

ACCOUNTING PERSPECTIVE OF CORPORATE SPIN OFF – A CASE STUDY

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High Court's Order on Demerger Scheme

On 8th December, 2016 the Hon'ble High Court of Gujarat at Ahmedabad has directed that a meeting of the equity shareholders of the Applicant Company (Sintex Industries Limited), be convened and held at the registered office of the company at Kalol, Gujarat on Tuesday, the 17th January, 2016. Abiding by the order of Hon'ble court, company convened the meeting of equity shareholders of Sintex Plastics Limited on the said date and 98% of the shareholders in person or through proxy voted in favor of the proposal of demerger.

Keywords: Spin off, stock split, share exchange ratio

The Case Study

Merger and Demerger are done to have synergy benefits and corporate dieting, respectively. Sintex Industries Limited initiated demerger scheme to have focused attention on its core business value and creating an organized grouping of the activities of similar nature. The ensuing case study is to test accounting knowledge of participants in recording financial transactions in the books of accounts relating to:

- Issue of shares/debentures.
- Split of shares.
- Issue of shares in the event of corporate demerger.

Sintex industries limited – an overview

Sintex Industries is primarily engaged in the business of Textiles and Plastics. Sintex Industries' Textile Division is carrying on the business of manufacturing and distribution of niche structured yarn and dyed textiles related products. Sintex Industries' Plastic Division has basically two verticals namely Custom Moulding Business and Prefab Business based on their business characteristics and customer profiles.

Table # 1: Details of Share Capital of Sintex Industries as on 30th November, 2016

Particulars	Amount (Rs. in Crores)
Authorized Capital 65,00,00,000 equity shares of Re. 1/- each	65.00
Issued Capital 52,35,04,421 equity shares of Re. 1/- each	52.35
Subscribed and Paid-up Capital 52,34,72,621 equity shares of Re. 1/- each fully paid-up	52.35

History of Share Split by Sintex Industries Limited

Sintex Industries had, in 1981 issued 50,000 equity shares of INR 100/- each, of which 49,682 equity shares were subscribed and 318 equity shares remained unsubscribed. On 8th October 1991 the face value of equity shares of Sintex Industries was split from INR 100/- each into INR 10/- each and consequently, these 318 equity shares of the face value of INR 100/- each were split into 3,180 equity shares of INR 10/- each. On 17th September 2005, the face value of the equity shares of Sintex Industries was split from INR 10/- each into INR 2/- each and, consequently, the 3,180 equity shares of the face value of INR 10/- each were split into 15,900 equity shares of INR 2/- each. Subsequently, on 23rd September 2010, the face value of equity shares of Sintex Industries was split from INR 2/- each into INR 1/- each and consequently, the 15,900 equity shares of face value of INR 2/- each were split into 31,800 equity shares of INR 1/- each. Therefore, there is difference of 31,800 equity shares in the Issued Capital and the Subscribed Capital of Sintex Industries.

Business Profile of Sintex Industries Limited

Custom Moulding Business of Sintex Industries is engaged in the business of manufacture of (a) customized components for the automotive sector; (b) Sheet Moulded Compound (SMC) products such as meter boxes, junction boxes, and distribution boxes; (c) Industrial Containers; (d) Fiber Reinforced Plastics (FRP) Tanks (which are used to store diesel, petrol, gas and other hazardous chemicals); (e) Water Storage Solutions (which includes tanks under the brand name of Sintex, Reno, Renotuf and Titus); (f) Blow Moulding Compound (BMC); (g) Plastic Pallets (which caters to various industries such as pharmaceuticals, automotive, electrical, engineering, textiles, fisheries, logistics and warehousing); (h) Insulated Boxes and other products such as packaging crates, starter panel boxes, components for cooling tower sector, etc.; and (i) Sub-ground structures (such as septic tanks, packaged waste water treatment solutions, biogas unit, etc.).

The Prefab Business of Sintex Industries is engaged in the business of manufacture of (a) prefabricated structures (which are used for both temporary and permanent residential, industrial and commercial structures); (b) Plastic Sections; (c) toilet blocks; (d) sandwich panels; and (e) Base Transmission shelters and monolithic construction.

