- A series of recent developments have made minority investors edgy, question corporate governance
- Investors are also angry at HGS seeking shareholder approval to increase the limit of loans the company can extend to other promoter entities, from the current ₹500 cr to ₹3,500 cr

**BENGALURU** : Last Friday evening, the eight member-board of NXT Digital Ltd, the flagship media business of the Hinduja Group, met to consider a buyout offer. It came from a sister entity.

After a meeting that lasted nearly two hours, chairman Ashok Hinduja and the board, comprising Anil Harish, Bhumika Batra and Sudhanshu Tripathi, gave their nod to an in-principle buyout by Hinduja Global Solutions (HGS), a business process management firm with revenues of $754 million in 2020-21.

Subsequently, NXT Digital informed the exchanges even as a meeting of the board of HGS was separately underway. Harish, Batra and Tripathi are also on the six-member HGS board. Among other points, they deliberated on the buyout, finally putting their stamp of approval.

# COURTING CONTROVERSY

Minority shareholders have questioned the buyout: is it to salvage NXT Digital, a loss-making firm with ₹855 crore in net debt?

**NXT Digital** FY21

Total Income
**₹1,008.45 cr** (-13.22%)

Net loss after tax
**₹-16.36 cr** (₹109.67 crore profit in 2020)

Net Debt
**₹855 cr** (at the end of March 2021)

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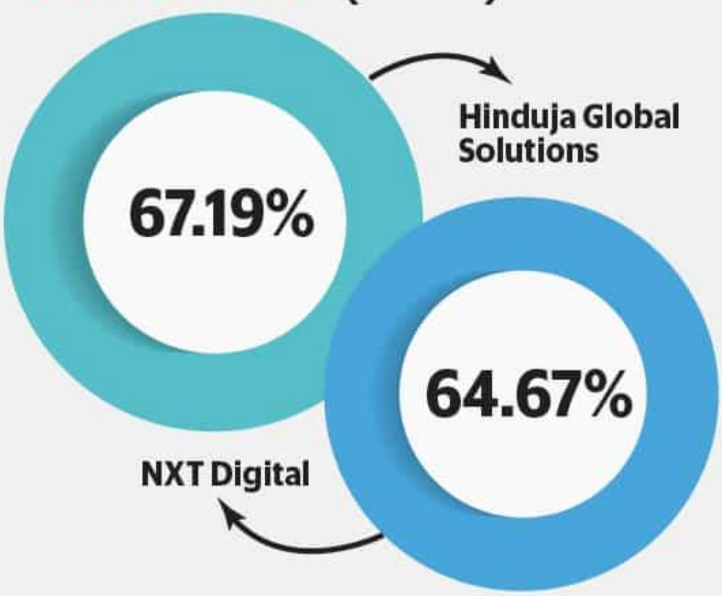
**Hinduja Global Solutions** FY21

Total revenue
**₹5,588.91 cr** (12%)

Profit
**₹389.96 cr** (94%)




Promoter holding in HGS is at the end of 30 September 2021 while in NXT Digital it is at the end of 4 December 2021

Source: BSE; annual reports

Ashok Hinduja, the youngest son of Parmanand Hinduja, the founder of the Hinduja Group, is the chairman emeritus of HGS but is not a board member. Forbes pegs the net worth of the four Hinduja brothers—Srichand, Gopichand, Prakash and Ashok—at $14.1 billion, making them the country's 15th richest family. For now, the eldest, Srichand, is at odds with his three younger brothers. His two daughters, Vinoo and Shanu, have filed court cases against their uncles in multiple geographies across the world.

But let's delve deeper into the buyout that is making all the wrong noises. Both the companies will work on the details of the all-share transaction, including the share swap ratio and the valuation. But many minority shareholders of HGS are already fuming while analysts are dumbfounded. What is the rationale behind a company offering technology-related customer support (to corporates primarily outside India) buying a cable and broadcasting distribution firm (with operations in India)? The issue of the same three directors on the boards of the two companies, which makes one queasy on the independence of the decision-making process, is not the only point of heartburn. Minority shareholders question if this transaction has been stitched by the promoter to salvage NXT Digital, a loss-making firm with ₹855 crore in net debt. Investors are especially aghast because the decision came less than 48 hours after HGS sought shareholder approval to increase the limit of loans the company can extend to other promoter entities, from the current ₹500 crore to ₹3,500 crore.

