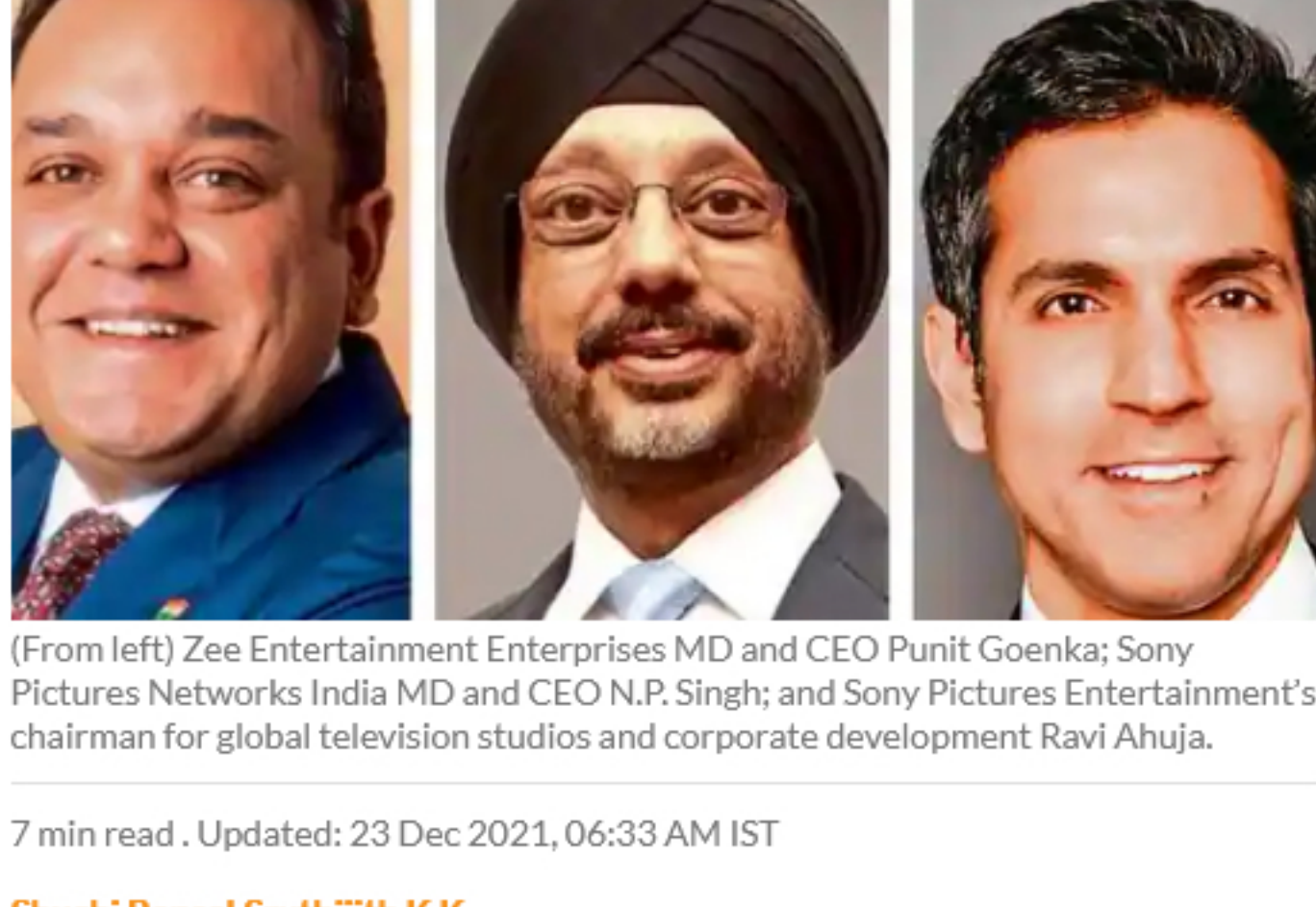


'Zee-Sony deal brings two formidable rivals together'



(From left) Zee Entertainment Enterprises MD and CEO Punit Goenka; Sony Pictures Networks India MD and CEO N.P. Singh; and Sony Pictures Entertainment's chairman for global television studios and corporate development Ravi Ahuja.

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Shuchi Bansal, Sruthijith K.K.

We will certainly evaluate the opportunity of IPL. As you know, Zee has to consider it on a stand-alone basis because we cannot act in concert, says Punit Goenka, Zee MD and CEO

Zee Entertainment Enterprises Ltd (ZEEL) and Sony Pictures Networks India (SPNI), erstwhile rivals who have decided to merge, will, however, not be able to mount a joint bid for the media rights of the Indian Premier League. Regulatory approvals could take eight to ten months, and the two companies will have to operate separately and independently till then. In a joint interview with Shuchi Bansal and Sruthijith KK, Punit Goenka, MD and CEO, ZEEL, NP Singh, MD and CEO, SPNI, and Ravi Ahuja, Sony Pictures Entertainment Inc.'s chairman for Global Television Studios and Corporate Development, said they are confident the deal will get shareholder nod, though they have not reached out to Invesco, the rebelling Zee Entertainment shareholder, so far. Edited excerpts:

What are the next steps required in terms of shareholder and regulatory approvals?

Goenka: The first and foremost thing for us to do is the two companies will jointly file with CCI on this merger application, and ZEEL will file its application with SEBI and the stock exchanges for their approvals. Post the CCI approval and the exchanges approval is when we will move to the NCLT process of the merger. And that's when the shareholder vote will be called by the NCLT. The whole process takes anywhere from eight to 12 months. And that's what we envisage that we should be within that timeframe to get it up.

