Reliance Industries: The Dispute between Mukesh and Anil Ambani (Part –A)

Introduction

Professor Ram Kumar Chatterjee was taking a class for a batch of MBA students at a leading business school in the country. These students, who came from business families, typically had 3-5 years of industry experience.

This particular class was about succession planning in family owned businesses. Chatterjee first explained the importance of succession planning. He then outlined the specific challenges involved in case of family owned businesses. Due to poor succession planning, the competitive position of many family owned businesses in India had significantly weakened over the years. He drew extensively from a recent issue of *The Economist* which had dealt at length with this subject. After this, Chatterjee in his usual style decided to discuss something topical. He found no better example than Reliance Industries Ltd (RIL), India's largest private sector company, which had witnessed unprecedented acrimony at the top, in recent weeks. Chatterjee decided to narrate briefly the events as reported in the media. He expected the class to respond with their views after he finished his narrative.

Background Note

Reliance was not just any other family owned business. It was India's largest private sector company with annual sales in the region of Rs 90,000 crore. Reliance not only provided livelihood to over 80,000 employees but also accounted for over 3% of the nation's GDP and 10% of the revenue collected. Its empire stretched from well heads to plug points. Reliance was owned by a clutch of 14 companies which in turn were owned by a complex web of investment outfits, the control of which extended to over 1,400 entities.

The differences between Anil and Mukesh, sons of the late Dhirubhai Ambani (Dhirubhai), the group's founder seemed to have reached a point of no return. Anil was lining up legal luminaries to take his brother to court over what he believed were questionable share transfers that had taken place after Dhirubhai's death. Anil had also been criticizing the corporate governance practices in Reliance Industries and Reliance Infocomm, companies that Mukesh controlled. Anil believed that Mukesh had taken advantage of his position as the Chairman of Reliance to invest heavily in these businesses while starving Anil's own businesses of cash.

The clash between the brothers had started while Dhirubhai was alive. Since his demise, the relations between the two brothers had become progressively sour. Uncomfortable with the idea of playing second fiddle to his brother who had been appointed chairman after Dhirubhai's death, Anil had suggested various alternatives. But his proposal to be made co-chairman or alternatively his mother Kokilaben to be made the non-executive chairperson had not been accepted by Mukesh. The elder brother contended that Dhirubhai had already settled the succession issues before his death.

What triggered off the recent dispute was the sequence of events after the formal launch of Reliance Infocomm in April 2003. Mukesh had hoped to attract five million subscribers, each of whom would pay Rs 22,000 upfront to get a free connection for a three-year period. This way, he had hoped to raise over Rs 10,000 crore at a go and use it to expand the telecom network. Instead, only one million users had paid up, and others had opted for the monthly payment scheme. This led to a huge shortfall in the resources mobilised.

Therefore, Mukesh had used resources from RIL to finance the telecom project. Between June and October 2003, nearly Rs 10,000 crore had been provided to Infocomm on fairly attractive terms. Anil questioned this outgo. He was also unhappy that Rs 8,100 crore was invested by the flagship company, RIL as preference shares against a dividend commitment of Rs 16 crore a year—or less than 0.2%—for a period of 10 years. Only after that was the rate to be hiked to 7% a year. True, RIL could convert the preference shares into equity at any later date, but the price was to be mutually decided by the two companies. Anil was unhappy that even this had not been decided at the time of issue of the preference shares.

Mukesh seemed to be equally upset by Anil’s stance. After all, group companies in other Indian business houses regularly gave interest-free loans or guarantees to finance new projects. Infact, RIL had provided funds to kickstart Reliance Petroleum (later merged with RIL) and to purchase the majority stake in BSES (merged later into Reliance Energy). More importantly, the telecom venture looked likely to make money soon. It had mobilized a large user-base of 9.36 million subscribers in less than two years. So, what more could one wish for?

There were two major companies in the group, Reliance Industries and Reliance Petrochemicals. By merging the two companies in 2002, Dhirubhai had made it clear that he did not want his legacy to be divided up. According to insiders, Dhirubhai did not want Reliance’s fate to be like that of other business houses which had divided up its businesses only to find brothers and close relatives fighting each other in the marketplace and destroying value.

Dhirubhai had divided the shares equally between his two sons. But he had made sure that the voting rights in RIL, that various companies and trusts held, rested with the chairman of RIL. So, after becoming chairman, Mukesh controlled a more than proportionate share of voting rights in the company. The Mukesh camp argued that Anil had accepted this arrangement. But Anil denied this. Anil also contended that share transfers that had taken place between the trusts and investment companies without his knowledge since Dhirubhai’s death had altered ownership structures to his detriment.

