
Reliance Stock Buyback

Introduction

When Reliance Industries Ltd (RIL) decided to call a meeting of its board of directors on 27th December, 2004 to discuss among other things a stock buyback, it received a lot of coverage in the media.

The buyback proposal seemed to be in response to the fall in the RIL share price ever since the differences between the Ambani brothers became public. The RIL stock had fallen 12% from Rs 544 on 17th November, the day Chairman Mukesh Ambani (Mukesh) hinted in a television interview that all was not well within the family, to Rs 480.65 at close of trading on 20th December. A company spokesman mentioned¹:

"The company strongly believes that its shares are significantly undervalued. ... A share buyback is a strong signal of confidence in the share price and company performance and seems, at present, to be the best option to counter speculative activities that could be detrimental to the interests of RIL shareholders."

Company sources added that the depressed share price was totally inexplicable because nothing had fundamentally changed in terms of business strategy, operational efficiency or future outlook.

Share buyback was not new to Reliance. In April 2000, the company had announced the largest buyback programme in Indian corporate history. Reliance set apart Rs 1,100 crore for the buyback which was priced at Rs 303 per share. The move was a sequel to the late Dhirubhai Ambani's announcement of a possible buyback at the company's AGM on June 24, 1999.

Background Note

A Reliance spokesman outlined in detail the objectives of the programme:

- to manage stock price volatility, lower the beta of the stock and attract long-term investors into the company;
- to return money to the shareholders in a tax efficient and investor friendly fashion without sacrificing growth opportunities;
- to improve return on equity; reduce floating stock, enhance long-term price performance and in the long term enable the use of RIL stock as a currency for acquisition;
- to send a powerful signal on the perceived undervaluation of the stock;
- to send a clear signal to Reliance investors that they would be rewarded by return of cash and protect the interests of long-term shareholders by providing them a floor price.

¹ "Reliance board to consider share buyback on December 27," *The Hindu BusinessLine*, 21st December 2004, p-1.

During the one week preceding the announcement in 2000, the Reliance stock outperformed the Sensex by about 40%. But the company indicated that despite consistent financial performance, the price earnings multiple of the stock was only 66% of that of the basket of Sensex stocks. During the 20 trading days preceding the announcement, the stock had moved in the range Rs 199-Rs 335.

The open market buyback started on 2nd August, 2000 and continued till 18th May, 2001. During the period, the stock traded at below the buyback price on only 11 out of 264 trading sessions. The company extended the buyback offer to June 2002.

During this period, too, the buyback remained an exercise on paper even though the stock slipped below the buyback price. The price declined to as low as Rs 226 in September 2001, recovered to move past the Rs 303 level and then again slid and traded below that level in May and June 2002. The company however did not buy any shares.

In 2004, the circumstances were different from those prevailing during the earlier buyback. If the stock had under-performed the Nifty and the Sensex in a bullish phase, it was attributable mainly to the squabbles between Mukesh and Anil, the Ambani brothers. The proposal also came at a time when there were serious questions about the funding of Reliance Infocomm by Reliance Industries – a point that Anil had been highlighting in his meetings with the media.

According to the RIL board, the company was considering a buyback as its stock was undervalued and did not reflect its true potential. This line of argument had merit, since both the petrochemical and refining industries seemed to be on an upswing.

But other analysts identified some key factors that did not favour a buyback. The feud between the Ambani brothers might take a fairly long time to resolve. With Mukesh wanting to be firmly in charge and Anil in no mood to withdraw from RIL, the rift was likely to deepen in the near future. A complex web of investment firms controlled the Reliance empire. So the division of assets, even if the brothers came to an agreement, would not be easy. The financial risks associated with RIL's investment foray in Reliance Infocomm might also turn out to be greater than expected. Seen in the backdrop of the 2001-02 buyback, any buyback programme undertaken by RIL management before settling the family feud, might not carry sufficient credibility.

The Options

Speculation also mounted on the possible route RIL could take for the share buyback. Essentially, the RIL board had two options — open market acquisitions of the shares through the stock exchanges or tender offer using a fixed price.

