Partial Demerger: The Retained Stake

WHEN CONTROL SHIFTS

See-Through Economics, the Control Shift, and the SEBI Caution

Unlike a mirror demerger, the parent's stake survives

WHAT IT IS, AND HOW IT WORKS: PROMOTERS 40%, PUBLIC 60%

PARTIAL DEMERGER

What it is

The undertaking moves to the resulting company, but the demerged company keeps its existing stake: shareholders hold part directly and the rest through it.

100%	20 : 30	50%	40 : 60	70%	+30
Undertaking Transferred	**Pro Rata Issue**	**Pre-Existing Stake Kept**	**See-Through Economics**	**Votes Under Promoters**	**Control Uplift in Points**
The whole business moves	*50% issued to promoters and public*	*Not cancelled; locked in on listing*	*Unchanged; value does not shift*	*20% direct + 50% through DemergedCo*	*50% retained × 60% public*

WHAT CHANGES, AND WHAT DOES NOT

VALUATION

Substantively moot

On a see-through basis no economic interest changes. Ratio and retention are capital structuring choices

CONTROL

Where promoters exist

Promoters vote the retained block via the demerged company: 40% without a majority becomes 70% with one. ITC, wholly public-held, saw no such shift

TAX

Neutral, with two frictions

Tax neutrality preserved since the conditions of a tax neutral demerger only requires proportionate issuance of shares; cost splits basis net book value

WHERE PROMOTERS EXIST: THREE RESPONSES

01 — MIRROR IMAGE

Cancel the retained stake. If the resulting company needs support, infuse capital after the demerger instead.

02 — PUBLIC SHAREHOLDER VOTE

Majority of minority approval secures the consent of those being diluted, but the control shift itself remains.

03 — RETENTION SIZING

Control tips once retention exceeds (50 − p) ÷ (100 − p): about 17% at p = 40. Public's direct slice should stay at 25% or more.

THE SEBI CAUTION *Value mirrors on a see-through basis; control does not, wherever promoters exist*