As tensions escalated, the debate shifted to who was the more capable entrepreneur, who could protect Dhirubhai’s legacy. The Mukesh camp argued that it was their leader who had masterminded the corporation's mega projects while Anil had done little of note in comparison. Mukesh had single-handedly set up the world's largest petroleum refinery at Jamnagar. He had also built the Rs 20,000-crore telecom empire that aimed at translating into reality Dhirubhai's dream of making all telephone calls within India cost no more than a postcard. Anil who understandably differed with this view, believed that he had played as much of a role in building Reliance as his brother. The Anil camp pointed out that Mukesh’s most high-profile project, Reliance Infocomm, was still to achieve financial viability and was being largely supported by subsidies from the flagship company.

Matters came to a head when at a board meeting on 27th July 2004, the RIL board passed a resolution conferring sweeping powers on Mukesh—including the authority to "vary or revoke all or any duties, responsibilities or powers" given to managing director Anil, and to "confirm, modify or countermand any actions or decisions" made by him. Anil maintained that the resolution had not been pre-circulated. It had been introduced stealthily as part of a supplementary agenda. In fact, the matter was headlined as a resolution to constitute a Health, Safety and Environment committee. An email sent to Mukesh by Anil expressing his dissatisfaction, in this regard, had been published in a leading business weekly.

Even as the speculation of a formal split continued, it was clear that any physical change in the structure would affect the entire group. RIL, for instance, owned stakes in gas fields which fed the power plants of Reliance Energy. Many investment bankers and legal pundits wondered if a split was possible at all. The different parts of the Reliance Group seemed to be interconnected.

Meanwhile, Anil's political ambitions and lifestyle were causing concern among family members. A major cause of tension between the brothers had been Anil's plans to invest over Rs 10,000 crore in the politically sensitive north Indian state of Uttar Pradesh (UP). The Mukesh camp, thought that the investment was being driven by Anil's proximity to leading U.P. politician, Mulayam Singh Yadav. Although Mukesh had privately been saying that the investment had nothing to do with Anil's friendships or membership in parliament, it had become a thorny issue.

Anil's personal lifestyle had also come for criticism. It was too liberal for a conservative Gujarati family to accept. Rumours about his friendship with some famous film stars had made the family uncomfortable. Mukesh thought Anil's lifestyle and half-baked political ambitions could hurt the group's business.

Chatterjee quoted one industrialist: "The key issues are corporate governance and greed. RIL has a rubber stamp for a board. Why must it be a winner-takes-all situation? Just the listed companies add up to Rs 100,000 crore. Isn't that enough for both brothers? Apparently not."

The Road Ahead

Press reports indicated that Mukesh had offered Anil 30% of the group while he retained 70%. As part of the deal, Mukesh wanted Anil to withdraw from RIL. Anil had apparently rejected this offer. He wanted 40% of the group and was not prepared to quit the RIL Board.

Anil was vice chairman and managing director of RIL. He ran Reliance Energy as well as Reliance Capital but these companies accounted for only Rs. 5,622 crore of the Rs. 1,35,490 crore empire. For Anil, this was clearly inequitable.

Meanwhile, there were rumours that Kokilaben had suggested that both the brothers would stay in the group, each controlling 40% of the wealth, after unraveling the web of investment companies and transferring ownership. The remaining veto power of 20% would rest with Kokilaben. Dhirubhai's wife was clearly unhappy at seeing what her legendary husband had created in a lifetime, being split and devalued so soon after his death. The first step had already been taken. Three months after Dhirubhai's demise, all four children, Dipti Salgaoncar, Nina Kothari, Mukesh and Anil, had signed a deed of release in favour of Kokilaben. Under the deed, all four children including Mukesh and Anil gave the rights over the entire property of Dhirubhai to their mother. But breaking Reliance's complicated structure would not be easy by any stretch of imagination.

