

# IMPACT OF PANDEMIC CRISES ON CORPORATE RESTRUCTURING EVENTS IN INDIA

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## Abstract

Coronavirus (Covid19) pandemic broke out in February march 2020 in India. To overcome the spread of this disease many social, travel, transportation and economical restriction were applied which affected Global as well Indian economy badly. Financial distress was the main impact of this disaster in Indian market. This paper aimed to analyse the impact of this pandemic on corporate restructuring events (M&A) in Indian economy. It was found by the study that in post pandemic, M&A events plummeted in India as the pandemic halted the whole economy which resulted as the company's market value and shareholders wealth is drastically decreased. But in some industries which were not affected by the pandemic (like pharmaceutical), corporate restructuring emerged as a reviving tool for such industries of India.

**Keywords:** Corporate restructuring, M&A events, Covid19 pandemic, economic stability.

## INTRODUCTION

### Corporate restructuring:

Corporate restructuring is an umbrella term. Many times industry downturns just because of inefficiencies of the complex economic system which harms company's financial health and profitability. Corporate restructuring is used as a reviving tool by the sick industries to uplift the financial and overall performance of the company.

Corporate restructuring is a systematic plan to change the structure, management and operation of company to increase the profitability and sustainability. There are two most important reasons behind the corporate restructuring is financial distress and corporate growth.

### Types of corporate restructuring:

Mainly there are two types of corporate restructuring:

1. **Organizational restructuring:** It implies when the company wants to reorganize its existing structure. This restructuring is adopted to cut down the cost and pay off the outstanding debt of the organization.
2. **Financial restructuring:** In such type of restructuring the company alter its debt-equity portfolio to increase the profitability and sustainability.

### Forms of corporate restructuring:

1. **Merger and acquisition:** it is one of the most important form of the restructuring. It done by buying the business outright or by absorbing the assets of another company. M&A allows a company to rapidly increase the revenue, production, capabilities and market reach of the company. In case of merger two companies voluntarily get merged and a new entity is created whereas in acquisition one company acquires another company. Acquisition may be hostile or friendly.

Mainly there are three types of mergers:

- 1) **Horizontal Merger:** Two entities working on same level are merged.
- 2) **Vertical Merger:** Two companies working in different phase of production and operation are merged.
- 3) **Conglomerate Merger:** Two companies doing completely different business are merged.

2. **Divestment and spin-off:** This mode of restructuring is adopted by the company that wants to consolidate. Where a business unit is no longer in the position to earn the profit and wants to shut down the business and it may consider selling and closing the business. It may be called as the divestment.

- 3. Demerger:** It is a form of restructuring where a firm or company is divided into two separate groups. It is done to reducing the financial burden.
- 4. Strategic alliance:** when two or more organization make an agreement to pursue a set of agreed upon objectives, while remaining separate organizations. It is a kind of collaboration or cooperation.
- 5. Joint venture:** It is a kind of business agreement, when two or more organizations, agreed to pool their resources for the purpose of accomplishing a specific task.

#### **Novel Coronavirus and its impacts on Indian economy:**

The novel coronavirus (Covid-19) originated from Wuhan, China. In the year 2020, the global economy affected badly with the coronavirus pandemic. In recent history, no other crises has hit the global economy as, coronavirus pandemic has hit. It is a virus that grows continuously and became one of the deadliest virus that was killing people worldwide. This pandemic halted the world's economy and affected inversely. India's GDP was drastically fall by 4.7% in the third quarter of the year 2020. Such drop was seen for the first time in the Indian economic history. Not only the Indian economy but the global economy also was affected badly. Many countries imposed transportation restriction, travel restriction, social distance and even complete lockdown to stop the spread of this deadly virus. This strategy proved as very effective tool to control the spread and effect of covid-19 but the impact of crises affected the world's economy inversely. This Coronavirus pandemic affected private consumption, investment and also the foreign trade of India. Many companies reached at the edge of shutting down the business and lots of companies were struggling for surviving in the economy. So for reviving up, such failed and badly affected companies adopted the option of corporate restructuring like merger, acquisition, divestiture, internal reconstruction etc. In this paper we are mainly focusing on the mergers and acquisition events. This disaster affected not only the current health but also the future performance of the companies.