From a shareholder's perspective, the tender offer using a fixed price seemed to be the better option. Exiting shareholders would quite likely realise a substantial premium (comfortably above 25%) over the prevailing stock price. A tender offer buyback was better suited to quickly establish a floor price. Under the tender offer, the RIL board might have to make a fund allocation of Rs 2,500-3,000 crore, depending on the price, to buy back up to 10% of the equity and free reserves. The RIL management could also fix the maximum price at a high level and hope that its ploy of pushing up prices would work.

On the other hand, through an open market purchase, RIL could attempt a psychological ploy to prop up the stock to at least the maximum price at which the buyback would be made. However, RIL shareholders might be skeptical of the company's intentions, going by past experience. The biggest advantage of an open market buyback was that there was no obligation on the part of RIL to buy back shares, even if the stock consistently traded below the maximum price fixed for the buyback. So there would be no need for RIL to commit funds for the buyback programme.

If the feud turned out to be long-drawn-out, the open market route would offer the flexibility to keep the buyback window open for a long period of time. And the RIL management would also retain the flexibility to buy back shares at whatever price levels it thought proper. Whereas in a tender offer, the RIL board would have a three-month window, at the most.

The Road Ahead

On 27th December, the Reliance board after its meeting approved a price not exceeding Rs 570 a share for buying back equity worth up to Rs 2,999 crore (10% of the company's total paid-up equity share capital and free reserves as on 31st March, 2004) from the market, starting 10th January, 2005. The price represented a 11% premium over the last one year's average trading price of the stock. The buyback was scheduled to continue till 26th December, 2005.

Anil Ambani, Vice-Chairman and Managing Director, Reliance Industries Ltd, abstained from voting on RIL's share buyback at the company's board meeting on Monday. Before the meeting, Anil told waiting mediapersons:

*"I believe that considering a buyback at this stage is completely inappropriate as there are several other issues that the group faces and those need to be addressed ---- As far as today's board meeting is concerned, I have been deeply saddened and anguished with the events of the last many weeks ---- I was not consulted nor informed before making the announcement to the stock exchanges on the proposed buyback.----- If we look at the recent run-up in the stock prices post the announcement of buyback I believe that there is more than what meets the eye in terms of what is happening in the market place."*²

² "Buyback inappropriate at this stage, says Anil," *The Hindu Business Line*, 28th December 2004, p-1.

