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DEMERGERS IN PAKISTAN: A COMPARATIVE ANALYSIS OF PRE AND POST-FINANCIAL PERFORMANCE

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Abstract

The purpose of the article is to compare the financial results of merged and standalone Pakistani businesses. In the current study's performance evaluation, the financial statements of the businesses were used as the secondary data source. As a sample for the study, four demerger occurrences were selected. To compare the financial performance of the selected organizations three years before and after a merger, this study used two approaches. Techniques for evaluating financial performance include the DuPont Analysis, total asset turnover, return on capital used, and earnings per share, net profit margin, and return on equity. Based on the 3 years pre and post-demerger ratio analysis, we came to the end that all the selected companies have not performed very well in all taken parameters. Individually, there is a mixed situation because after demerger some organizations performed very well but others failed to perform according to expectation. The findings showed that several firms improved their financial performance following the demerger. Overall, it was seen that these traits dramatically changed from the pre-demerger to the post-demerger periods.

Keywords: demerger, financial measuring tools, DuPont Analysis, financial performance

Introduction

A merger is an agreement that brings together two existing companies into one new company. Since 2000, there has been a significant increase in mergers and acquisitions worldwide, especially in Pakistan. These corporate restructuring events have been witnessed across various sectors of the economy. In particular, the financial sector in Pakistan has actively engaged in these mergers and acquisitions to reap numerous benefits. By joining forces, the banks can achieve economies of scale and cost savings, ultimately enhancing their competitiveness in the market.

Converse to the merger, demerger is a way through which a company may separate from parent company and give attention to its core objects (Lorenc, Leśniak, Kustra, &Sierpińska, 2023). A sort of corporate restructuring known as a demerger occurs when a business organization separates its activities into several parts. This goes against mergers and acquisitions. A firm transfers one or more of its divisions to another company during a demerger. The company that transfers its divisions is called the parent company, while the company that receives the divisions is called the demerged company.

Demergers are complicated, time-consuming, and require specialist accountancy understanding to avoid complications however, trimming down the sections that are unsuitable for joining another firm through a demerger enables management to increase shareholder value (Breen, 2005). Despite the challenges associated with demergers, it is important for the officers and directors of companies to understand the impact of merger and demerger deals. The term "demerger" was initially used in America in 1920 and has since become common, particularly in the 1950s. Over the past two decades, approximately twelve demerger events have occurred in Pakistan, with the first event taking place in 1997 between SANDOS and Clariant Pakistan Ltd. There are several reasons behind these demerger events, such as when merged companies fail to meet stakeholders' expectations, when the operations of the companies do not align with strategic policies, or when previous mergers and acquisitions prove to be ineffective and need to be undone.

Adams &Kirchmaier (2004) points out that sometimes most of the parent companies don't enjoy any positive synergy between them and their subsidiary companies and they have no ability to compete other players in the market. Demerger, as a corporate restructuring technique, can be successful for both the parent and demerged company in achieving the objectives of the demerger. This can be categorized into three main benefits. Firstly, the separation of a subsidiary from its parent unit through demerger can help a company raise additional equity from the market. Secondly, demerger enables management to focus on their core areas and eliminate misfits in strategic plans, resulting in improved financial performance for the organization. Lastly, demerger aids in improving corporate governance, as it is challenging to manage a large-sized organization.

Problem Statement

In Pakistan, mergers are becoming more common, yet little is known about how they affect organizational effectiveness. Businesses must comprehend the unique possibilities and difficulties that demergers provide, especially regarding financial performance. The previous research conducted in Pakistan has primarily concentrated on examining the effects of mergers and acquisitions on organizations. However, there has been a lack of studies that delve into the financial performance of individual companies after demergers. This research aims to fill this gap by analyzing both the financial performance before and after demergers of organizations. To accomplish this, various financial measurement tools will be employed, along with DuPont analysis. These methods will enable a comprehensive evaluation of the organizations' performance and provide insights into the impact of demergers on their financial outcomes.

Objective of the study

- To evaluate the financial performance in terms of return on capital employed ratio.
- To analyze the pre-demerger and post-demerger performance of the non-financial sector in terms of earnings per share.
- To examine the impact of demerger through net profit margin.
- To test how assets and equity were utilized by the companies before and after demerger.