Finally, at least eight shareholders of HGS told Mint that they have been misled by the management which agreed to dole out only ₹312 crore in dividends, which translates to 3.9% of the ₹8,000 crore the company received after it sold its healthcare business to a private equity firm. Over the last six months, the management repeatedly assured investors that they would be rewarded handsomely and that the company had no intention to extend loans to corporate entities related to the promoters.

Many minority shareholders are now demanding that the market regulator, the Securities and Exchange Board of India (Sebi), examine the developments.

**Broken promises**

The genesis of the current tussle between shareholders and the scion of the Hinduja group dates back to August 2021 when HGS agreed to sell its healthcare unit, or the business generated from offering back-office services to hospitals and healthcare firms, to Barings Private Equity Asia for $1.2 billion. Net of taxes, HGS would get $1.08 billion.

Our plans to utilize the cash are as following–invest in the organic growth of the business, invest in a larger sales engine, look at acquisitions to fill up capability gaps in the string of pearls strategy," Partha DeSarkar, the chief executive officer (CEO) of HGS, told analysts and investors on 10 August. “We will, of course, be very mindful of the fact that our shareholders have been very loyal to us and we would look at opportunities to unlock value for them as well," he added.

At the same meet, analysts quizzed the CEO on the nature of acquisitions the company would pursue from the proceeds of the sale. “I told you that we are looking at three sectors being drivers of growth around the technology space—analytics, AI and automation," DeSarkar responded.

Three months later, when HGS declared its second-quarter earnings, the management reiterated its commitment to returning more cash to shareholders through dividends and the acquisition focus. The management further commented on the thorny issue on if the company will extend more loans to promoter entities.

“Let us say, with the money that is received from our current calculation, is there any intent to further increase the exposure to group companies through ICDs or loans or is it like a cap of let us say around ₹500-odd crores?," an investor asked the management on 30 November.

“So, the current cap is ₹500 crore and we are well within that," CEO DeSarkar responded.

“We will reward the shareholders handsomely," he assured, when asked how the company intends to share the ₹8,000 crore windfall with shareholders. “The whole purpose of doing this exercise was to unlock value for the shareholders and we are not going away from that requirement or from that objective," DeSarkar told investors. “I think you should look at how we return money to the shareholders and then let us have a chat again. I don’t believe that shareholders will have any reason to complain given the fact that the only reason we did this deal was to unlock value for shareholders," he again stressed.

On 6 January this year, HGS declared that it will pay ₹150 a share as a dividend to shareholders, which implied that the company would spend about 3.9% of the ₹8,000 crore it received from selling its healthcare business in dividends.

Many aggrieved public shareholders, some of whom had been invested in the company for a decade, dumped their shares—the HGS scrip crashed 20% the next day.

One of the angry investors was Prudent Equity, a Gurgaon-based stock advisory firm. “The dividend of ₹150 a share implied that the company was returning ₹312 crore to shareholders," said Siddharth Oberoi, founder of Prudent Equity. “This is a pittance."

Prudent had put a Buy call on 23 March 2020, when HGS shares were trading at ₹440 a share. Prudent’s clients held about 3% in HGS before the stock advisory firm recommended that they sell the shares, on 7 January.

**More surprises**

Shareholders had more surprises in store for them.

Less than a week later, on 12 January, HGS sought shareholder approval to increase the loans the company could give to other promoter entities, from the current ₹500 crore to ₹3,500 crore.

“How can any company promoter act so brazenly?" one investor from a proprietary wealth firm asked, on the condition of anonymity. “Repeatedly, the management had clarified that the current loans made to the promoter group were within the current limit."

In the past, the HGS management took some flak over the same issue. In 2020, HGS extended ₹340 crore loans to two privately-held promoter entities of the Hinduja Group, which made investors see red. In conference calls back then, the company’s management had a tough time defending the move.