Exhibit: 1 The Reliance Group

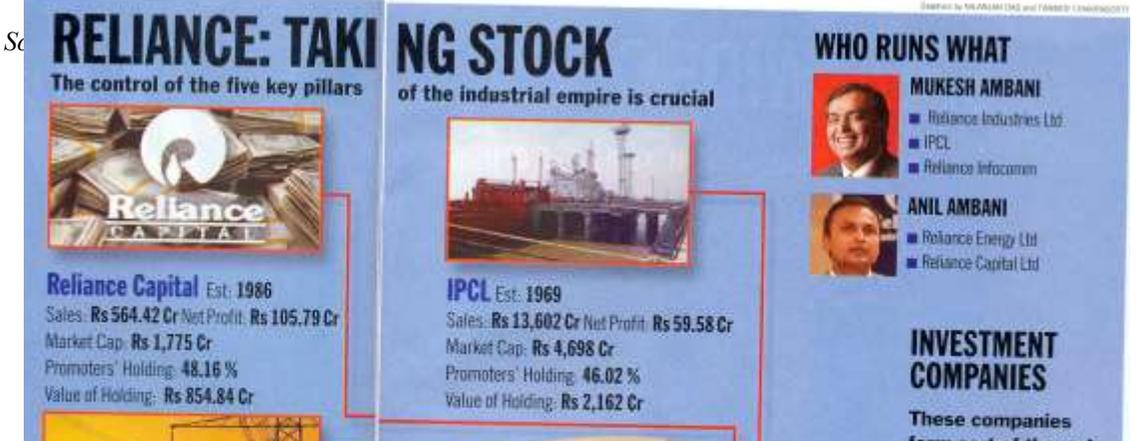
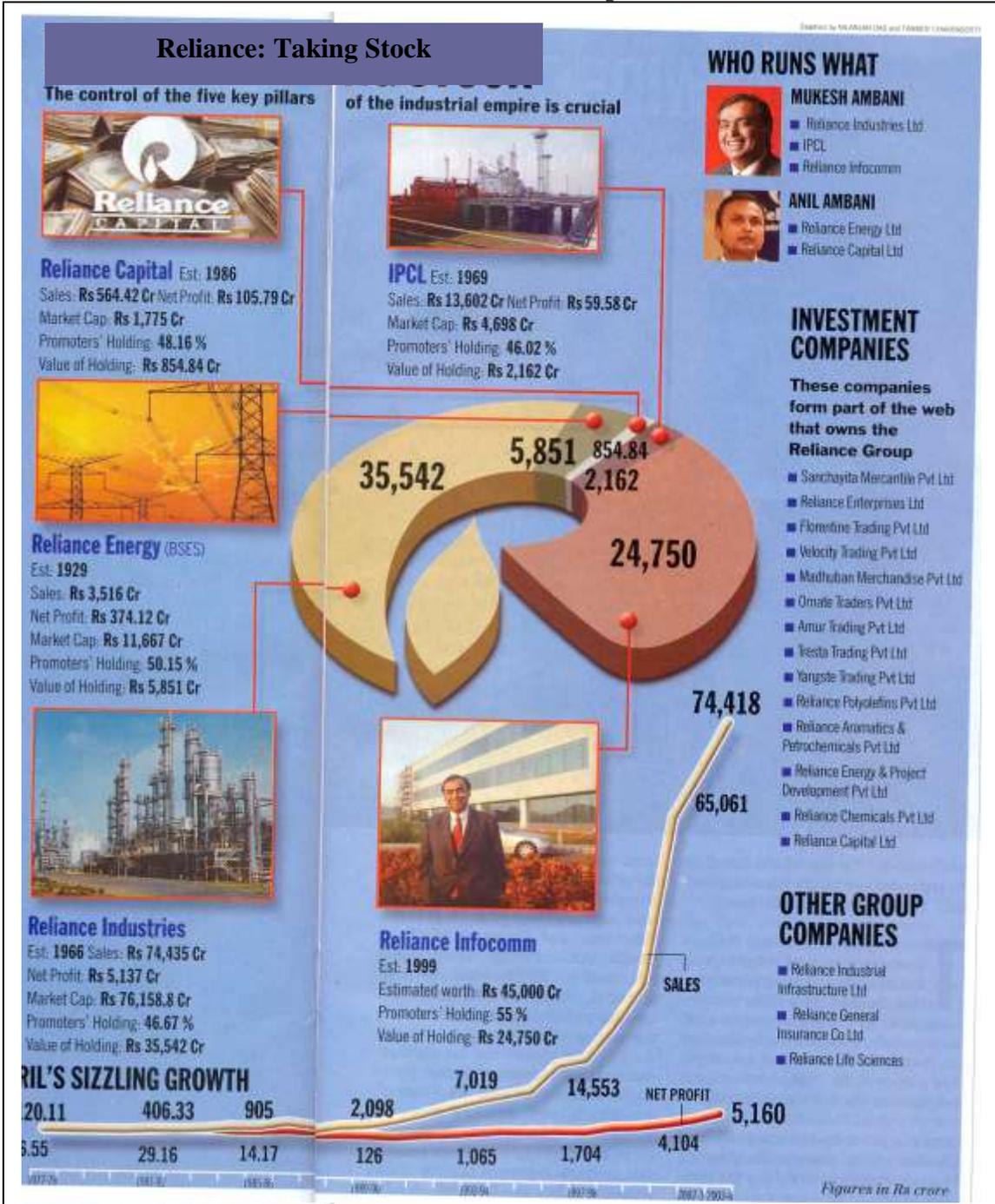


Exhibit: 2 Brief History of Reliance

CAPITAL GROWTH

1933: Dhirubhai Ambani is born near Chorwad in Gujarat. Goes to Aden, Yemen, in 1950, returns to Mumbai in 1960 and sets up Reliance Textile Industries in 1967.

1981: Mukesh Ambani returns from Stanford and joins RIL. Turnover: Rs 301 crore.

1983: Anil Ambani returns from Wharton School to join as Co-CEO. Turnover: Rs 501 crore.

1977: First Reliance IPO.

1985: Total assets of Reliance cross Rs 1,000 crore even as battle with V.P. Singh begins.