Research Questions

- How does the return on capital employed ratio change before and after demergers in Pakistani companies?
- What are the shifts in earnings per share performance for non-financial sector companies before and after demergers?

- What is the impact of demergers on the net profit margin of organizations in Pakistan?
- How do companies utilize their assets and equity differently before and after demergers, and what effects does this have on their performance?

Rationale of the study

This study fills a knowledge gap about the financial effects of demergers on enterprises in Pakistan. The impacts of demergers are not as well understood as the effects of mergers and acquisitions. Through the use of a variety of financial measuring methodologies and the analysis of pre-and post-demerger financial data, this research attempts to shed light on the unique possibilities and problems presented by demergers. In the end, this research advances knowledge of the dynamics of corporate restructuring in Pakistan, assisting stakeholders in reaching wise judgments.

Review of Literature

Numerous studies have looked at how mergers and demergers affect a company's success. Comparing the effects of mergers and demergers has generated a lot of research. The effects of demerger on organizational performance have received very little attention.

Merger

According to Kruse et al. (2007) and Clark and Ofek (1994), 69 non-financial enterprises' operating performance increased in five years following their merger compared to the past five years. Sorenson (2000) & Kumar and Rajib (2007) showed that companies engaged in mergers and acquisitions had lower profitability when compared to companies who do not engage in such activities. Langhe and Ooghe (2006) estimated the performance of 143 businesses and discovered that post-merger performance had not improved.

Haider et al. (2015) used Pazarskis (2006) to empirically track the performance of banks in Pakistan after the merger. Between 2006 and 2010, at least one merger and acquisition deal was completed by combining banks listed on the Pakistan Stock Exchange. Research revealed that bidding banks' performance did not increase as a result of mergers and acquisitions. Oliver et al. (1997) employed an approach that Maditinos et al. (2009) noted to determine the banking industry's post-merger performance. The research assessed Alpha Bank's performance across both the short- and long-term horizons. Results demonstrated that Alpha Bank was successful in enhancing post-merger performance.

Mergers and acquisitions (M&A) represent substantial corporate actions accompanied by inherent risks, notably stemming from market commodity price volatility (Savolainen, 2016). Consequently, prior to embarking a merger, the buyer must undertake diligent assessments. Through these due diligence efforts, the buyer will ascertain the most suitable valuation approach, subsequently presenting the determined enterprise value to the seller for further negotiation. It is worth noting that valuation methodologies may vary between the seller and the purchaser, leading to potentially significant disparities in the resulting enterprise value.

Ismail and Rahim (2009) used the work of Caves et al. (1982) to assess the effects of mergers and acquisitions on the efficacy and productivity of Malaysian commercial banks between 1995 and 2005. They discovered that banks demonstrated improved production in both periods and increased efficiency scores following merging. Sufian (2006) employed an event window research, similar to Banker et al. (1984), to investigate the effects of mergers and acquisitions on the effectiveness of Singapore's home banking industry. A window of three years has been chosen for this purpose. The results of the non-parametric frontier technique and data envelopment analysis show that the banking industry has improved its mean overall efficiency since the mergers and acquisitions when compared to its pre-merger efficiency. Following Housten and Ryngaert (1994), Cocris et al. (2011) examined the impact of mergers and acquisitions on bank efficiency in the Central and Eastern European banking industry between 2001 and 2009. The findings demonstrated that following the merger and acquisition, the target banks' efficiency increased.

Mergers and acquisitions (M&A) represent a strategic choice within corporate restructuring initiatives, offering companies expanded avenues to enhance profits, assert control in the market, bolster market share, and strengthen their competitive edge (competitive advantage). This is particularly pertinent in the context of today's global market dynamics, which continue to transcend conventional boundaries and operate on a borderless scale (Gupta PK, 2012).

Demerger

Using financial parameters, Bao, H. (2017) compared the performance of ABN AMRO Bank over three years before and after the demerger and revealed that the event had no appreciable impact on the performance of the bank. Panda and Rao (2012) concluded that performance measuring methods like return on capital employed, return on net worth, earning per share, and net profit margin point to significant improvements in some organizations in the post-demerger era as compared to the pre-demerger. Koh et al. (2005) found that overall corporate divestiture is a value-increasing activity for Singapore businesses when they utilize share prices to explore the impact of demerger announcements.

