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An IPO for Mr Anil Ambani

Aditi Roy Ghatak

If Mr Anil Dhirubhai Ambani went by the book in terms of making his initial public offer for Reliance Power Limited, he would bring Rs 6,780 crore to the table. Will he? Or will he get away by paying Rs 690 crore for a 10 per cent stake in RPL thanks to a pre-issue merger that has caused several eyebrows to be raised? The company has stated that it expects to raise between $2 billion and $2.5 billion in what will be India's largest power sector IPO.

There are several interesting questions that the Anil Ambani IPO throws up, which The Statesman will visit over the next few days:

1) Is the playing field level for promoter Anil Ambani and the other prospective investors in terms of the risks they are taking in participating in the Reliance Power IPO?

2) What are the Securities and Exchange Board guidelines on such IPOs as Anil Ambani's?

3) Was the Bombay High Court that cleared the merger of Reliance Power and Reliance Public Utility Private Limited, presented with a complete set of facts that were germane to the fairness of the merger and the future health of the public limited company and its shareholders? Was it, for instance, informed that the merger would precede an IPO and would have a critical financial import in terms of the Sebi guidelines that clearly seek to level the playing field for promoters and other investors in terms of the risks that they take in making an investment?

4) Also, did the institutional investors take a close look at the rationale behind the merger of Reliance Public Utility Private Limited, then an Anil Ambani shell company, with Reliance Power as presented to the High Court?

5) Has the Securities & Exchange Board of India taken a close look at the import of the merger in terms of violation of both the letter and spirit of its guidelines?

6) Should not all shareholders of Reliance Energy (the erstwhile blue chip BSES that Anil Ambani now controls) and prospective investors in Reliance Power be doubly alerted to the impact of the risk factors as published in the draft red herring prospectus: 12 power projects in hand with hardly any confirmed linkages in terms of fuel and offtake?

7) Why is the Reliance Energy shareholder concerned? Because the new power company is leveraging the expertise of Reliance Energy, having no comparable expertise of its own. Reliance Energy shareholders must be particularly wary about the risk factors because the company states that “conflicts will also arise in the allocation of resources, including key personnel, contractors and intellectual property, between REL and us" in its draft red herring prospectus. (Risk factor No. 7)

Let us examine the first of the questions: the level playing field.

The draft red herring prospectus of Reliance Power Limited, an Anil Dhirubhai Ambani enterprise, which plans a Rs 8,000-crore plus initial public offer, makes an interesting declaration under paragraph 41. “We have issued equity shares to our promoters during the last year at a price below the issue price.” It goes on to explain that “one of our promoters, Reliance Energy Limited, was issued 200,000 equity shares of Rs 10 each on January 12, 2007 at a price of Rs 10 per equity share. In addition, REL and AAA Project were each issued 500,000,000 equity shares for Rs 10 each on September 30, 2007 under the terms of the scheme of amalgamation between our Company and Reliance Public Utility Private Limited”. For details, prospective investors are directed to see “Capital Structure” on page 24 of this Draft Red Herring Prospectus. However, risk factor No. 41 in the DRHP says that: “We have issued Equity Shares to our Promoters during the last year at a price below the Issue Price.”

And, thereby, hangs a tale.

A tale that the Securities and Exchange Board of India may or may not understand even though it makes the playing field quite uneven for prospective IPO investors that the SEBI seeks to protect. The Sebi requires the promoters’ contribution to be at the same value as that demanded from the investors of the IPO.

Consider the details of the mandatory 20 per cent promoter's contribution that Anil Ambani presents on page 29 of the draft red herring prospectus: As per clause 3.7.1(I) of SEBI guidelines, a company cannot make a public issue of Rs 2 face value share at a price less than Rs 500 each. Thus, if Reliance Power fetches Rs 500 a share, as it is being assumed now and given the reports of an already existing grey market for it, Mr Anil Ambani and Reliance Energy (of which he owns 34.4 per cent) would have benefitted to the tune of Rs 1,04,580 crore (210 crore shares at Rs 2 each, which means a benefit of 210 crore shares x Rs 498). Other investors will be asked to pay Rs 500!

Look at the numbers from another angle. If Reliance Power raises around Rs 8,000 crore by issuing 130 crore equity shares of Rs 2 each, the approximate issue price per equity share is expected to be Rs 60 per share. Mr Anil Ambani, as one of the promoters for his acquisition of 113 crore shares (10 per cent of post issue share capital as per the prospectus) at a price of Rs 60 per share, should have brought in an effective and real investment of Rs 6,780 crore. Legerdemain has helped him to use the exemptions in the SEBI guidelines intended for genuine mergers and acquire this 10 per cent by spending only Rs 690 crore calculated as follows:

Reliance Energy should also have contributed Rs 6,780 crore for acquiring the 10 per cent promoter's contribution but spent only Rs 690 crore. The loss to the prospective investors on this account is another Rs 6,000 crore. This makes the value of the total disadvantage to the prospective investor in a purportedly equal world Rs 12,180 crore. (To be continued)

Tomorrow: What do the SEBI guidelines say on IPOs for unlisted companies?