

**SMOOTH MOVES** Dutch brewer ropes in JM Financial to help mop up pledged shares held with lenders as guarantee for KFA loans

# King Missing, Heineken Fishes for UB Control

## Seizing the Right Moment

**42.38%**

Heineken's stake in United Breweries

**32.89%**

Stake owned by Vijay Mallya, his family members and associate cos

Mallya directly owns 8%, 98% of which is pledged

**₹3,217 crore**

Market value of pledged shares

### STORY SO FAR

In 2009, Heineken and Mallya unveiled partnership with both controlling 37.5% stake each of UB

The two signed a pact ensuring equal stake & joint management

Both sides had equal board representation with Heineken getting post of CFO. Mallya remains the chairman

Mallya's troubles gave Dutch co opportunity to raise stake in company

Last July, it acquired 3.12% offloaded by USL

In Nov, YES Bank sold 4.25 L shares of UB to Heineken for ₹39.48 cr

Dutch Brewer wants to take its stake beyond 50%



**Arijit Barman, Indulal PM & Baiju Kalesh**

**Mumbai:** Dutch beer giant Heineken has appointed investment bank JM Financial to help increase its stake and control in United Breweries in yet another sign that beleaguered liquor baron Vijay Mallya's hold over the last big company of his once flourishing business empire is under threat.

Mumbai-based JM, which successfully helped Diageo buy out United Spirits in 2013 as one of the key buy-side advisers, is now back

advising Heineken. Its role will be crucial if the Dutch firm is to buy the remaining stake in UB it needs for majority control.

**With JM on board, Heineken will talk directly with lenders**

The Dutch brewer is already the largest shareholder in United Breweries, maker of Kingfisher beer, with a 42.38% stake. It has been keen to take it beyond 50% either

by buying directly from liquor baron Vijay Mallya or his creditors.

**Pledged Shares Worth ₹3,217 cr ▶▶ 21**

# Pledged Shares' Market Value at ₹3,217 cr

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Mallya, his family members and associate companies together own 32.89% of the company and 47.68% of that is pledged, according to data sourced from BSE till December 31, 2015.

Mallya directly owns 8% in UB but 98.11% of that is pledged. UB's current market cap is ₹20,899 crore. The market value of the pledged shares is ₹3,217 crore at Monday's closing price of ₹790.45 apiece.

As the heat on Mallya's business empire rises, and he faces lengthy questioning by the country's investigative agencies, Heineken would be keen to mop up pledged shares that are held with banks and financial institutions as a guarantee for the Kingfisher airline loans. Over the last one year, the creditors have been periodically exercising their rights and selling these shares in the open market to recover dues from the erstwhile liquor baron and Heineken has used those opportunities to mop them up. But with JM Financial on board, Heineken will negotiate directly with lenders as they seek to proactively cash them, said three sources aware of the matter.

In 2009, Heineken and Mallya unveiled a partnership with both controlling 37.5% stake each. Both had signed a "standstill agreement" that ensured equal shareholding and joint management. Both sides also had equal board representation with Heineken getting the post of chief financial officer. But Mallya's troubles emanating from the grounded Kingfisher Airlines gave the foreign partner an opportunity to slowly raise stake in the company, which accounts for roughly half of the domestic beer consumption.

Sources say Heineken has gained rights to full management control as "equal and joint management clause" no longer exists. However, they added, Heineken has been in no tearing hurry to disturb the current setting. But the current situation is forcing them to take precautions.

India's largest lender by assets, State Bank of India, along with a consortium of banks had served notice to Mallya, defunct Kingfisher Airlines and his holding company, United Breweries Holdings, as wilful defaulters for not repaying ₹9,000 crore loans. Banks are forbidden from giving loans to companies where a wilful defaulter is on the board and United Breweries board may feel itself under pressure to do something

about Mallya's presence.

Heineken may also be feeling pressure of another kind. While it has no significant quarrel or dispute with Mallya, the Dutch giant feels duty-bound to protect its most precious investment in the country from raiders and opportunists willing to fish in troubled waters. The last thing Heineken needs is for a rival to jump in and buy the pledged shares and that could explain the reason behind the JM appointment and the

need to increase its stake.

In November 2015, YES Bank sold 4.25 lakh shares of UB to Heineken International BV for ₹39.48 crore through block trades on the stock exchange. In Jan 2016, ICICI Bank, the country's largest private sector lender, picked up 1.95 million shares of United Breweries Limited for a little over ₹186 crore through an open market transaction.

Last July, Heineken acquired a decisive 3.12% stake offloaded by United Spirits that freed them from a previous shareholder pact with Mallya. Prior to that it had already picked up shares and had increased its shareholding by 2%. UB group and JM Financial declined to comment. Mails sent to

Heineken and Mallya did not elicit a reply till the time of going to press. Text messages sent to Mallya also did not generate any response.

"I don't think there is hostility between Mallya and Heineken top brass but their hands are forced. Instead of a third party picking them up, they would like to corner as much as they can as the situation has become very volatile," said an official in the know. "Heineken would not miss this opportunity. They are getting their act ready in case of such eventuality," he added.

"They will also have to opt for an open offer if they acquire more than 5% equity through the creeping acquisition route. A local advisor will be helpful to navigate the rules and regulations," added another source on condition of anonymity as the talks are still in private domain. Asia-Pacific, which accounts for almost a fifth of Heineken's operating profit, was the company's fastest growing market in the first half of last year. With no significant competition from local peers, global majors – Danish brewer Carlsberg and SABMiller Plc – has been gaining market share.

India's beer market is growing significantly faster than the world average, largely because it is still very small.