A demerger refers to the process of breaking up a division within a company into multiple smaller units. In such cases, the newly formed companies, known as transferees, seek independence from the larger parent organization that underwent this division or breakup. The New Oxford Dictionary defines "demerger" as "the separation of a large organization into two or more smaller organizations" (Oxford University Press). A spin-off represents a specific type of demerger, where a company is split into two or more distinct wholly-owned entities by distributing its shares of the subsidiary company proportionally among its existing shareholders. This approach allows both the parent company and the resulting entities to coexist.

When a demerger statement was made, the security significantly outperformed the benchmark index, according to Vyas et al. (2015), who employed the event research approach. This considerable outperformance ranged from a demerger announcement's average abnormal return of 1.74% to 0.16% ten days later. According to Singh et al.'s (2009) analysis of six-month average prices before and after the demerger, there is virtually always a rise in the overall wealth of the owners. Coakley et al. (2008) examined 165 divestitures made by UK companies between 1986 and 1995. These divestitures have a large beneficial impact on shareholder wealth, increasing it by 4.8% in the ten days before and following the announcement.

In 2003, Kirchmaier conducted a study examining market-based indicators to investigate the impact of demerger announcements on a sample of 48 European companies. This research aimed to facilitate comparisons among these companies, irrespective of their differing national accounting systems. The demerged companies were categorized as parent companies and spin-offs, and the analysis period spanned from one and a half years before the demergers to three years following them.

Some economists in Germany view the recent surge in demergers as a corporate trend and argue that it warrants closer scrutiny. They assert that these corporate separations have led to substantial trading returns, particularly benefiting insiders in the German stock market. However, they also argue that demergers may not necessarily address the fundamental, underlying issues faced by these companies.

By pursuing growth in terms of synergy, economies of scale, improved financial and marketing benefits, diversification and concentrated earnings instability, superior inventory organization, increase in domestic market share, as well as to achieve rapidly growing global markets, corporate restructuring is intended to maximize shareholder wealth (Dhingra and Aggarwal,2014). According to Bendre and Apte (2017), the results of 24 demergers have demonstrated that demerger announcements generally increase shareholder wealth. However, of the three time frames, the one from the announcement of the demerger to the listing of the demerged firm, or from the start to finish of the full demerger process, continues to be the most advantageous for the development of shareholder value. 79% of the instances throughout this phase have produced returns that are on average 49%. Only 58% of all equities have generated positive returns during the initial phase, which includes the demerger announcement and effective date, with an average market capitalization rise of 18%. Cox and Jain (2008) examined the operating performance of Canadian-domiciled parent companies by using event study methodology and stated that no statistically significant data was found after the demerger event.

Agency Theory

A key idea in management and economics, agency theory explores the dynamics of interactions between principals and agents in organizations. It suggests that there may be a misalignment of interests when principals, such as shareholders, provide agents, like managers, with decision-making power and resources (Panda & Leepsa, 2017). The reason for this mismatch, known as the "agency problem," is because agents could pursue their own goals, which don't necessarily correspond with the principals'. These conflicts can take many different forms, such as managers putting their own interests or job security ahead of generating shareholder value, making use of information asymmetries to their benefit, or showing risk aversion that is at odds with the objectives of the principals. Several strategies are used to overcome these problems and balance the interests of principals and agents. Strategies for incentive alignment, such as performance-based pay, are designed to make sure that agents' interests are linked to the accomplishment of principals' goals. Mechanisms for supervision and monitoring, such as board governance and financial reporting, help to analyze agent acts and hold them responsible for their choices. In addition, responsibilities are defined, performance standards are stated, and mechanisms for conflict resolution are established through the implementation of contractual agreements and corporate governance frameworks. Agency theory offers a framework for addressing agency issues and promoting efficient governance in companies using these methods (Chen, Wang, & Wang, 2023).

Agency theory is pertinent in the demerger setting because it clarifies the reasons behind and consequences of these corporate decisions. A demerger is the division of a firm into two or more distinct organizations, frequently to generate more shareholder value or more focused operations.

If there are disagreements between shareholders and management over resource allocation, strategic direction, or risk management, a demerger may be attempted, according to agency theory. For instance, shareholders may advocate for a demerger to form distinct companies with more defined goals and accountability frameworks if they feel that specific business divisions are not being managed effectively or that other stakeholders' interests are being overlooked (Tiwari, 2022).

