**A CASE ANALYSIS ON THE DEMERGER OF ITC HOTELS LTD**

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**ABSTRACT**

The merger and demerger processes of business enterprises are a corporate strategy that has an impact on the firm as well as on other stakeholders. The recent demerger of ITC group of hotels has shown such a trend.

This demerger process has a tremendous impact on the company, its internal and external stakeholders. This strategic decision also affected the market performance of and the corporate image as well This paper presents a qualitative case study on a disintegration process, and explores and analyzes what forces influence and shape disintegration process, and how a company can remain competitive during the process

**Keywords:** demerger, Sensex, benchmark equity index

**Objective of the Study**

This study has been undertaken with the purpose of analyzing the market impact of the demerger of ITC group of hotels in the recent time period.

The impact of demerger on the various stakeholders’ group is also analyzed

**NATURE AND SCOPE OF THE STUDY**

This is a causal study based on the case analysis of a selected diversified group i.e. ITC Hotels Ltd The data and resources have been obtained by exploring the secondary sources as company website and other business newspapers,, magazines for obtaining the informations .

The scope of the study is confined only to the demerger process of ITC group of hotels happening in 2023.

**ANALYSIS & INTERPRETATION**

There has been a lot of interest in the ITC Hotels demerger. “One critical point that should be kept in mind by the shareholders is unlike mergers or demergers involving two different sets of shareholders, the ultimate economic beneficiary in this transaction, directly and indirectly, will remain with the shareholders of ITC.

Thus, there is no real valuation or share swap ratio involved here irrespective of the share entitlement ratio ITC has underperformed Sensex since the FMCG major announced the demerger of ITC Hotels Shares of ITC have declined 2.6% since July 2024 ITC’s shares had surged nearly 48 per cent on a year-to-date basis till July 21st. ITC’s public shareholders will proportionately hold 60 per cent and ITC Ltd. will retain 40 per cent of ITC Hotels, as per the announcement. “If a shareholder has a 5 per cent stake in ITC, he will own 3 per cent directly and 2 per cent indirectly of ITC Hotels,” the share entitlement ratio that will be announced by ITC is just a mathematical exercise largely based on the overall capital structure plan for ITC Hotels.

The ratio will define the post-listing share price of ITC Hotels (market capitalization/no. of shares) and will have no impact on the market capitalization or ownership pattern of ITC Hotels.

While quoting Mr. Sharma who said that if one takes, say Rs 50 crore as the initial share capital of ITC Hotels, then assuming a face value of Re 1 per share, ITC Hotels will issue 75 crore new shares to the shareholders of ITC. In this way, ITC shareholders will own 60 per cent of the shares of ITC Hotels (75/125) and the balance of 40 per cent will be with ITC (50/125). The share entitlement ratio will be an outcome of the fresh shares issued by ITC Hotels (75 crore above) divided by the share capital of ITC which was about 1244 crore shares as on 30th June 2023 and would work out to 1:16.5 in the illustration above.

**FINDINGS OF THE STUDY**

Similarly, he further said that if the initial share capital of ITC Hotel is, say, Rs 100 crore, ITC Hotels will issue 150 crore new shares to the shareholders of ITC and ITC shareholders will still own a 60 per cent stake in ITC Hotels (150/250) with balance 40 per cent stake owned by ITC and the corresponding share entitlement ratio would work out to be 1:8.3 in this scenario.

If one starts with a different initial share capital of ITC Hotels, the share entitlement ratio could change. But whatever be the capital structure of ITC Hotels and the consequent share entitlement ratio, the ownership pattern and total market capitalization of ITC Hotels will be the same; only the per share value will change basis the resultant share capital of ITC Hotels.

**CONCLUSION**

The study provides management with an example case of how a particular company in the Fast Moving Consumer Goods (FMCG) industry dealt with a demerger. Certain characteristics, such as the need to constantly maintain distribution, put demands on the demerger which both companies should adapt. The importance of a transition structure was one example of how consideration needed to be taken to the market situation first and foremost. Planning of how to disintegrate must be organized only after the transition can be ensured. If the operative aspects were sound during the merger, employees will be inclined to collaborate until the end, according to this case, something which managers may find useful. The case has shown that negotiations play a determining role for the impact on each of the two demerging companies. It also illustrates the unexpected situation and challenge for employees, when having tough negotiations facing friends and previous colleagues. Managers in a demerger process need to be well-prepared and clearly structure how much negotiations can and should escalate in the process

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