“It is not just the issue of the company not giving enough dividends. There is a serious issue of corporate governance when the company asked shareholders to increase the limit of loans HGS could give to the other promoter entities," Oberoi of Prudent Equity said.

Two days later, on 14 January, HGS’s board decided to buy NXT Digital and also announced that it would undertake a ₹1,000 crore buyback of shares.

“A company clearly spells out it will acquire companies in the area of AI, data analytics and automation technologies. Yet, the first company it intends to buy is a company of Ashok Hinduja and one that has nothing to do with the IT business," said a Chennai-based investor, who owns about 0.15% shares in HGS. “It’s time Sebi examines the comments made by the management to its investors, especially in the last six months, and then decide for itself—if this is a clear case of misleading investors," the investor added.

A fourth investor, based in Mumbai, is livid, too.

“The developments (at HGS) show clearly there is no corporate governance to speak of and the owners and management are taking the retail shareholders for a ride," the investor said. “If you take out the ₹300-odd crore in dividends and ₹1,000 crore committed for the share buyback, the remaining ₹6,700 crore (of the ₹8,000 crore windfall) will be used for and by the promoters. Is this how a publicly listed company works? Will the market regulator step in and take corrective action so that such brazen actions are not taken at other companies?" the investor asked.

Last week, one agitated investor even texted CEO DeSarkar, complaining that the management is only looking at their own fat pay packages while ignoring the interests of minority shareholders. The investor’s comment was with reference to how DeSarkar’s remuneration jumped 49.2%, from ₹11.6 crore in the year ended March 2020 to ₹17.32 crore in the year ended March 2021. Here, it is important to mention that the company’s revenue increased 12% during the same period, from ₹4,986.5 crore to ₹5,588.91 crore at the end of last year.

**Who holds what**

HGS’ planned buyout of NXT Digital will need majority shareholder approval. So, minority shareholders can still stall the transaction. Right?

Not as simple, argue two investors.

A seventh investor Mint spoke to said that many entities or individuals close to the promoter group could be holding shares in both the companies, thereby making the approval of the transaction only a formality.

This argument holds some merit.

The Hinduja family owned 67.19% in HGS and 64.67% in NXT Digital. Outside of the 64.67% promoter stake in NXT Digital, IndusInd International Holdings Ltd and IndusInd Communications Ltd, together owned 8.28%. Both entities are classified as public shareholders despite IndusInd International Holdings Ltd being part of the promoter group in IndusInd Bank Ltd, a bank where the Hindujas own a substantial stake. IndusInd Communication is another subsidiary of the Hinduja Group.

“Sebi should look at the shareholding structure of the two companies to see if any of the promoter entity groups in other business own shares in either NXT Digital or HGS and are classified as public shareholders," said a Bengaluru-based investor.

“I would like to state that NXTDIGITAL Limited (“NDL") is currently in the silent period and hence can’t comment beyond what has been shared in the board meeting outcome to the stock exchanges and the media, via a press release," said a spokesperson for NXT. “NDL, which has been strengthening its leadership position through innovative solutions and advanced technology has planned significant expansion in the emerging digital solutions space considering its footprint spans the rapidly growing and highly aspirational semi-urban and rural markets. The proposed move will provide much-needed synergies. NDL has in place a long-term vision for shareholder value-creation, reinforced by an experienced & dynamic management and a strong corporate governance framework," the spokesperson added.

“HGS is currently in the silent period and hence can’t comment anything beyond what’s been shared in the communication to the stock exchanges," said a spokesperson for HGS. “HGS has already announced an interim dividend of ₹150 per equity share (record date January 18, 2022) and a 1:1 bonus (record date around mid-February, 2022), followed by a proposed ₹1,000 crore (approx.) buy-back program, subject to approval of shareholders, the applicable provisions of the Companies Act, 2013, and SEBI Regulations. To reiterate, HGS is committed to keeping the interests of its minority shareholders in mind while deciding on the utilization of funds generated through the healthcare vertical divestment, even as it pursues aggressive growth for the organization," the spokesperson added.

Minority investors, like Mint’s reportage reveals, have little trust in these assurances.