By more closely lining up managers' interests with shareholders, demergers can help solve agency issues. Instead of pursuing a more general set of goals that can clash, managers may be more motivated to concentrate on the particular goals and performance indicators of each business unit if they are organized as distinct entities. Understanding the dynamics of demergers and how they might lessen conflicts of interest between shareholders and corporate management is made easier with the aid of agency theory (Alles,2020).

Methodology

This study's major goal is to compare Pakistan's non-financial sector's financial performance before and after its demerger. The pre-demerger and post-demerger financial performance has been assessed using measuring methods (Accounting Ratios) such Total Asset Turnover (TAT), Return on Capital Employed (ROCE), Earnings per Share (EPS), Net Profit Margin (NPM), and Return on Equity (ROE). However, Sundrarajan et al. (2002) noted that it might be deceptive to depend just on a small number of profitability measures. As a result, the methods from Ong et al. (2011) were applied in this investigation. The financial performance is examined both before and after the demerger using the DuPont analysis. The financial accounts of businesses have provided the secondary data needed for this investigation. All of the businesses that are listed on the Pakistan Stock Exchange and have submitted a demerger plan make up the population. As a sample for the study, four demerger occurrences were selected because only the complete data of these companies were available pre and post-merger. The results are shown in table 1 below.

Table 1: List of sample firms

Sr. No.	Year	Parent Company	Demerged Company
1	2012	ICI Pakistan Ltd.	Akzo Noble Pakistan Ltd.
2	2012	Arif Habib Corporation Ltd.	Aisha Steel Mills Ltd.
3	2013	Sapphire Fibers Ltd.	SFL Ltd.
4	2013	Pakistan International Container Terminal Ltd.	Pakistan International Bulk Terminal Ltd.

DuPont Analysis

DuPont analysis is a multi-step financial calculation that sheds light on the core performance of a company. This type was initially developed by the DuPont Corporation in 1920. The DuPont analysis offers a methodical examination of the major variables influencing a firm's return on equity. To calculate the return on equity's component portions, a DuPont analysis is employed. An investor is able to identify the actions that alter return on equity by applying this technique. This technique may be used to analyze the operational effectiveness of businesses that are comparable. Additionally, managers can apply DuPont analysis to determine the business' strengths and shortcomings. Major indicators of return on equity include operating efficiency, asset utilization efficiency, and financial leverage. Net profit margin and asset utilization serve as indicators of operating efficiency.

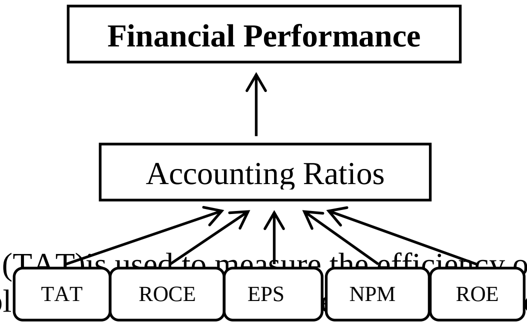
Formula and Calculation of DuPont Analysis

DuPont Analysis=NPM ×AT×EM
Where:
NPM = Net Profit Margin
Net Profit Margin=$\frac{Net\ Income}{Revenue}$
AT=Asset turnover

Asset Turnover=$\frac{Sales}{Average\ Total\ Assets}$
EM=Equity multiplier
Equity Multiplier=$\frac{Average\ Total\ Assets}{Average\ Shareholder's\ Equity}$

Financial Performance

Financial performance is a particular measure of how well a business can use its resources to run and generate revenue. This statistic is also used in isolation to assess the long-term financial stability of a corporation.



