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Inox wins Fame, but the big fight may have just started

DNA / Ashish K Tiwari / Saturday, January 8, 2011 1:58 IST

A gruelling takeover battle for multiplex company Fame India Ltd reached a decisive stage on Friday with Inox Leisure announcing completion of the "acquisition of a majority stake" even as rival bidder Reliance MediaWorks remained tightlipped on the fate of its hostile counter bid.

In a notification to Bombay Stock Exchange, Inox claimed management control with the acquisition of 50.27% issued and paid-up capital of Fame post announcement of the mandatory open offer as required by the Securities and Exchange Board of India.

"Fame India Limited has now become a subsidiary of Inox Leisure Limited," Inox said in a statement.

Reliance MediaWorks declined to comment.

Fame is now a subsidiary of Inox and together they have an overall footprint of 239 screens with a seating capacity of 66,627 across 63 operational properties in the country.

Reliance MediaWorks too has concluded its open offer formalities, but is yet to make public its final holding position in Fame India.

In a bearish market on Friday, which saw the BSE Sensex shed 2.44% from the previous close, shares of all the three firms fell sharply — Inox fell 7.81% to Rs64.95 a share, while Fame continued its free fall for two successive days and fell 9.83% to Rs78.90 a share, and Reliance MediaWorks shed 5.07% to Rs210.70 a share. The markets probably perceived that the curtains were finally being drawn on the tug of war.

The takeover battle — over the past 11 months or so — was crucial for both Inox and Reliance MediaWorks as whichever film exhibitor acquires control over it would have an edge in "negotiating power, not only in the supply chain but rentals as well," law firm Nishith Desai Associates said in a

report prepared by its M&A team earlier.

"It will increase their pricing influence vis-a-vis the patrons. Further, such acquisitions can also help exhibition companies control distribution territories and cut costs by achieving scale," the report added.

A section of the media has been speculating on 32% additional stake being acquired by Reliance MediaWorks, quoting sources.

However, Reliance officials refrained from confirming the information.

Sources at ICICI Securities (manager of the open offer for Reliance MediaWorks) told *DNA* the reports were incorrect, though the details would be made public only during the third or fourth week of this month.

Reliance MediaWorks currently holds 15.88% in Fame India and assuming it has acquired 32% (as quoted in media), its shareholding is expected to reach about 48% of the issued and paid-up capital of Fame India post open offer.

Concerns are being expressed on the company's intention as the assumed 48% stake in Fame could turn into a "nuisance factor" for the Inox management. Any company (Reliance MediaWorks in this case) with over 26% stake in the company can block special resolutions, which can impact Fame's future plans.

However legal experts *DNA* spoke with feel otherwise.

First, despite holding significant shareholding, Reliance MediaWorks cannot claim any rights on Fame India.

Secondly, on the possibility of board representation by Reliance MediaWorks, the laws don't provide for any pro-rata board membership or otherwise on the strength of one's shareholding. In fact, Section 284 of the Companies Act says the majority shareholders can appoint and remove the board.

And even if Reliance MediaWorks gets a board seat, it will not have the power to veto any decision taken by the board to run the day-to-day affairs of the company.

"They (Reliance MediaWorks) may question each and every move/ decision of the company, but how long can they really continue doing so?" an expert asked.

As far as the day-to-day operations of the business is concerned, the company will not need any special resolution requiring shareholders' approval. Besides, the business isn't very capital intensive, or for that matter requires frequent corporate restructuring etc.

But there is still a chance for Reliance MediaWorks. While there aren't major hurdles on the operations and management side of the business, concerns are expressed on the situation that might arise post conversion of the foreign currency convertible bonds (FCCBs) of Fame —- renewal or being bought over by another entity —- likely later this year. The development may have some conversion clauses which may upset the balance and if Inox goes below 50%, it will certainly be in trouble.

There isn't much detail in the public domain about conversion norms for Fame FCCBs, but if they have the capacity to change the shareholding in some manner, then it could be an issue for Inox.

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