It was also seen that as the effect of the pandemic lots of businesses suddenly cut back and shut the operation as this pandemic halted the whole economy of the India. Millions of employees and workers were terminated or lost their jobs, consumer spending was drastically reduced. So, the mergers and acquisition have plummeted in world as well as in India as a result of this pandemic. Lot of companies lost their market value and share value. This whole scenario put the Indian economy in a dark hole and M&A's were plummeted after the pandemic crises.

#### **Rational of the study:**

Thus, this paper analyzed the impact of Covid19 pandemic on the corporate restructuring events (focusing on M&A) in India.

### **LITERATURE REVIEW**

**Chokari Kooli and Melanie Lock Son (2021)** presented a study that elaborated the impact of corona virus pandemic on the mergers and acquisition. Main objective of this paper was to evaluate the global impact of the disaster on the corporate restructuring events. Descriptive study was done by the researcher and data was analyzed by using the graphical method. Unfortunately the researcher could not reach to the less data was available.

**Noor Fzlinna Fabeil, Khairul Hanim Pazim, Juliana Lang (2020)** evaluated the study on the impact of Covid19 pandemic on the micro enterprise and crises management strategy. This study was done on the companies based in Malaysia. It was found by the research that micro or small industries were significantly affected by this pandemic as compared to large enterprises. This study based on primary data collected from telephonic interviews with micro enterprises. It was suggested in the study that, there was no systematic management of the pandemic crises adopted by the micro enterprises.

**Robin Greenwood Benjamin Iverson David Thesmar (2020)** analysed financial distress and adoption of the corporate restructuring methods by the companies to survive in the competitive market. In the phase of covid19 pandemic many corporate reached at the edge of bankruptcy. So for reviving up, the companies need to reorganize and restructure the company. This study identified the problem after crises and also provided the best possible solution to this situation. Descriptive analysis technique was used. And was concluded the significantly financial distressed company should down its business.

### **OBJECTIVES OF THE STUDY**

1. This paper aims to understand the framework of the corporate restructuring on India.
2. To present the acquisition event of corporate restructuring as a reviving tool for sick industry.
3. To present the analysis impact of covid19 pandemic on corporate restructuring in India.
4. To analyze the reason behind the plummeted M&A events in India.

## RESEARCH METHODOLOGY

This study is based on secondary data collected from various source available like websites, article, newspaper, journals and company's financial statements. Data is mainly extracted from CMIE (center for monitoring the Indian economy) and Prowess database.

This study is a type of qualitative research. Descriptive analysis method is adopted to evaluate the data to get the desired conclusion of the study. Data is collected for three calendar years (2019, 2020 and 2021). Year 2020 is the base year of our study and one pre and post year's M&A events are analyzed to elaborate the impact of the pandemic crises. As the pandemic broke out in the year 2020 so to elaborate the effect of crises calendar year 2020 is taken as the base for the research paper. Data is evaluated for one year pre and one year post pandemic calendar year that are CY 2019 and CY 2021 respectively.