Total Assets Turnover

The total asset turnover (TAT) is used to measure the efficiency of an organization to generate sales or revenue by depl er ratio is ideal because it is considered that the company is efficient to raise revenues whereas a lower ratio demonstrates that assets are not being used efficiently and company has internal problems. In a study by Bao, H. (2017) Total Asset Turnover ratio was used to compare ABN AMRO Bank's performance over the course of three years before and after the demerger, and it revealed that there was no effect from the occurrence. By subtracting net sales from the average total assets, one may determine the total asset turnover ratio.

$$\text{Total Assets Turnover} = \frac{\text{Net Sales}}{\text{Average Total Assets}}$$

Return on Capital Employed

The return on capital employed (ROCE) metric measures how efficiently a company uses its capital. This ratio assesses how well a company converts money into earnings. Panda and Rao (2012) observed that the average ROCE grew 115% after the merger as compared to the pre-demerger period when comparing the pre- and post-demerger performance of Indian enterprises. Investors frequently use the return on capital employed ratio to assess if a company is a good investment or not since it is one of the best profitability indicators. A profitable corporation outperforms its rivals in terms of return on investment. EBIT is divided by capital employed to determine return on capital employed.

$$\text{Return on Capital Employed} = \frac{\text{EBIT}}{\text{Capital Employed}} \times 100$$

Earnings per Share

According to Panda and Rao (2012), the average EPS during the post-demerger period is roughly double that of the pre-demerger period. Earnings per share (EPS), often called net income per share, is the fraction of a company's profit allocated to each existing share of common stock. The profitability of the firm is shown by the earnings per share ratio. Earnings per share is calculated as:

$$\text{Earnings per Share} = \frac{\text{Net Income} - \text{Dividend on Preferred Stock}}{\text{Average Outstanding Sahres}}$$

Net Profit Margin

The net profit margin (NPM), commonly referred to as the return on sales ratio, is a profitability indicator that evaluates the amount of net income earned with each rupee of sales. In other words, it refers to the percentage of revenues that are still available after all business expenses have been paid. The bank's net profit increased after the demerger, going from a low of 689 million Euros before the demerger to 1150 million Euros after (Bao,2017). The net income to net sales ratio, or profit margin ratio, is obtained.

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Net Sales}}$$

Return on Equity

Bao, H. (2017) calculated the return on equity of ABN AMRO Bank and explored the enhancement in return on equity in the period of post-demerger as compared to pre-demerger. A company's return on equity (ROE), a measure of profitability, reveals how much profit it makes for each rupee of shareholder ownership. The ROE calculation involves:

$$\text{Return on Equity} = \frac{\text{Net Income}}{\text{Shareholder's Equity}}$$

Results and Discussion

Table 2: Summary of Pre-Demerger and Post-Demerger Performance of Companies

Sr. No.	Year	Demerged Company	TAT		ROCE %		EPS		NPM %		ROE %	
			Pre	Post	Pre	Post	Pre	Post	Pre	Post	Pre	Post
1	2012	Akzo Noble Pakistan Ltd.	1.60	1.19	0.19	0.22	15.4	11.51	0.06	0.11	0.16	0.24
2	2012	Aisha Steel Mills Ltd.	0.05	0.52	0.07	0.10	3.44	-3.25	-1.64	-0.11	-0.18	-0.34
3	2013	SFL Ltd.	1.02	0.16	0.20	0.40	59.51	3.29	0.62	0.85	0.11	0.24
4	2013	Pakistan International Bulk Terminal Ltd.	0.71	0.01	0.33	0.03	9.36	0.04	0.20	-0.62	0.30	0.009

Where:
TAT is Total Assets Turnover, ROCE is Return on Capital Employed, EPS is Earning per Share, NPM is Net Profit Margin and ROE is Return on Equity.
Table 2 reveals the average of three years before the demerger and three years after demerger performance of selected organizations. It is clearly expressed that in terms of total assets turnover ratio, after demerger the Akzo Nobel Pakistan Ltd., SFL Ltd. and Pakistan International Bulk Terminal Ltd. failed to complete their objectives because results indicate 1.19, 0.16, and 0.01 respectively as compared to before the demerger which is 1.60, 1.02 and 0.71 respectively. On the other hand, in terms of the total assets turnover ratio after demerger Aisha Steel Mills Ltd. attained 0.52 as compared to 0.05 which means that the organization picked the post-demerger objectives.
If we keep an eye on ROCE, it is clear that after demerger Akzo Noble Pakistan Ltd., Aisha Steel Mills Ltd. and SFL Ltd. performed better by securing ROCE 22%, 10%, and 40%

respectively against pre-demerger 19%, 7% and 20% correspondingly. Pakistan International Bulk Terminal Ltd. could not hit the targets because after demerger ROCE is 3% as compared to before demerger which is33%.
A close watch on EPS discloses that after partition the selected firms are unsuccessful because their EPS is 11.51, -3.25, 3.29 and 0.04 respectively as compared to pre demerger which is 15.4, 3.44, 59.51 and 9.36 in that order.
In terms of NPM, only Pakistan International Bulk Terminal Ltd. failed to enhance their post-demerger performance by gaining -0.62 against 0.20 of pre-demerger. Rest of the organizations, Akzo Noble Pakistan Ltd., Aisha Steel Mills Ltd. and SFL Ltd. boost up their post-demerger performance after obtaining 0.11, -0.11 and 0.85respectively as compared to pre-demerger 0.06, -1.64 and 0.09 in the same way.