Even as speculation mounted over how the events would unfold, various options were being discussed by legal experts:

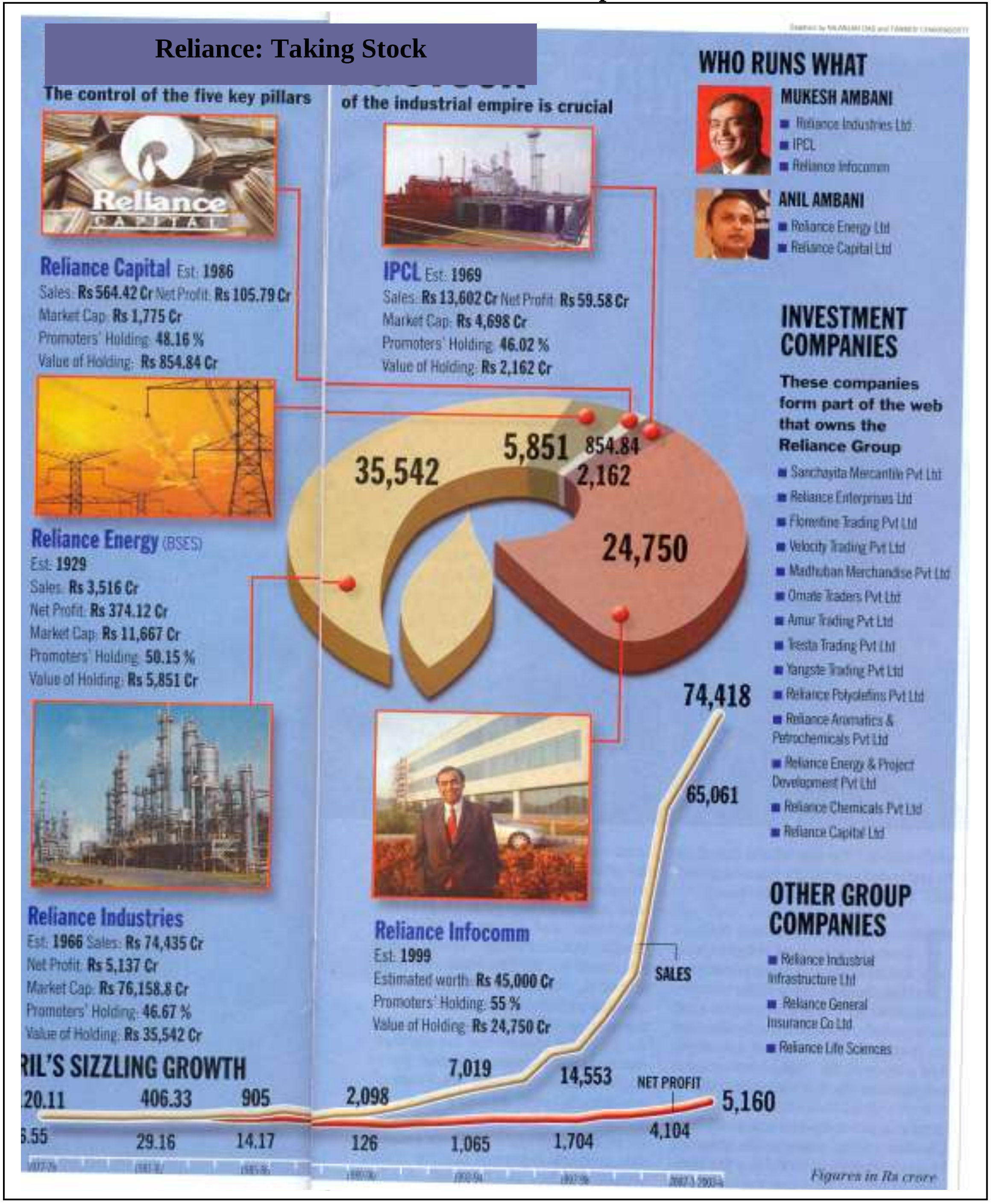
Option 1: The parties could enter into a settlement and demerge Reliance Industries Ltd into two separate companies according to the different business interests of the Ambani brothers. The demerged entities could then be separately owned by the promoters. Such a scheme would have to be approved by the shareholders (not less than 75% of them voting in favour of the resolution) and by the courts.

Option 2: The promoters might arrive at an understanding and a new company could be floated. The assets of each division could either be transferred to the new entity, by way of an asset sale, or be retained with the parent company, RIL. A resolution would need to be passed by a simple majority. The promoters would need to have enough numbers to carry through such a resolution. However, in the corporate world, financial documents between the lenders and the borrowers were likely to have restrictions on asset transfer without the consent of the lender. In addition, RIL was a listed company. So any transfer of assets had to be at the market value as against notional value. This might have significant tax implications.

Option 3: The promoters might arrive at a settlement to adjust the degree of control on RIL by re-arranging their ownership in the chain of investment companies. This could happen through an exchange of shares between the investment companies owned by each Ambani brother. Thereafter, they might enter into pooling arrangements. Each brother would make sure that the investment companies under his control supported the other when it came to various business proposals. For instance, Mukesh-controlled companies would support any proposal by Anil for energy. Similarly, companies controlled by Anil would back Reliance Infocomm.