Can you operationalize the merger before that?

Goenka: We have to wait for the merger to be approved before operating together. We have to wait for at least the CCI approval even to start to discuss the next steps and what we plan to do.

So you cannot jointly bid for IPL rights in January? The buzz was with the money now being made available, the joint entity could make a competitive bid for IPL.

Goenka: No, we cannot. That's not permissible. The money being infused into the company is growth capital for not just one property, but for the larger business in totality, be it on the sports side, or on the digital side, and potentially even other new verticals that the joint company may choose to do.

Does this feel like a pyrrhic victory to you, Mr Goenka? You will be running the firm as MD but now with little influence on the board.

Goenka: The fact of the matter is that we did not have control of the board even prior to this merger. It is pretty much a board-run company. We've got six independent directors, and I'm the sole executive director on the board today. And therefore, it doesn't change much from that perspective. But certainly, what it does is it brings two very formidable competitors together, create potentially a real media powerhouse from the emerging markets that can really challenge and give competition to not just the existing players in the market, but even the potential global players that would like to enter this country. It's a win-win from my perspective that I get to lead this joint entity for the foreseeable future, at least for five years. It's a win-win for Sony, Zee, and for my family. It also gives Sony the comfort that we are going to be in a non-compete situation for five years with the merged company. That gives a clear runway to really create a powerhouse in the media-entertainment sector in this country, which is the fastest-growing market across the world.

But isn't it different now because another media company will be in control of the board?

Goenka: I would ask Ravi (Ahuja) to step in and answer this.

Ahuja: Our view as the majority shareholder, having the majority of the board nominated by us, is that Punit is running the company as much as NP (Singh) has run SPNI fully in India despite having a full shareholder sitting back in Los Angeles.

That's the only way to have full commercial and operating control locally in India. We can never second guess and try to micromanage and operate the business from afar. I think in that respect for Punit, it is going to feel very much like it did in the past.

Singh: From my own experience of several years now, we have run this company very successfully, very independently with just strategic guidance and direction coming from SPE in LA. And then from Ravi. So that's exactly how we will look forward to Punit running the company going forward.

In Punit Goenka's appointment as MD and CEO, is there an understanding that he will not be removed for at least five years? Is that guaranteed?

Ahuja: Our view is Punit will be the CEO for five years. There's no guarantee of anything in life in that sense, you know, but Punit is CEO for the five-year job.

Once the approvals are through, what will be the merged entity in India called?

Goenka: We are not at that stage right now. We have not come to any conclusion as to what the new entity will be called. But I can take the liberty to say both the companies are formidable and strong brands.

We will take the best of both worlds and serve the consumer and our partners to build shareholder value.

Inevitably, there would have to be a brand hierarchy. Will the Sony brand prevail or the Zee brand prevail?

Goenka: There are no easy answers to this.

Ahuja: The fact that we're all looking at each other blankly means we have not yet figured this out.

Could you give us a sense of the size of the new entity in terms of revenue? Will it be larger than the market leader Disney?

Goenka: In terms of the top line, we will be pretty much in the same ballpark as them, which is roughly about \$2 billion. But in terms of profitability, we will be much, much higher than our competitor.

Will you get the requisite 75% votes to approve this deal? Also, will you reach out to Invesco to get them on board, or have you already?

Goenka: Given the fact that we've just signed last night (Tuesday), we have not yet reached out to Invesco. I do not think that we intend to reach out to Invesco either, immediately. But on the 75% vote, I do believe that the shareholders will see the merit of this transaction for Zee. It does put this company in a formidable position to really be a media powerhouse and the value it creates for them in the long term. Therefore, I'm confident that we should be able to get the vote in favour of the merger.

Has Sony reached out to Invesco in the interest of seeing this deal through? Will you adopt some kind of soft diplomacy?

Ahuja: We haven't done that. Again, we haven't thought through that.

How concerned are you that this deal might stumble at the shareholder approval stage?

Ahuja: There's tremendous value in combining these two companies. You see it in the performance of share price since it has been announced, in the reaction in the press, and the reaction in people who know about the marketplace. So I'm confident that the shareholders will also see the value.

Sony has given 2% shares in lieu of the non-compete clause. Which businesses are off-limits for the family?

Goenka: Any business that the merged company is engaged in is covered under the non-compete for the family, and the family here is defined as the Essel group owned and controlled by Dr. Subhash Chandra, myself, and my brother, and our families. And the non-compete is for five years.

Do you think selling an additional stake to Invesco was a mistake?

Goenka: In hindsight, everything seems like a mistake. But at that point in time, it was the right decision. I generally don't like to talk about what has happened in the past. Past is in the past, and we look forward to the future. I believe the future is only going to be bright here.

How relieved is Sony that it has managed to land this deal and not Viacom?

Ahuja: The word relieved is probably not the word I'd use; we're very happy and excited about the future, and I think we'll really be able to fulfil the vision of leading. So, I completely agree with that. Relief implies that we felt we had a problem. SPNI is a great company; what NP has built there, they're growing a lot, it's highly profitable, and we're very happy with the business, but this just allows us to take leadership.

Are you going to bid for the IPL media rights?

Goenka: We will certainly evaluate the opportunity of IPL. As you know, Zee has to consider it on a standalone basis because we cannot act in concert. And you also know the fact that we have been very, very value conscious when it comes to any of these kinds of biddings, but we will certainly consider taking part in that.

Singh: We will seriously evaluate. We were the ones who took the first bet on IPL and ran it very successfully for 10 years, and built it to what it is today.