Table 3: DuPont Analysis

Sr. No.	Year	Demerged Company	DuPont Analysis							
			Pre-Demerger				Post-Demerger			
			NPM	AT	EM	ROE	NPM	AT	EM	ROE
1	2012	Akzo Noble Pakistan Ltd.	0.05592	1.80444	1.55424	0.16	0.08694	1.37094	2.01810	0.24
2	2012	Aisha Steel Mills Ltd.	-2.68689	0.05346	1.24861	-0.18	-0.11226	0.51607	6.72265	-0.34
3	2013	SFL Ltd.	0.09019	1.02439	1.16079	0.11	0.61935	0.39771	1.00359	0.24
4	2013	Pakistan International Bulk Terminal Ltd.	0.19753	0.71026	2.16544	0.30	-0.67271	0.01154	1.24527	-0.009

Where:

NPM=Net Profit Margin AT = Assets Turnover
EM = Equity Multiplier ROE = Return on Equity

Table 3 divulged the financial performance of selected firms evaluated under the DuPont analysis. Return on equity measures the profitability of a firm in relation to the stockholder's investment. Higher ROE indicates the efficient utilization of equity and generating more income. After demerger, Akzo Noble Pakistan Ltd. and SFL Ltd. improved their ROE to 24% from 16% and 11% respectively as compared to before the demerger. On the other hand, the post-demerger ROE of Aisha Steel Mills Ltd. is -34% as compared to pre-demerger -18% which means Aisha Steel Mills Ltd. failed to achieve its expected objectives. Correspondingly, Pakistan International Bulk Terminal Ltd. failed to hit post-demerger goals because ROE declined to -0.9% from 30%.

Discussion

The financial performance of the chosen firms, both before and after demergers, as assessed by a variety of financial measures and DuPont analysis, is detailed in the Tables. These results are summarized and important discoveries are highlighted in the discussion that follows.
The Total Assets Turnover ratios show how well businesses use their whole asset base to generate sales or income. Following the demerger, the TAT ratios of Akzo Noble Pakistan Ltd., SFL Ltd., and Pakistan International Bulk Terminal Ltd. declined, indicating possible difficulties in making the most of assets to produce income. On the other hand, Aisha Steel

Mills Ltd. demonstrated a noteworthy enhancement in its TAT ratio following the demerger, signifying improved asset usage efficiency and alignment with the post-demerger goals.
Return On Capital Employed calculates how well a business uses its capital to produce profits. Improved ROCE during the post-demerger era was observed by Akzo Noble Pakistan Ltd., Aisha Steel Mills Ltd., and SFL Ltd.; this suggests increased profitability and efficient use of capital. But after demerger, Pakistan International Bulk Terminal Ltd. saw a drop in ROCE, suggesting possible issues with capital use or operational effectiveness.
A company's profitability and capacity to produce profits for each outstanding share are shown by its earnings per share (EPS). All of the chosen firms' EPS decreased during the post-demerger period, indicating difficulties in sustaining or growing profitability following the demerger. A number of variables, such as the expenses of restructuring, changes to operations, or changes in market dynamics, might be responsible for this reduction.
Net Profit Margin calculates a company's profitability by determining the percentage of revenue that is kept as net profit after all costs are deducted. Following the demerger, Akzo Noble Pakistan Ltd., Aisha Steel Mills Ltd., and SFL Ltd. all saw increases in NPM, pointing to improved cost control and profitability. However, Pakistan International Bulk Terminal Ltd. saw a decrease in NPM following the demerger, indicating possible issues with income generation or cost control.
Return on Equity (ROE) measures a company's profitability in relation to shareholder equity and indicates its capacity to produce returns for investors. Akzo Noble Pakistan Ltd. and SFL Ltd. showed increased ROE following the demerger, suggesting increased profitability and the development of shareholder value. On the other hand, ROE post-demerger declined for Pakistan International Bulk Terminal Ltd. and Aisha Steel Mills Ltd., indicating difficulties in using equity effectively and producing returns for shareholders.
Through a review of the factors affecting return on equity, the DuPont analysis offers a thorough assessment of financial performance. Following the demerger, there were improvements in net profit margin, asset turnover, equity multiplier, and other important metrics for Akzo Noble Pakistan Ltd. and SFL Ltd. that contributed to higher ROE. On the other hand, following the demerger, these components showed reductions for Pakistan International Bulk Terminal Ltd. and Aisha Steel Mills Ltd., which reduced ROE.
The results point to a mixed effect of demergers on the financial standing of particular Pakistani corporations. After the demerger, some companies saw gains in important financial indicators, but others had trouble staying profitable and providing returns to shareholders. These findings highlight the significance of careful assessment and calculated planning while navigating demerger procedures to optimize shareholder value and organizational effectiveness