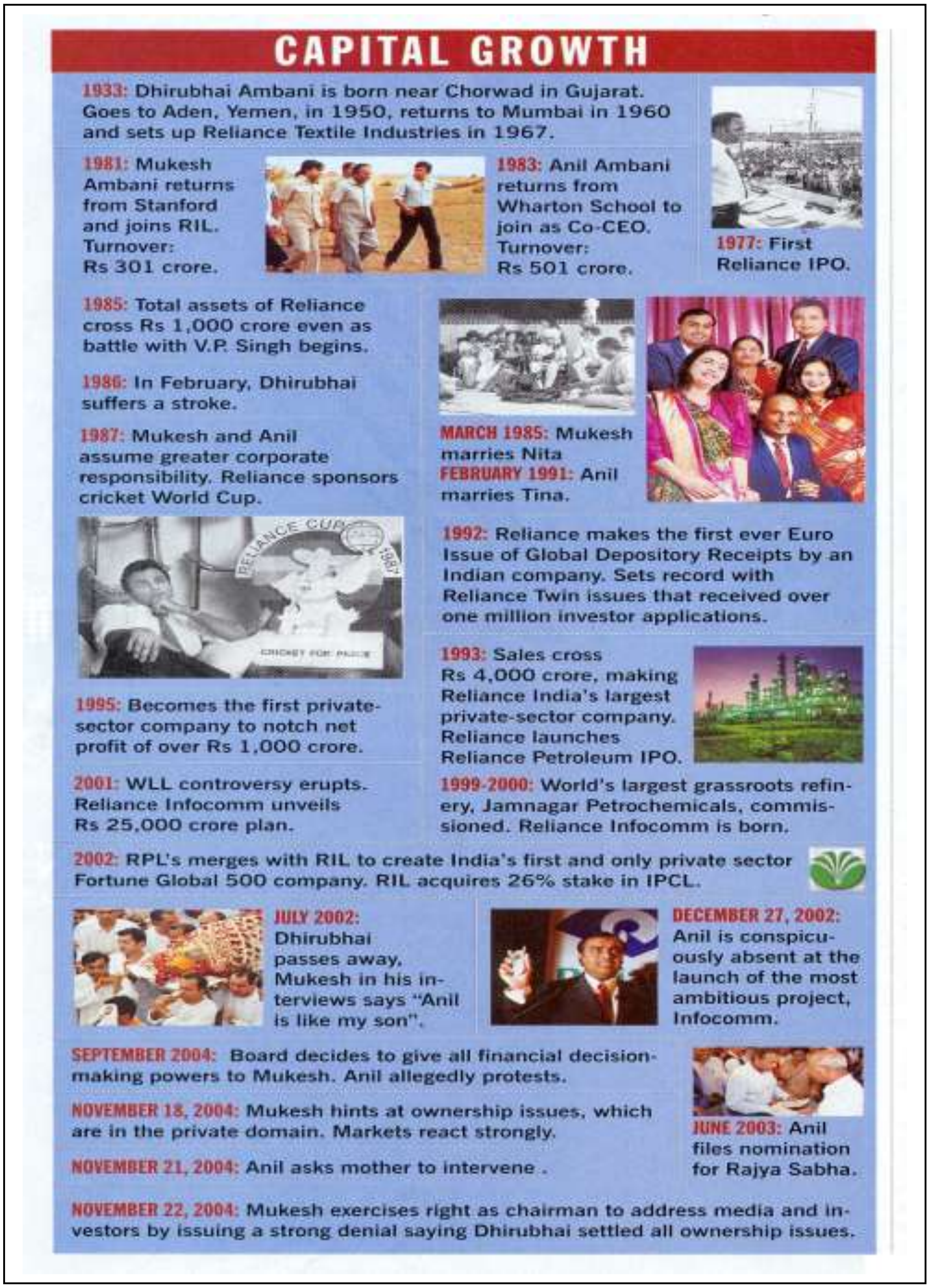
Chatterjee concluded the class with two questions: “Where did Dhirubhai go wrong? Do the three options which I just covered, make sense? What is the best way of resolving the stalemate?” He waited for the class to respond.

Exhibit: 1
The Reliance Group



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

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.

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

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

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 .

JUNE 2003: Anil files nomination for Rajya Sabha.

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

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

Exhibit: 3
Ownership Pattern

	Who Owns RIL	***Reliance Capital****	***Reliance Energy****	***IPCL****	***Reliance Infocomm ****
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	-
Depositary 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: Chawla, Prabhu. "Dividing The Empire," India Today, 27th December 2004, p-49.

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