Business Performance of Sintex Industries for the year ending 31st March, 2016

Gross sales of company increased by about 20.50% during the financial year 2015-16, it increased from Rs. 4,0287crore in 2014-15 to Rs. 4,923 crores in 2015-16. At the same time EBIDTA (earnings before interest, depreciation, tax and amortization) increased from Rs. 1,012 crores in 2014-15 to Rs. 1,115 crores in 2015-16.

The business of the company got strengthened during the financial year 2015-16 on account of increased emphasis by The Central Government on 'Swachh Bharat Abhiyan', 'Housing for All' and 'Deen Dayal Upadhyay Gram Jyoti Yojana'. There was a great demand for company's products due to these schemes. The flagship business vertical of the company – Plastic division contributes about 82% sales revenue; this business segment grew from Rs. 3,361 crores in 2014-15 to Rs. 4005 crores in 2015-16 about 19% growth in sales. The textile division of the company reported a revenue growth of about 26.50% it increased from Rs. 725 crores in 2014-15 to 918 crores in 2015-16.

Table # 2: Segment Revenue of Sintex Industries Limited for the year 2015-16.**(Rs. in crores)**

Particulars	Textile	Plastics	Infrastructure	Unallocated	Total
Net Segment Revenue	946	6,385	462	73	7,866
Profit Before Tax	148	860	71	(241)	838

Issue of Debentures by Company

During the year company issued 5,000 9.41%, secured fully redeemable non-convertible debentures of face value Rs. 10,00,000 each of the aggregate value of Rs. 500 crores on 8th October, 2015 through private placement. The maturity tenure of the debentures is five years from the date of issue.

The company has also issued 2,000 – 9.36% secured fully redeemable, non-convertible debentures of the face value of Rs. 10,00,000 each aggregating to nominal value of Rs. 200 crores, on 27th May, 2016 through private placement of securities, for a tenure of ten years.

SINTEX PLASTICS TECHNOLOGY – A WHOLLY OWNED SUBSIDIARY OF SINTEX INDUSTRIES LIMITED

Sintex Plastics Technology is a company incorporated on 4th August 2015 under the provisions of the Companies Act, 2013 in the name of Neev Educare Private Limited. Thereafter, the name of Neev Educare Private Limited was changed to Neev Educare Limited with effect from 13th May 2016. The name was further changed to Sintex Plastics Technology Limited with effect from 1st June 2016.

- To carry on the business as manufacturers of and dealers in all kinds of plastic and plastic products (including all types of water storage tanks) and raw materials used for the manufacture of plastic.
- To carry on the business as manufacturers of and dealers of Custom Moulded products such as Sheet Moulded Compound products, Industrial Containers, Fiber Reinforced Plastic, Plastic Pallets and Insulated Boxes, etc.
- To carry on the business as manufacturers of and dealers in Dies and Tools which are used by the Plastic Processing industries to convert Plastic Raw Materials in desired semi-finished or finished forms.
- To carry on the business as manufacturers of and dealers in Component, Assemblies and Assemblies for Plastic Processing Machines.”
- Sintex Plastics Technology is a wholly owned subsidiary of Sintex Industries. Further, Sintex Plastics Technology is the holding company of Sintex-BAPL and Sintex Infra, respectively.

Table # 3: Details of Share Capital of Sintex Plastics Technology

Particulars	Amount (Rs. in Crores)
Authorized Capital 6,50,00,000 equity shares of Rs. 10/- each	65.00
Issued, Subscribed and Paid-up Capital 2,00,00,000 equity shares of Rs. 10/- each fully paid-up	20.00

Note: Position as on 30th November, 2016

Sintex-BAPL - Wholly Owned Subsidiary of Sintex Plastics Limited

Sintex-BAPL is a company incorporated on 23rd July 2007 under the provisions of the Act in the name of Bright Auto Plastic Private Limited. Subsequently, the name of Bright Auto Plastic Private Limited was changed to Bright Autoplast Private Limited with effect from 17th December 2007 and further changed to Bright Autoplast Limited with effect from 28th December 2010. Thereafter, the name was further changed to Sintex-BAPL Limited with effect from 2nd September 2015.

Sintex-BAPL is engaged in the business of manufacture of injection moulded plastic components for the automotive industry. The product portfolio includes exterior systems (such as front and rear bumper systems, overhead systems, side wall systems, acoustic management and seating systems) and hood systems (such as air dams, nozzle defrosters and radiator fan blades). Sintex-BAPL is a wholly owned subsidiary of Sintex Plastics Technology.