1986: In February, Dhirubhai suffers a stroke.

1987: Mukesh and Anil assume greater corporate responsibility. Reliance sponsors cricket World Cup.

MARCH 1985: Mukesh marries Nita
FEBRUARY 1991: Anil marries Tina.

1992: Reliance makes the first ever Euro Issue of Global Depository Receipts by an Indian company. Sets record with Reliance Twin issues that received over one million investor applications.

1993: Sales cross Rs 4,000 crore, making Reliance India's largest private-sector company. Reliance launches Reliance Petroleum IPO.

1995: Becomes the first private-sector company to notch net profit of over Rs 1,000 crore.

1999-2000: World's largest grassroots refinery, Jamnagar Petrochemicals, commissioned. Reliance Infocomm is born.

2001: WLL controversy erupts. Reliance Infocomm unveils Rs 25,000 crore plan.

2002: RPL's merges with RIL to create India's first and only private sector Fortune Global 500 company. RIL acquires 26% stake in IPCL.

JULY 2002: Dhirubhai passes away, Mukesh in his interviews says "Anil is like my son".

DECEMBER 27, 2002: Anil is conspicuously absent at the launch of the most ambitious project, Infocomm.

SEPTEMBER 2004: Board decides to give all financial decision-making powers to Mukesh. Anil allegedly protests.

NOVEMBER 18, 2004: Mukesh hints at ownership issues, which are in the private domain. Markets react strongly.

NOVEMBER 21, 2004: Anil asks mother to intervene .

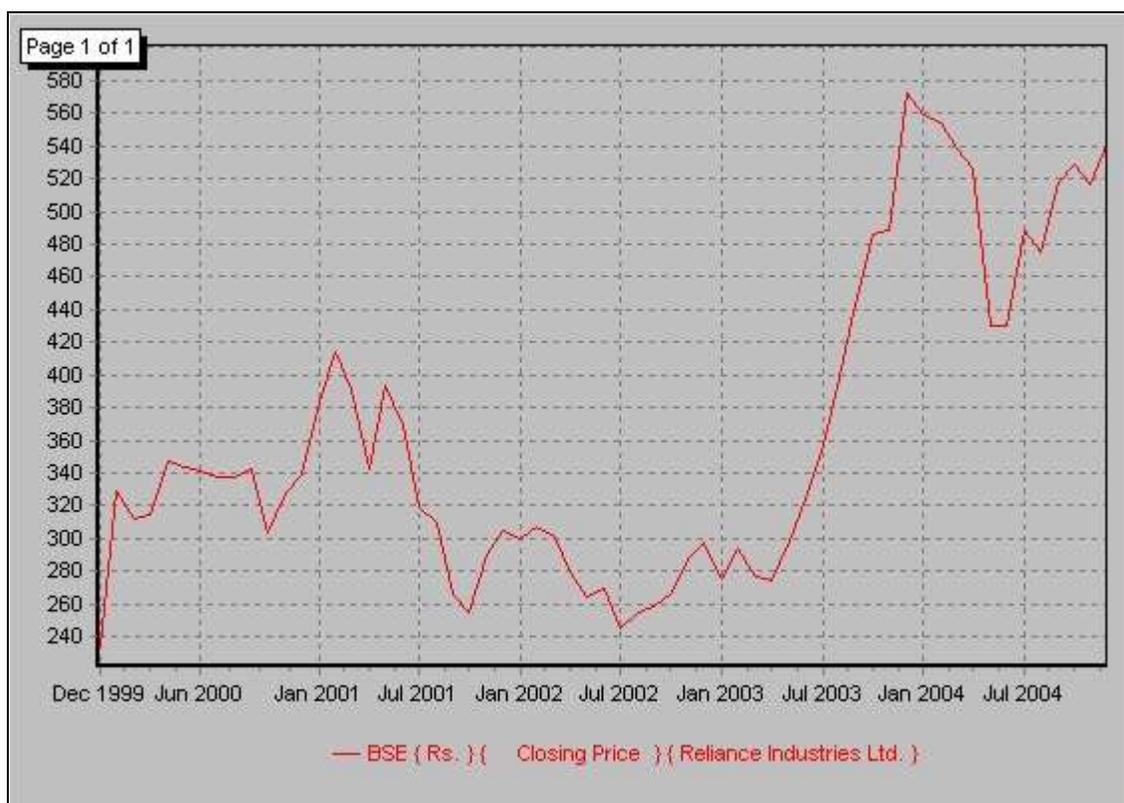
NOVEMBER 22, 2004: Mukesh exercises right as chairman to address media and investors by issuing a strong denial saying Dhirubhai settled all ownership issues.