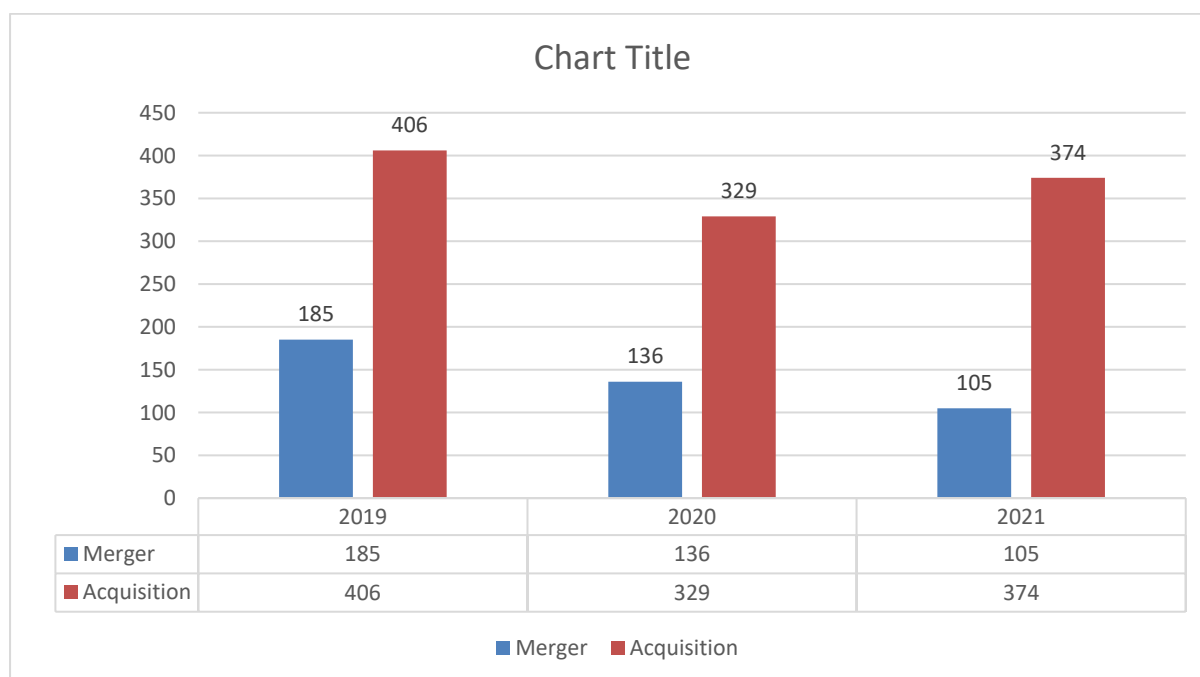
## DATA ANALYSIS

Indian economy was inversely dropdown after lockdown. For 3 months there was complete lockdown in India and most of countries of the world too. This had massive impact on the economic stability in India. Manufacturing, production and transportation industries were completely closed. India's GDP was declining continuously. Historical fall in the GDP was recorded at that period. Trade industries is completely depends on the demand, supply and logistic modal but the sudden lockdown affected the whole process.

Following are main three situation which emerged after the lockdown in this coronavirus pandemic and became the reasons of reducing the M&A events in the Indian economy:

1. Falling valuation: Overall market cap-weighted valuations fell 20 to 25 percent from December 2019 to March 2020.
2. Comparatively low yield on debt: Ten-year government securities were at 5.79 percent on June 8, 2020, compared with 7.0 percent one year ago.
3. Increased liquidity stress: More than 60 percent of top 500 companies had less than 90 days' cash on hand.

Here, some numerical data that has been collected from Prowess (CMIE) are presented in chart form. These are the events of mergers and acquisition took place in the calendar year 2019 to 2021:



So, as we can see in the CY 2019 total numbers of mergers were 185, which took place before this pandemic. In the pandemic year 2020, the numbers of mergers reduced to 136 events. Again in the CY 2021 the merger events decreased by 31 events that was, 105 events. In case of merger, both entities have to lose their existence and a new entity is created.

Now we analysed the acquisition events that took place in the sample year 2019 to 2021. Before pandemic means in the CY 2019, total numbers of acquisitions were 406 but as we can see in the chart in the CY 2020

(base year) the total acquisitions events were reduced to 369 deals. But again in the year 2021, 374 acquisitions deals were closed.

Mergers were plummeted constantly from the year 2019 to 2021 whereas acquisition deals were reduced first in the CY 2020 but in CY 2021 again an increment was seen in the total acquisition deal. Acquisition emerged as the reviving tool for sick and badly damaged companies to resume the profitability, growth and market value of the company.

