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HOSTILE TAKEOVER & PETROL

FINSHOTS COLLEGE WEEKLY

Finshots College Weekly - Hostile Takeover & Petrol

In this week's newsletter, we talk about why SEBI is intervening between Religare and Dabur's Burman family, the practicality of bringing petroleum products under GST and more.

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Why is SEBI after Religare's Rashmi Saluja?

IReligare Enterprises' chairperson, Rashmi Saluja is in a tight spot right now. And it's because the SEBI (Securities and Exchange Board of India) has been badgering her company's Board to get approvals from a bunch of regulators. It wants Religare to give in to a hostile takeover bid by the Burman family or the folks who own Dabur.

But why is SEBI doing that, you ask?

Well, actually it's a rule. And SEBI's just doing its job as a market regulator. To understand what this weird sounding rule is, you'll have to take a short trip back in time.

In 2018, Shivinder and Malvinder Singh, the common founders of Fortis Hospitals and Religare, were accused of fraud. They allegedly swindled a whopping ₹2,400 crores that belonged to

Religare's subsidiary Religare Finvest.

Now, since Religare is a listed financial services firm, investors naturally lost confidence in its management. And this wasn't a good look for the company.

That's exactly why it decided to hand over the reins to Rashmi Saluja, Religare's current chairperson. She was a doctor by profession, had a law degree, an MBA in finance and over two decades of experience handling administrative affairs at various other corporate entities. Her qualifications and experience seemed to tick all the right boxes. And that may have pushed the Board of Directors to think that she was a perfect fit for the role. She would be able to turn around the bitter impression Religare had created, or so they may have thought.

But it seems like Saluja had her task cut out right from the start. It was around this time that the Burmans gradually began increasing their stake in Religare. To put things into perspective, between 2018 and 2023, Dabur and its associated entities' shareholding in the financial services firm went up from just about 10% to 26%.

And this 26% is exactly what's creating the problem for Religare right now.

Because here's the thing. When promoters or investors buy large chunks of a publicly listed company, they have to abide by a few rules chalked out by SEBI. And one of them relates to minority shareholders.

If investors end up buying a controlling stake or over 25% of a company, they have to make an additional open offer to minority shareholders to buy their stake in the company too. The reason is simple. If you're a minority shareholder in a company holding a few hundred stocks, and there's a sudden but massive change in ownership that could impact the company's future, then you have every right to exit an investment. This open offer is what allows you to sell your shares at a certain price and walk away from the investment if you wish.

And that's exactly what the Burmans did. They announced an open offer to buy more shares in Religare. Or to put it differently, the Burmans were coming for Religare through a hostile takeover bid.

Now, we know what you're thinking. The Burmans are the promoters of Dabur, an FMCG (Fast Moving Consumer Goods) giant. So, why are they even interested in a financial services firm like Religare?

You see, Dabur started off with humble roots nearly 140 years ago. Its founder, S K Burman, was an Ayurvedic physician, whose objective was to provide effective and economical healthcare treatments to people in remote villages. So he built a brand that eventually made health supplements, packaged foods and personal care products with an Ayurvedic touch.

As generations stacked up, Dabur's business interests diversified across healthcare, hospitality, education, media and even financial services. But the Burmans want more. And they're now looking to create a large financial services platform that dabbles in lending, broking and health insurance services. And Religare fits right into that scheme of things. Hence, the open offer.

The problem with this idea though is that the Burmans will undoubtedly start influencing Religare's operations. They could even choose to put someone else behind Religare's corporate wheel if they want to. And that might not bode well for Rashmi Saluja. So you can imagine that her best knee jerk reaction would be to well… resist! And she's doing that quite tactfully.

Look, Religare isn't just a financial services company regulated by the SEBI. It's an NBFC (Non Banking Financial Company) regulated by the RBI (Reserve Bank of India) too. So going by the RBI's rules, Religare must write an application to the Central Bank seeking an approval for the takeover.

Not just that. Its presence in the insurance business means that this takeover needs the blessing of the IRDAI (Insurance Regulatory and Development Authority) as well.