Table # 4: Details of Share Capital of Sintex-BAPL

Particulars	Amount (Rs. in Crores)
Authorized Capital 1,10,00,000 equity shares of Rs. 10/- each	16.10
50,00,000 Redeemable Cumulative Preference Shares of Rs. 100/- each	50.00
Issued, Subscribed and Paid-up Capital 1,60,32,000 equity shares of Rs. 10/- each fully paid-up. 50,00,000 5% Cumulative Preference Shares of Rs. 100/- each fully paid up.	16.32 50.00
Total	66.03

Note: Position as on 30th November, 2016

Sintex Infra – A Wholly Owned Subsidiary of Sintex Plastics Limited

Sintex Infra is a company incorporated on 25th November 2009 under the provisions of the Act in the name of Sintex Infra Projects Limited. Sintex Infra is engaged in the business of monolithic construction and prefabricated structures. Sintex Infra is a wholly owned subsidiary of Sintex Plastics Technology.

Table # 5 : Details of Share Capital of Sintex Infra Limited

Particulars	Amount (Rs. in Crores)
Authorized Capital 30,00,000 equity shares of Rs. 10/- each	3.00
Issued, Subscribed and Paid-up Capital 24,50,000 equity shares of Rs. 10/- each fully paid-up	2.45

Note: Position as on 30th November, 2016

SCHEME OF DEMERGER OF SINTEX INDUSTRIES LIMITED

The Board of Directors of the company have proposed and approved following scheme of demerger:

Demerger of the “*Custom Moulding Undertaking*” comprising all the undertaking, business, activities, properties and liabilities of whatsoever nature and kind and wheresoever situated pertaining to custom moulding business of the company including the company’s investments in its wholly owned subsidiary, namely Sintex Holding B. V. into *Sintex BAPL – Demerged Undertaking -1*.

Demerger of the “*Prefab Undertaking*” comprising all the undertaking, business, activities, properties and liabilities of whatsoever nature and kind and wheresoever situated pertaining to prefabrication business of the company into *Sintex Infra – Demerged Undertaking -2*.

Both the companies are wholly-owned subsidiaries of Sintex Plastic Technologies.

Rationale of Scheme of Demerger

The scheme is expected to establish leadership and management focus on the core business. Carving out of business a separate entity will enable the company to manage business and operations efficiently, help businesses to develop and execute growth plans, strategies and market opportunities. This merger will enable the company to explore and achieve significant growth.

Issue and Allotment of Shares on Demerger

Every eligible equity shareholder of the company (Sintex Industries Limited) to receive two equity shares of Sintex Plastics for every two equity shares held in the company. The issue of shares would be as follows:

One equity share of face value of Re.1/-, fully paid-up each of Sintex Plastics for every two equity shares of face value of Re.1/- each, held by such eligible equity shareholders as on the record date as considered for the transfer and vesting of demerged undertaking -1 in Sintex BAPL; and

One equity share of face value of Re.1/-, fully paid-up each of Sintex Plastics for every two equity shares of face value of Re.1/- each, held by such eligible equity shareholders as on the record date as considered for the transfer and vesting of demerged undertaking -2 in Sintex Infra.

Where any eligible equity shareholder of the company is entitled to fractional entitlements under (i) and (ii) above, the fractional entitlements shall be aggregated for the purpose of determination of the number of shares of Sintex Plastics that such eligible equity shareholders shall become entitle to under the proposed scheme.

CONCLUSION

The facts presented in the case are relevant for maintaining necessary books of accounts. The case presents only one viewpoint relating to (i) issue of shares/debentures, (ii) split of shares, and (iii) issue of shares on demerger of Sintex Industries Limited. While there may be other viewpoints also for evaluating demerger case which are out of the coverage of subject matter i.e., Accounting For Managers.

Discussion Question

Required:

1. Show necessary journal entries as would have been passed by Sintex Industries Limited while issuing debentures during the financial year 2015—16, assuming (a) full paid-up value of debentures was received on application and (b) there was no oversubscription in both the category of debentures.
2. Show the entries as these would have been passed by Sintex Industries Limited from time to time when it carried out share split.
3. Show the entries to be passed by Sintex Plastics Limited to carry out share split.
4. Show how Sintex Plastics Limited will show entries in its books of account and also show post-demerger authorized share capital, issued share capital and subscribed share capital of the company (Sintex Plastics Limited).

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