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## Grasim-ABNL Merger: That 70's show

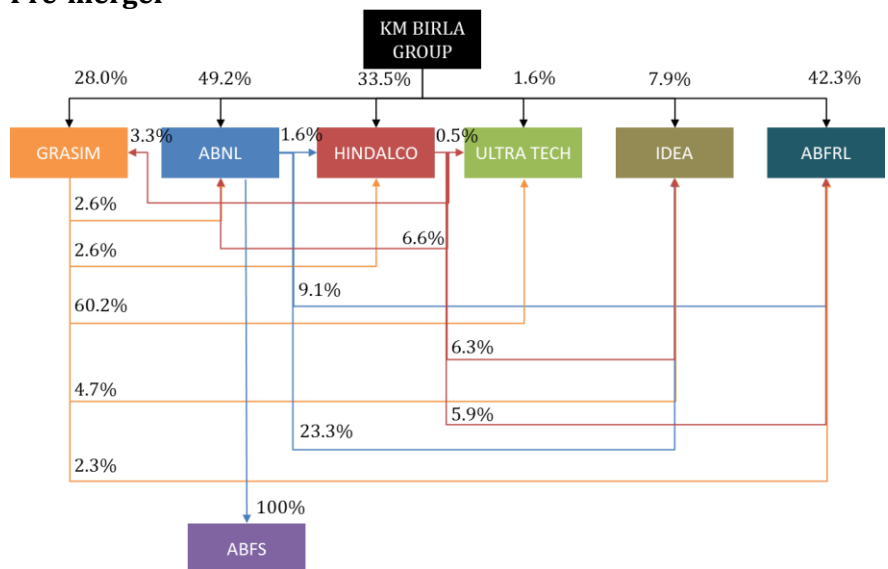
On 12 August 2016, the Aditya Birla Group announced the merger of its two holding companies, Aditya Birla Nuvo Limited (ABNL) and Grasim Limited. As part of the restructuring, the financial services arm, Aditya Birla Financial Services (ABFS), will also be subsequently demerged and listed separately.

IiAS will engage with the stakeholders and wait for the shareholder notice of the merger before articulating a voting recommendation. In the interim, we examine the historical construct of the group structure, which will give market participants context to the transaction.

### Holding Structure and Control

The KM Birla Group has a complex holding structure, with cross holdings between multiple group companies. A large part of this is due to legacy issues: some of the newer companies, including Ultratech Cements, Idea Cellular and Aditya Birla Fashion & Retail (ABFRL) have relative cleaner ownership structures.

### Pre-merger

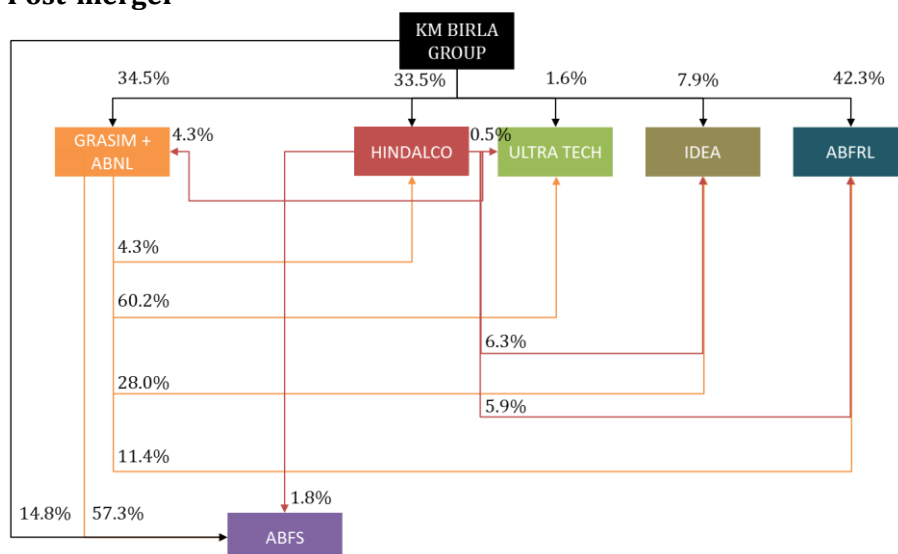


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One of the stated drivers of the proposed transaction is simplifying this group structure. However, this is true only to a limited extent. There will be some consolidation of promoter stakes across group companies; but the merger really does not streamline the businesses by removing all cross linkages.

**Post-merger**



The post-merger Grasim will be a conglomerate comprising a diverse set of unrelated businesses. Thus, Grasim is taking a step towards positioning itself as the Birla group’s holding company. This raises uncertainties on capital allocation, and it will become difficult to value the company correctly. Therefore, the market is likely to punish the stock with a higher holding company discount.

