rs. 10, for every 1 (one) fully paid-up equity share of Piramal Enterprises Limited with a face value of Rs. 2 that they held. This arrangement allowed shareholders to retain their existing holding in Piramal Enterprises Limited while also acquiring a proportionate stake in Piramal Pharma Limited.

Share Price Before and After Demerger

Table 7 shows the share performance of Piramal Enterprises Limited (PEL) and its demerged two entities, i.e., Piramal Financial Services Limited (PFSL) and Piramal Pharma Limited (PPL) visa-visa values of Nifty (National Stock Exchange (NSE) Index). It can be inferred from the data given in Table 7 that PEL's shares have witnessed up and down to the extent that a large decline of -22.63% was seen in September 2022. During this period, the correlation with the NSE Index was modestly positive, showing some alignment with larger market movements. Following the demerger, the focus shifts to PFSL and PPL. PFSL experienced a wide range of monthly value of share, from a significant gain of 18.58% in June 2023 to a sharp decline of -14.09% in March 2023. Correlation data reveals a moderate positive relationship between both PEL and PPL with the market index early on, suggesting their share movements were somewhat aligned with the overall market trends. However, there's no on-going correlation data for PFSL and PPL post-demerger. The share prices of Piramal Financial Services Limited and Piramal Pharma Limited rose from June to October 2023 due to strong financial results, successful capital raising through a rights issue, debt reduction, and strategic market expansions.

Table 7

Price of Share (₹) of Piramal Enterprise Limited Before and After Demerger

	Piramal Enterprises Limited (PEL)		Piramal Financial Services Limited (PFSL)		Piramal Pharma Limited (PPL)		
Months	Share Price	Change with previous Month (%)	Share Price (Face value)	Change with previous Month (%)	Share Price (Face value)	Change with previous Month (%)	NSE Index (Yearly Market valuation)
Sep-21	1421.59 (2)		-		-		17,718.90
Oct-21	1,424.85 (2)	0.29%	-		-		17,833.05
Nov-21	1,324.41 (2)	-0.75%	-		-		17,051.15
Dec-21	1447.93(2)	0.08%	-		-		17,244.50
Jan-22	1,410.09 (2)	-2.68%	-		-		17,301.05
Feb-22	1,202.82 (2)	-17.23%	-		-		16,481.60
Mar-22	1,272.39 (2)	5.46%	-		-		17,519.20
Apr-22	1,249.10 (2)	-1.86%	-		-		17,329.25
May-22	1,077.18 (2)	-15.96%	-		-		16,578.45
Jun-22	965.33 (2)	-11.58%	-		-		15,774.50
Jul-22	1,040.02 (2)	7.18%	-		-		17,079.50
Aug-22	1,064.50 (2)	2.29%	-		-		17,414.95
Sep-22	868.00 (2)	-22.63%	-		-		16,798.05
Oct-22	-	-	850.80 (2)		159.52 (10)		17,910.20
Nov-22	-	-	829.00 (2)	-2.63%	131.84 (10)	-21.00%	18,625.70
Dec-22	-	-	834.70 (2)	0.68%	112.74 (10)	-16.94%	18,259.10
Jan-23	-	-	866.95 (2)	3.72%	103.22 (10)	-9.22%	17,731.45
Feb-23	-	-	773.90 (2)	-12.02%	77.05 (10)	-33.97%	17,383.25
Mar-23	-	-	678.35 (2)	-14.08%	67.63 (10)	-13.93%	17,210.35 ($2.51 B)
Apr-23	-	-	736.75 (2)	7.93%	69.14 (10)	2.18%	17,950.40
May-23	-	-	771.90 (2)	4.55%	79.98 (10)	13.55%	18,594.20
Jun-23	-	-	948.00 (2)	18.56%	91.21 (10)	12.31%	19,076.85

Jul-23	-	-	1,023.00(2)	7.33%	102.44 (10)	10.96%	19,666.35
Aug-23		-	1,058.90 (2)	3.39%	102.85 (10)	0.40%	19,375.55
Sep-23		-	1049.35 (2)	-0.91%	102.05 (10)	-0.78%	19,581.20
Oct-23		-	980.00 (2)	-7.07%	103.00 (10)	0.92%	19,232.95
Nov-23		-	933.00 (2)	-5.03%	126.45 (10)	18.54%	20,108.50
Dec-23		-	930.00 (2)	-0.32%	138.90 (10)	8.96%	21,737.65
Jan-24		-	916.25 (2)	-1.50%	144.80 (10)	4.07%	21,487.25
Feb-24		-	916.00 (2)	-0.02%	132.45 (10)	-9.32%	21,935.20
Mar-24		-	853.00 (2)	-7.39%	132.95 (10)	0.38%	22,163.60 ($2.63 B)
	0.65		0.48		0.60		

Source: Compiled and adapted from: Investing.com. Piramal Healthcare historical data. Investing.com. Retrieved December 6, 2023, from https://in.investing.com/equities/piramal-healthcare-historical-data; Live Mint. Piramal Enterprises share price: NSE, BSE. Live Mint. Retrieved December 6, 2023, from https://www.livemint.com/market/market-stats/stocks-piramal-enterprises-share-price-nse-bse-s0003118/

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Conclusion

Based on the data presented in earlier sections, it can be concluded that demerger has an impact on financial performance metrics such as net sales, net profit, return on equity, return on capital employed, earnings per share, debt-equity ratios, and market capitalization before and after the demerger. The analysis revealed the ups and downs of financial parameters following the demerger, highlighting how the separation has influenced the financial performance of the two newly formed enti-

ties. The demerger of Piramal Enterprises Limited into separate financial services and pharmaceutical entities is also expected to have a positive impact on financial performance and shareholder value with the creation of distinct sector-focused listed companies.

The study emphasized the growing importance of demergers as a strategic tool for business growth, enabling companies to reassess their corporate structures and make informed decisions. Additionally, this study provided essential insights into the financial performance and market dynamics of these companies, offering valuable implications for investors and stakeholders seeking to understand their growth trajectories and relationships with broader market trends. According to the main research question, the demerger of Piramal Enterprises Limited into Piramal Pharma Limited and Piramal Financial Limited reflects a strategic move to enhance operational efficiency, optimize valuations, and unlock growth potential. This separation allows both entities to focus on their respective industries, creating long-term value for stakeholders and shareholders. Overall, the demerger aims to optimize corporate operations, enhance valuation, and strengthen market presence for both entities.

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