But if we analyse the both, M&A events as whole, we found that total numbers of deals in the year 2019 was 591. In the next year, that was pandemic year 2020 the numbers of deals were dropped to 465 deals. Because of lockdown many business were shuttered suddenly and drastically decrease in their profitability, growth and market value. Even some companies were not in the position to sustain the business. So in the year 2020 (when pandemic broke out) lots of planned M&A deals were dropped out. Many acquirer companies get back out to the M&A deals when they come to know about the unsustainability of the acquired entity. In next year 2021 the deals again started to increase. As the chart shows in this year (2021) total 480 deals were closed which were higher than the last year. In this year almost all restriction were discontinued. Economy started bloom and get back on track. Companies started their operation in proper manner. So many sick companies were acquired by stronger companies. Acquisition provide synergy to the acquirer and growth and profitability to the company which is acquired company.

## CONCLUSION

- **Objective 1: Impact of covid 19 crises:**

**Impact on merger events:**

In year 2020-21, the economy of India was not like other years since we faced Covid19 pandemic. Multitude adverse effect were seen on M&A. During pandemic, many companies faced financial distress and instability challenges. Many business enterprises were at the door of shutting down the business. Investors, creditors and stakeholder demanded to reposition the company after the pandemic crises in order to get their profits from the companies.

After data analysis it is concluded that there was decreasing trend in merger events in Indian economy because in case of merger generally both companies should be at good or same level but after pandemic lots of companies were destroyed and not in the position to sustain in the market. For this reason many planned merger events were dropped out by the companies. So it was found that pandemic affected the merger events negatively in the Indian economy.

**Impact on acquisition events:**

There was a slight decrease in the acquisition events in the year 2020 as it was the pandemic year but after pandemic that is, the year 2021 an increase was seen in the acquisition events. In case of acquisition a sick and weak company is acquired by the strong and well set up company. So during pandemic lots of companies were lost its existence and were not in the position to sustain in the market, so such damaged companies are acquired by big and strong companies. So acquisition was found as the reviving tool for such sick and damaged companies. Acquisition helped such companies to stand again in the economy and make them able to sustain in the competitive market economy.

- **Objective 2 : Acquisition as reviving tool:**

Increasing trend was seen in case of acquisition. In acquisition a sick company is acquired by a well set and strong entity, which is beneficial for both acquirer and the company which is acquired. After pandemic effect lots of companies were completely destroyed. Acquisition is proved to be a reviving tool to uplift the sick and damaged company and it also created synergy for the acquirer company. By analyzing the data, slight decrease in the acquisition event were seen in the CY 2020 but after opening up of the lockdown economy started to get on track, again an increase in the acquisition event were seen. After pandemic many sick and damaged companies were acquired by the strong and well set company.

- **Objective 3: Reason of plummeted M&A events:**

As conclusion it can be said the deal value and the volume of overall M&A transaction deals are dropped by 15% after the pandemic crises. The reason behind this drop down is lots of M&A's which were planned to be executed in the year 2020, were dropped as the market value and the wealth of the company was demolished by this pandemic. It was observed that disruption by this crises, in Indian economy created uncertainty in the M&A procedure. Complete lockdown and work from home (WFH) halted the Indian economy. As the data analyzed we found that merger's deal trend was continuously decreasing.

## FUTURE SCOPE OF THE STUDY

In this study, effect of pandemic crises is analyzed for three years (2019, 2020 and 2021) only. It is a short term study in which only recent impacts of the crises are evaluated. Further long term effect of the coronavirus pandemic can be analyzed. May be the M&A deal's trend get changed when long term analysis is made. This study evaluated the impacts on the Indian economy as whole but these effects are different for different industries. Some industries are affected significantly (like aviation, travel, transportation etc.), whereas some industry may not be effected as other (like pharmaceutical industries). So in future study can be made industry wise or inter-sector analysis can also be for the same. The study is done only in Indian context but as we know that, this deadly pandemic has affected the global economy so further research can be made in global context.

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