Conclusion

The non-financial industry is one of the global industries that is expanding swiftly and offering more work possibilities. The effects of mergers on the financial and non-financial sectors of the global economy, particularly in Pakistan, have been the subject of several studies. This study used several accounting ratios and DuPont analysis to fill the void left by demerger analysis in the non-financial sector. Based on the analysis of the ratios for the three years prior to and following the demerger, we came to the conclusion that none of the chosen companies had performed particularly well in terms of any of the parameters we used, including the total turnover of assets (TAT), return on capital employed (ROCE), earning per share (EPS), net profit margin (NPM), return on equity (ROE), and DuPont Analysis.

Individually, the outcome is mixed since some firms fared exceptionally well following the demerger, while others underperformed. Overall, it was noted that these characteristics significantly improved in the post-demerger period compared to the pre-demerger period. Following the demerger, some businesses improved, while others fell short of expectations. However, when looking at the non-financial industry as a whole, these metrics significantly improved following the demerger. This suggests that the demerger had a favorable effect on the sector's overall performance. It's vital to remember that this study concentrated solely on Pakistan's non-financial sector. To assess the effects of demerger in other industries, further study is required.

Limitations of the study

- Difficulty in getting financial data of all demerger events, we are restricted to selecting only four demerger events.
- Secondary data is used to evaluate performance in this study. As a result, there is the possibility that it seals the reality and accurate image.
- The time window used in this study is three years before and three years after the demerge event. Normally, most of the strategy in organizations is cooperative for a long period of time and results of long period may be differ as compared to short period.
- Both, financial and non-financial sectors clear the picture of the economy but this study was conducted to estimate only the non-financial sector's performance.

Scope of the future research

- Future research can be done taking more number of events as a sample size.
- Future studies can be done in the financial and non-financial sectors to compare the results.
- There is a possibility in the future to evaluate the influence of demerger on employees and management.
- It would be interesting to estimate the performance of demerged companies by using other methodologies rather than ratios such as Data Envelopment Analysis, Balance Scorecard Methodology and Event Study Analysis etc.

Implications of the Research

The theoretical knowledge of the financial impact of demergers on Pakistani non-financial sector enterprises has been greatly enhanced by this study. The study closes a significant gap in the literature by using a wide variety of financial assessment techniques and comparing pre- and post-demerger financial performance. It improves our comprehension of the complex dynamics surrounding demergers and offers insightful information on how corporate restructuring events impact organizational performance. The study's validation of several financial assessment techniques strengthens the theoretical underpinnings for the next studies on corporate restructuring and demergers.

At the same time, for managers, executives, investors, and other stakeholders participating in corporate restructuring processes—particularly demergers—within the Pakistani non-financial sector, the study's conclusions have significant practical ramifications. The study's insights may be applied by managers to help them make better strategic decisions about risk mitigation, resource allocation, and demerger plans. Effective performance management and improved governance are made possible by the identified financial performance indicators, which provide useful instruments for tracking and assessing organizational performance after a demerger. Investors may also use the results to evaluate investment prospects in combined firms, which will help them make better judgments and control investment risk. The study's practical ramifications encompass improving decision-making procedures and maximizing results within the framework of corporate restructuring within Pakistan's non-financial industry.

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