The scheme will give the promoter group almost 74% effective ownership of the financial services business (ABFS) once it lists. Had ABFS been demerged before merging Grasim, its shareholding would have mirrored that of ABNL’s: in such circumstances, the promoter group would have owned just 58.4%.

Across the group, the promoter family’s control over the listed companies has been higher than its direct shareholding – an arrangement typically seen in the Indian markets of the 1970s. The current transaction lends itself to yet another of those structures.

**Table 1:** Difference between direct shareholding and promoter voting power

Companies	Pre-Merger		Post-Merger	
	Direct Shareholding <sup>1</sup> (%)	Promoter Voting Power <sup>2</sup> (%)	Direct Shareholding <sup>1</sup> (%)	Promoter Voting Power <sup>2</sup> (%)
<b>Grasim</b>	<b>28.0</b>	<b>31.3</b>	<b>34.5</b>	<b>39.9</b>
ABNL	49.2	58.4	-	-
Hindalco	33.5	37.7	33.5	37.8
Ultratech	1.6	62.3	1.6	62.3
IDEA	7.9	42.2	7.9	42.2
ABFRL	42.3	59.5	42.3	59.5
ABFS	0.0	100.0	14.8	73.9

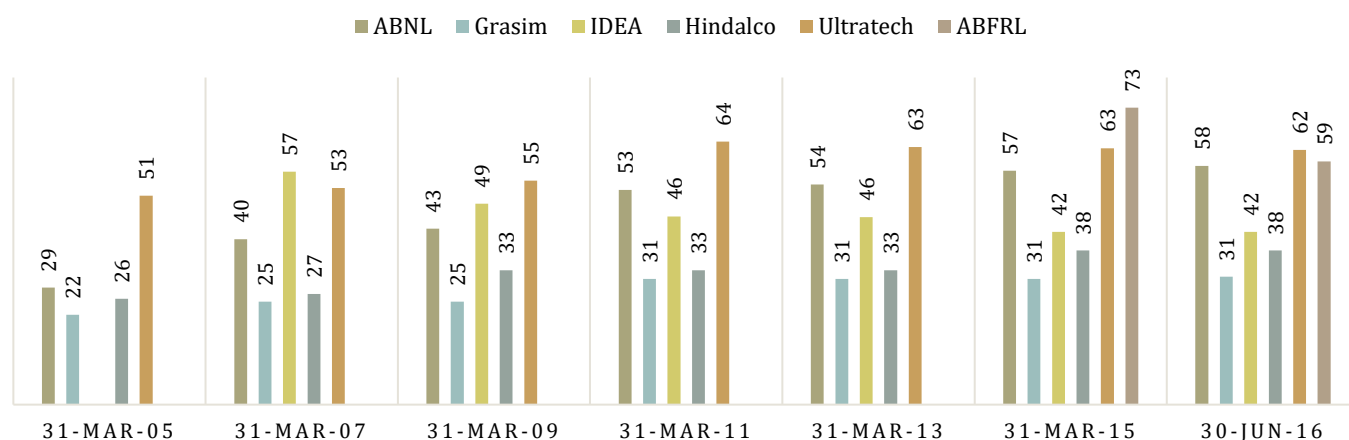
[1] The direct shareholding indicates aggregate shareholding of the KM Birla group companies, excluding the six listed companies (Grasim, ABNL, Hindalco, Ultratech, IDEA and ABFRL) mentioned above

[2] The promoter voting power indicates the total promoter shareholding of the respective companies

### Increase in promoter stake

Over the last 15 years, the promoters have steadily increased their stake in most of the listed companies in the group (refer [Annexure A](#)).

**Chart:** Promoter stake (%) in group companies



This is part of the group’s stated strategy of boosting the promoter shareholding in the flagship entities (ABNL, Grasim, IDEA, Hindalco and Ultratech). In [May 2004](#), K M Birla had mentioned that he wanted to shore up the promoter holding to 30%. This was accomplished by December 2010, through a series of restructurings, creeping acquisitions and preferential allotments. This threshold was raised and in [October 2011](#), K M Birla stated that he wanted to increase the promoter holding to 40%.

This has also largely been achieved, except in Grasim where the promoter stake is currently 31.3%: the proposed merger will increase the promoter holding to 39% - just a breath away from the 40% target. Table 2 below shows how promoters have increased stake in the listed group companies over the past 10 years.

