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VentureNursery's demands in way of OYO’s Zo acquisition

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BENGALURU: Budget hotel aggregator OYO Rooms has hit a hurdle in completing its acquisition of rival Zo Rooms with fresh demands from one of its early investors stalling the process, according to four people aware of the negotiations.

VentureNursery’s demand that it be given access to information and the right to exit at a pre-determined valuation has stalled the acquisition process.

VentureNursery, a Mumbai-based accelerator which was the first investor in OYO, is demanding that it be given access to information that large investors typically receive from a company as well as the right to exit from the combined entity at a pre-determined valuation, the sources told ET.

"VentureNursery is demanding right to information and exit at $700-million valuation, both terms which are unacceptable to OYO's larger shareholders," said a person directly familiar with the development.

According to the terms of the negotiation, Tiger Global, an investor information in the merged entity, said two sources. Experts and investors are of the view that while Venture-Nursery does not have enough shares to block the proposed merger between the two startups, its demands need to be addressed now, since it can throw a spanner in the works for OYO, which is looking to raise fresh capital. ET reported last month that a new round of funding of upto $100 million for OYO could be led by existing investor SoftBank.

OYO declined to comment on the fundraising. Email queries sent to VentureNursery cofounders Ravi Kiran and Shravan Shroff and Zo Rooms' cofounder Paavan Nanda did not elicit a response.

"Under the Companies Act there is no minority protection for less than 10% stake," explained Vaibhav Parikh a partner at law firm Nishith Desai Associates.

"However, if (rights) are under shareholder agreement then it's a contractual engagement and Venture-Nursery can sue for damages but not stop the deal," he explained.

While VentureNursery's objections are one of the impediments to the deal, another factor, said a source, could be dissension within OYO, with some managers not convinced about the terms negotiated by its shareholders which give Zo Rooms a 7% stake in the company. "By delaying the paperwork, OYO management could be looking to renegotiate the terms already set by its shareholders," said one of the people quoted above. The startup is renegotiating the shareholder agreement as it seeks to complete the merger and proceed with a new round of fund raising. The ongoing dispute has thrown the spotlight on three of India's biggest and most influential internet investors — Tiger Global Management, SoftBank, and Sequoia Capital . "The deal will go through at a7% share swap, since the transfer of Zo's assets and (inclusion) of some of its employees in OYO's payroll has already happened three months back," said one person with direct knowledge of the transaction, saying that senior figures at Sequoia and SoftBank are determined to abide by the agreement.

"Being a responsible startup, we keenly abide by the fundamentals of corporate governance and respect the sanctity of boardroom discussions. We have no further cominments," said an OYO spokesperson in an emailed response.

A representative for SoftBank declined to comment for this story. Sequoia Capital's India MD Gautam Mago did not reply to email queries from ET. From a legal perspective a binding contract is not only on paper but also underlined by action and behaviour. "If OYO has accepted and taken over the assets, Zo should get due compensation and the court is likely to uphold that," said Parikh. The disagreement with VentureNursery points to a larger issue of conflicts brewing in the Indian startup sector.

ET was the first to report about OYO entering into talks to acquire Zo Rooms in its December 3 edition. SoftBank later confirmed the development, by mentioning acquisition of Zo Rooms in an investor presentation. While neither OYO nor Zo Rooms has publicly confirmed the acquisition, the transfer of assets and legal and financial due diligence have been completed. Final share allocation is yet to happen and papers are still not signed.