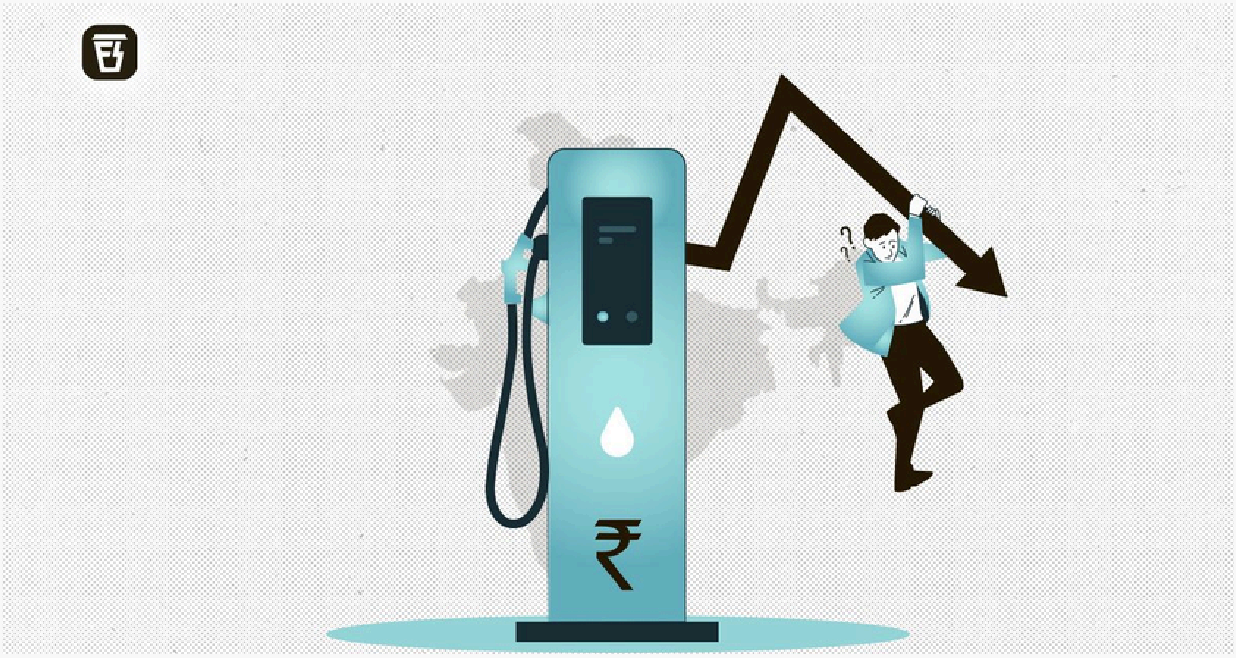
And if the Religare board does not initiate these applications, the Burmans can't go ahead. They can't even usher in the applications themselves because the rules specifically say that this obligation lies with the target company that is being acquired or Religare in this case.

Religare's Board though, hasn't sought approvals from any of the regulators until now on the grounds that Burmans don't fulfil the requirement of being 'fit and proper' as per RBI's rules. It alleges that the family was involved in frauds like the infamous Mahadev betting scam, a scam centered on illegal betting apps. It even accused the Burmans of colluding with Fortis' Singh brothers in the fraud that transpired at Religare earlier. And when most of these allegations seemed to have no substance or proof, Religare cried foul about how the Burmans are paying an unfairly low price for the company.

But SEBI's not having any of it. It's been watching how Religare and its Board have been bypassing the rules by borrowing time. And that's exactly why it shot off a notice to Saluja and her company, a few days ago, pushing them to get all the regulatory approvals they need.

Will the Religare board give in? Well, that's something we'll only have to wait and see.

Why GST may not make fuel cheaper



Raman runs a long haul taxi service for a living. He lives in Narayanpet, a small town in Telangana, which is quite close to the Karnataka border.

And every time he gets booked for a trip to a city or town in Karnataka, he makes sure that he fills his fuel tank to the brim on his way back.

That's because fuel prices in Karnataka are a little bit cheaper than those in Telangana. For context, Raman saves at least ₹6 per litre on diesel when he refuels from a fuel station in Karnataka. Petrol too is at least ₹4 cheaper. So many people like Raman refuel their vehicles from fuel stations in Karnataka whenever they can.

But this isn't something that fuel dealers like. Because dealers earn a commission on every litre of fuel they sell. So whenever customers go in search of cheaper fuel to other states, they lose out on a lot of revenue. It hurts their prospects as you can see.

Between 2014 and 2017 investors from Hong Kong to Pakistan to Canada … and even Palestine invested over €4 billion in OneCoin.

And that's exactly why they've been asking the central government to bring petrol and diesel under the ambit of GST (Goods and Services Tax). But it's not just fuel stations who are advocating for this change. Most consumers seem to want this too. At least that's what a LocalCircles survey from 2021 suggests. They look at it as a way to reduce the burden of rising household costs.

But is GST really the magic bullet that will lower fuel costs?

Well, to understand that let's first give you some context about why GST doesn't cover fuel despite being implemented 7 years ago.