**Table 2:** Increase in promoter holding

Year	Increase in Promoter Holding					
	ABNL	Grasim	Hindalco	Ultratech	ABFRL	IDEA
2001-02	◆					
2002-03						
2003-04	◆	◆				
2004-05			◆			
2005-06		◆	★			
2006-07	●		◆	◆		
2007-08	■		■	◆		
2008-09	■		★	◆		
2009-10	■	◆				
2010-11	■			●		
2011-12						
2012-13	■					
2013-14	■		■			
2014-15					◆	
2015-16	●	●				
2016-till 30th June		◆				

◆ Creeping Acquisition   ■ Preferential Allotment   ● Restructuring   ★ Rights Issue

There is a discernible pattern in the way the shareholding has been increased: between 2000 and 2007, the preferred mode was creeping acquisitions. From 2008 onwards, the stake increased mostly through preferential allotments of shares and warrants. In 2015-16, and with the proposed transaction, the preferred mode to increase shareholding is through corporate restructurings.

The Birla group's predilection for preferential allotments during the 2007-2014 years have diluted minority shareholders significantly. For example, in ABNL, between 2007 and 2014, promoter shareholding went up from 40.5% to 57.2% through preferential allotments, resulting in minority shareholders' dilution by 28%.

Once again, through the ABNL merger, Grasim's minority shareholders will get diluted by 29%, but promoters will have achieved their target of holding 40%. Grasim will be a bigger company, but its shareholders get exposed to the financial services and telecom businesses, which are capital-intensive and, given the competitive landscape, likely to remain cash hungry. Shareholders need to ask themselves: is it worth it?

## Annexure A: Details on promoter shareholding

Quarter ended	Grasim	Details
3/31/2001	20.4	
3/31/2002	20.4	
3/31/2003	20.4	
3/31/2004	21.9	Creeping acquisition
3/31/2005	22.0	
3/31/2006	25.0	Creeping acquisition
3/31/2007	25.2	
3/31/2008	25.2	
3/31/2009	25.2	
3/31/2010	25.5	Creeping acquisition
3/31/2011	30.8	Promoter stake in GDR disclosed. Till Dec'10, no disclosures on the GDRs held by promoters were made in the exchange filings or annual reports
3/31/2012	30.8	
3/31/2013	30.7	
3/31/2014	30.7	
3/31/2015	30.7	
3/31/2016	31.1	Merger of Aditya Birla Chemicals with Grasim
6/30/2016	31.3	Creeping acquisition
Quarter ended	ABNL	Details
3/31/2001	26.7	
3/31/2002	26.9	Creeping acquisition
3/31/2003	26.9	
3/31/2004	28.6	Creeping acquisition
3/31/2005	28.6	
3/31/2006	28.7	
3/31/2007	40.5	Birla Global Fund limited, Indo Gulf Fertilizers Ltd merger into ABNL
3/31/2008	41.6	Preferential allotment to promoters
3/31/2009	43.0	Preferential allotment to promoters
3/31/2010	47.6	Preferential allotment to promoters
3/31/2011	52.5	Preferential allotment to promoters
3/31/2012	52.5	
3/31/2013	53.8	Preferential allotment to promoters
3/31/2014	57.2	Preferential allotment to promoter
3/31/2015	57.2	
3/31/2016	58.4	Hive-off of ABFRL
6/30/2016	58.4	
Quarter ended	IDEA	Details
3/31/2007	57.0	
3/31/2008	57.7	
3/31/2009	49.1	Preferential allotment to TMI Mauritius Ltd
3/31/2010	47.0	
3/31/2011	46.0	
3/31/2012	46.0	
3/31/2013	45.9	
3/31/2014	45.8	
3/31/2015	42.3	QIP issue
3/31/2016	42.2	
6/30/2016	42.2	

Quarter ended	Hindalco	Details
3/31/2003	24.4	
3/31/2004	24.4	
3/31/2005	25.9	Creeping acquisition
3/31/2006	26.2	Rights Issue
3/31/2007	27.1	Creeping acquisition
3/31/2008	32.4	Preferential allotment to promoters
3/31/2009	32.8	Rights Issue
3/31/2010	32.8	
3/31/2011	32.8	
3/31/2012	32.8	
3/31/2013	32.8	
3/31/2014	37.7	Preferential allotment to promoters
3/31/2015	37.7	
3/31/2016	37.7	
6/30/2016	37.7	
Quarter ended	Ultratech	Details
3/31/2005	51.1	
3/31/2006	51.1	
3/31/2007	53.0	Creeping acquisition
3/31/2008	54.4	Creeping acquisition
3/31/2009	54.8	Creeping acquisition
3/31/2010	54.8	
3/31/2011	64.3	Merger of cement business of Grasim with Ultratech
3/31/2012	64.3	
3/31/2013	63.0	
3/31/2014	62.7	
3/31/2015	62.7	
3/31/2016	62.5	
6/30/2016	62.3	
Quarter ended	ABFRL	Details
3/31/2014	68.0	
3/31/2015	72.6	Creeping acquisition
3/31/2016	59.5	Merger of fashion and retail business (Amalgamation of Pantaloon with Madura Fashion and Madura Lifestyle)
6/30/2016	59.5	

Source: IiAS research, BSE

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