JUNE 2003: Anil files nomination for Rajya Sabha.



Source: Bobb, Dilip and Bhupta, Malini. "Ambani vs Ambani," *India Today*, 6th December 2004, p-50.

Exhibit: 3
Share price chart



Source: CMIE database.

Exhibit: 4
Ownership Pattern

	<i>Who Owns RIL</i>	<i>Reliance Capital*</i>	<i>Reliance Energy*</i>	<i>IPCL*</i>	<i>Reliance Infocomm *</i>
Ambani family	5	-	-	-	-
Person acting in concert	29	0.96	6.46	0.02	-
RIL (for 35 lakh shareholders)	12	-	-	-	-
FIIS	30	12.44	16.98	13.76	-
LIC, UTI, GIC	9	-	21.47	-	-
Indian Public	15	34.36	6.22	18.79	-
Indian Promoters	-	47.2	43.69	46	-
FIs mutual funds and UTI	-	0.93	0.52	17.91	-
Private corporate bodies	-	3.69	0.57	3.09	-
Depository for GDR holders	-	-	3.82	-	-
NRIs and OCBs	-	-	0.23	-	-
Mukesh Ambani	-	-	-	-	12.01
Trust and corporates	-	-	-	-	15.14
RIL	-	-	-	-	7.57
RCIL	-	-	-	-	65.28

Note: * Figures denote %age of shareholding in each company.

Source: Prabhu, Chawla.. "Dividing The Empire," India Today, 27th December 2004, p-49.

Bibliography

1. Bobb, Dilip and Bhupta, Malini. "Ambani vs Ambani," *India Today*, 6th December 2004, p-50.
2. "Reliance board to consider share buyback on Dec 27," *The Hindu Business Line*, 21st December 2004, p-1.
3. "RIL board to look at buyback amount," *The Times of India*, 21st December 2004, p-1.
4. "Mukesh plans buyback to help investors," *The Times of India*, 21st December 2004, p-1.
5. "The largest buyback that never was," *The Hindu Business Line*, 21st December 2004, p-2.
6. "Anil Ambani meets Chidambaram," *The Hindu*, 25th December 2004, p-2.
7. Krishnan, Thiagarajan. "RIL buyback: Debating the method," *The Hindu Business Line*, 26th December 2004, p-13.
8. Chawla, Prabhu. "Dividing The Empire," *India Today*, 27th December 2004, p-49.
9. "Reliance board clears buyback, backs Mukesh — Anil abstains from voting," *The Hindu Business Line*, 28th December 2004, p-1.
10. "Buyback inappropriate at this stage, says Anil," *The Hindu Business Line*, 28th December 2004, p-1.
11. "Business – Buyback to benefit company promoters," *The Indian Express*, 28th December 2004, p-2.
12. "RIL buyback fails to impact market," *The Hindu*, 28th December 2004, p-1.
13. "Anil proposes RIL buyback price," *The Times of India*, 30th December 2004, p-1.
14. "Anil fails to convince RIL board on bonus issue," *The Hindu*, 31st December 2004, p-2.
15. "Business – Sebi clears Reliance buyback of shares," *The Indian Express*, 8th January 2005, p-1.
16. "RIL gets SEBI clearance," *The Hindu*, 11th January 2005, p-1.
17. "RIL buys back shares worth Rs. 34 crore," *The Times of India*, 11th January 2005, p-1.
18. "Business – Reliance buys back 6.29 lakh shares on Day One," *The Indian Express*, 11th January 2005, p-1.
19. "Reliance Industries Announces Buy Back of Equity Shares on Jan.11," *The Hindustan Times*, 12th January 2005, p-1.
20. "Sebi okays Reliance buyback, with queries," *The Times of India*, 12th January 2005, p-1.