Before GST was introduced, India had a complex tax system where both the central government and state governments charged different types of taxes on goods and services. This meant that when goods were manufactured and sold, they were taxed multiple times at different rates, and every time they crossed into a different state, they were taxed again. This made things complicated and often more expensive.

GST simplified this by creating a single tax that replaced many others like sales tax, service tax, excise duty, and others. Plus, because GST is uniform across the country, it removes the tax barriers between states, making it easier and cheaper to sell goods across different parts of India.

While this simplified things for businesses, it became quite a burden for states. That's because GST revenues had to be shared between the center and the state. The concept of a separate central and state tax disappeared. And states lost a significant portion of revenue.

So the central government said "Hey we'll keep items like alcohol, fuel and electricity outside the GST ambit for now. So just focus on finding other avenues to shore up your tax revenues. Meanwhile, we'll create a fund by slapping some extra taxes on stuff like pan masala, cigarettes or carbonated drinks. So if you still fall short, we'll share a portion of those extra tax revenues with you until 2026."

States agreed and things haven't changed ever since. Fuel still forms a significant part of the revenues states earn. Anything between 11-17% of their total tax revenue to be precise.

And guess what? Close to 40% of the price you pay for fuel is actually different kinds of taxes. The centre charges its own tax which stays uniform across the country. And different states charge different rates of taxes over and above the central tax, which is actually why fuel prices vary across states.

This simply means that if fuel costs ₹100 on average, then dealers buy fuel from oil marketing companies at ₹60 and you pay ₹40 as taxes on it. If you do the math, that's a whopping 67% tax (or ₹40/₹60) on the basic cost of fuel itself. And bringing fuel under the wings of GST simply means that governments would have to add an atrocious amount of GST to keep earning the revenues they've been earning earlier. It's something even the highest rate of GST at 28% cannot make up for.

In fact, a GST of 28% would mean a significant loss of revenue and would prompt them to raise taxes on other goods and services, pushing up the cost of living for the common folk even more.

So yeah, while GST has streamlined many aspects of India's tax system, applying it to fuel might not magically make fuel cheaper due to the substantial revenue it generates for both state and central governments. Aligning fuel under GST could lead to a major reshuffling of tax burdens across different sectors, affecting everything from state revenues to the everyday expenses of ordinary citizens. So we'll only have to wait and see if the central government has a magic bullet to bring fuel under GST while also shoring up revenues for both itself and the state.

#AskFinshots 🙋

This week's question comes from Tanvi from Mumbai. Tanvi asked, "What sets Ditto apart as a company? Why do you think Ditto became a LinkedIn's Top Startup?"

Thank you for your question Tanvi. Here's what Pawan, our co-founder had to say—

"Here's what we think we did differently to become the company we are today:

1. Finding the right investor

In my opinion, this is probably what could potentially make or break a startup. A close friend of mine sold half of his startup's equity to an investor who—

- Barely understood the business
- Micromanaged the day-to-day operations of the startup
- Was only looking to make a quick buck

So, what should you do to avoid such a situation?
Carry out a thorough investigation of the investor's portfolio companies before you even approach them. Consider if they are the right fit for you and your company's vision and don't compromise just to secure the initial rounds of funding. In doing so, you'll only end up with debts and losses in the long run.

2. Building skills as a Founder

When we started seeing some success with Finshots, a lot of copycats began to emerge. They were hoping to replicate what we did by poaching our team members and learning the tricks of the trade. And yet, years later, we are still here and those businesses aren't.

Why?

Because as founders, we constantly learned, developed, and refined the core skills we needed to run Finshots.

So even when important team members were churned out over the years, we as founders had the competitive skills to keep the MOAT of the business in our hands.

3. Hiring the right people

When it comes to hiring, I deeply resonate with Howard Schultz's philosophy:

"Hiring people is an art, not a science, and resumes can't tell you whether someone will fit into a company's culture."

The biggest mistake we made during our early days was trying to hire people with highly polished resumes.

But, over the years, some of our best hires have been people who were once users of our service and wanted to be part of our team.

So, now when we hire someone at Ditto, we base our judgement primarily on good character and a trustworthy nature.

It’s crucial that founders are surrounded by people who love what the start-up is trying to solve, are committed to the common cause, and have the drive to make it all take off.”

Hope that answers your question Tanvi.

Have a question for Team Finshots & Ditto? Write to us at colleges@joinditto.in and we'd see if we can get you an answer!

And that's all for today folks! If you learned something new, make sure to subscribe to Finshots for more such insights :)

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