

UTV's Ronnie Screwvala: Took all the pains but got no gains?

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A classic case where the promoter puts in a great deal of hard work to create assets and to create a great brand but fails to capitalize on the same

To augment growth for his cash guzzling media business Ronnie placed a majority stake (93.52lac shares @ 860.79 per share in Feb 2008) to Disney and at the same time, issued warrants to himself, to be converted in next 18 months (45.32 lac shares @ 860.79 per share). The warrants would enable Ronnie to maintain his shareholding equal to Disney's shareholding of close to 40%. Later in the mandatory open offer, Disney acquired further 7,745,494 shares, taking its shareholding up to 60% in the company. But then Lehman happened and the shares eventually plummeted to less than Rs 400. Thus Ronnie finally in Nov 2009, at the time of conversion of shares had to let his warrants lapse (because his conversion would happen @ 860 against the prevailing price of Rs 450). Thus Disney became the majority shareholder in the UTV. Later on after mergers and amalgamations of several of UTV's subsidiaries with itself, Disney's stake came down to a little more than 50% thus making Disney the new promoter. Now as expected Disney wants to delist UTV and has agreed in principal to buy Ronnie's 20% stake also. Thus Ronnie will cease to be promoter of UTV and will be Disney's employee.

Ronnie currently holds 8,052,680 shares in the company and assuming an exit price of Rs1000 (as indicated by Disney), his stake is valued at Rs800cr. In March 2008 when Ronnie parted with a sizeable stake to Disney to fund his expansion plans, Ronnie was holding 8,083,680 shares in the company @ Rs1000 (the stock price at that point in time) was worth Rs800cr and he was the majority shareholder.

Thus it seems that Ronnie gave away the control of UTV and earned nothing for it.

But one really important question that comes to my mind is -what exactly triggered Ronnie's decision to completely exit from UTV? Is he not able to manage UTV? Is he not seeing a future for the Indian media industry? Is Disney forcing him to exit? Is he bored of being an entrepreneur and wants to become an employee now?

It seems like the truth lies somewhere between the shareholding patterns of the company. On observing in detail one can see that Ronnie has pledged his stake worth Rs 470cr with financial institutions, it seems that he was being pressurized by them to pay up and as he was unable to manage funds from other sources he was left with no choice but to sell his company.

So what this analysis implies is that had Ronnie sold UTV completely in 2008, he would have pocketed net Rs 800cr (assuming no control premium, with premium it would have been ever higher) while now all that he is left with is Rs 800cr – Rs 470cr = Rs 330cr. Seems like a classic case - where shares pledged by the promoter ended up with him losing control of his entire business.

As an after-thought from writing this case, I would like to leave you with two questions-

- How beneficial is share pledging for Indian promoters? Think of Great Offshore when you answer this!!

- Are Indian Entrepreneurs as dynamic as they are projected to be – Think of Ronnie Screwvalla when you answer this!!

Hopefully other young, growth-hungry, aggressive Indian promoters would learn something out of this episode.

Data Points

Feb 16 2008

UTV Software Communications Ltd has informed BSE that the Board of Directors of the Company at its meeting held on February 16, 2008, inter alia, has transacted the following:

Pursuant to the Transaction Agreement and subject to all regulatory approvals being obtained, including but not limited to the approval of the Foreign Investment Promotion Board for the subscription of equity shares by Disney in the Company ("FIPB Approval") and the approval of the shareholders of the Company under Section 81(1A) of the Companies Act, 1956, the Board further approved the issuance on preferential basis of 93,52,500 equity shares to Disney at a price of Rs 860.79 per equity share. The total investment by Disney in the Company would be around Rs 805 Crores. Disney presently holds 34,00,000 equity shares, representing 14.85% of the equity share capital of the Company.

Subject to all regulatory approvals being obtained, including but not limited to the approval of the shareholders of the Company under Section 81(1A) of the Companies Act, 1956, the Board approved the issuance on preferential basis of 45,32,000 warrants convertible into 45,32,000 equity shares ("Warrants") to Unilazer Exports and Management Consultants Ltd ("Unilazer") one of the promoters of the Company at a price of Rs 860.79 per warrant. The total investment by Unilazer in the Company would be around Rs 390 Crores. The Company will issue Shares against the Warrants, subject to receipt of the FIPB Approval. Upon receipt of the FIPB Approval,

Unilazer will be under a legal obligation purchase Shares of the Target Company arising from such Warrants. Unilazer Exports along with its promoters presently holds 30.67% of the equity share capital of the Company, through 70,21,140 equity shares and 19,49,360 warrants convertible into equity shares.

Nov 09 2009

UTV Software Communications Ltd has informed BSE that :

"This has reference to the allotment of 4,532,000 warrants made by the Company on May 06, 2008 on a preferential basis to Unilazer Exports and Management Consultants Ltd ("Unilazer") pursuant to the approval accorded by the members of the Company at the extra ordinary general meeting held on March 17, 2008 and in respect of which in-principle approval was granted by stock exchanges. Unilazer was entitled to apply for and obtain allotment of one equity share against each warrant of nominal value of Rs 10/- each at a price of Rs. 860.79 (including a premium of Rs 850.79 per share). The Company has received 10% of the total amount of the warrants on allotment. Unilazer was entitled to convert of the warrants into equity shares within 18 months from the date of allotment. Please note that Unilazer has not exercised its right for conversion of the warrants into equity shares. Accordingly, the aforesaid warrants have lapsed and 10 % of the total amount paid by Unilazer on allotment of warrants is forfeited."

Shareholding Pattern:

	Jun-11	Dec-09	Sep-09	Jun-08	Mar-08	Dec-07
Rohinton Screwvala Group	80,52,680	79,69,680	79,69,680	79,69,680	80,83,680	70,20,320
Walt Disney Company Southeast Asia Pvt Ltd	2,04,97,994	2,04,97,994	2,04,97,994	1,27,52,500		
Others	1,20,84,076	57,27,794	57,27,794	1,34,73,288	1,48,09,928	1,58,73,288
Total	4,06,34,750	3,41,95,468	3,41,95,468	3,41,95,468	2,28,93,608	2,28,93,608
	Jun-11	Dec-09	Sep-09	Jun-08	Mar-08	Dec-07
Rohinton Screwvala Group	20%	23%	23%	23%	35%	31%
Walt Disney Company Southeast Asia Pvt Ltd	50%	60%	60%	37%	0%	0%
Others	30%	17%	17%	39%	65%	69%
Total	100%	100%	100%	100%	100%	100%

Shares Pledged - Ronnie Screwvala Group	Jun-11	Dec-09	Sep-09	Jun-08	Mar-08	Dec-07
No of Shares	47,62,266	76,52,031	72,77,031	-	-	-
% of Holding	59%	96%	91%	-	-	-



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