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We want to diversify beyond media and entertainment: Essel Group's Himanshu Mody

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Himanshu Mody

Subhash Chandra-promoted Essel Group closed several acquisitions last year in its flagship media business and is developing an active M&A strategy for its other businesses. Among the key deals in the media business, it acquired general entertainment TV channels from Anil Ambani-led Reliance Group and the UAE's radio station Hum 106.2 FM. It also exited the sports business by selling TEN Sports Network to Sony Pictures Networks India and its affiliates.

The group has interests in industrial, manufacturing, education and infrastructure sectors. For all segments, it has adopted an acquisition strategy for growth and diversification. In a chat with VCCircle, Himanshu Mody, who heads group finance and strategy at Essel Group, talks about the firm's acquisition roadmap and more. Excerpts:

What is the group's acquisition and expansion strategy? How would you put the deals closed in the last two years in perspective?

We are looking at an acquisition strategy across all the companies—be it broadcasting, DTH or cable. The strategy on the content side is to strengthen our

offering and look at areas beyond traditional TV and entertainment. Hence, things like radio that we have ventured into are important. In terms of distribution, we believe that consolidation is the right thing to happen.

For sports, we believe it's a business which has slim margins. That is why we thought it doesn't fit in the Zee portfolio and closed a deal with Sony. Every deal has been different—some have been sell-offs while some have been cash purchases or amalgamations.

What was the thought process behind the acquisitions?

There has been an active thought process to go after M&As. Obviously, opportunities come only when you actively look out. We have been actively looking at some of these opportunities. Some of them have fructified.

You have acquired many firms in quick succession. How does this affect your management bandwidth?

When we look at the M&A strategy, we look at targets, strategic fit and what it (the target firm) adds to our portfolio. We go forward only if we think that it makes sense from a price point. Definitive agreements have been signed for all the deals and regulatory approvals are involved in these deals. So, integration of the operations will now come into play, in terms of how effectively we integrate those operations into our existing businesses and how effectively we run these businesses and realise our synergies. That work will start now. It is really one thing that follows the other and not simultaneously.

How do you plan to deepen your existing markets while at the same time acquiring new verticals?

Growth is coming from rural segments and regional markets that have been our focus area. That is why we formed a Bhojpuri channel alliance and acquired an Orissa channel (Zee Sarthak) last year. We believe that the next phase of growth will come from regional markets. We have large regional presence in most markets. Maharashtra, Bengal, Northern India, Telangana and Andhra Pradesh are some of our largest markets. If you look from a media and entertainment perspective, we are well-entrenched in almost all these markets, except Malayalam (Kerala).

Will you look at acquisitions in Kerala?

It is difficult to say; there is nothing on the anvil.

How do you see business contribution from finance, infrastructure, specialty chemicals, etc changing following your M&A plan?

From a group perspective, we are thinking of diversifying into areas beyond media and entertainment. This is why we looked into financial services, infrastructure and education. These are among the sectors that we need to diversify into to become a true conglomerate. Leaving infrastructure, other businesses are small now. They are in the startup stage.

What will be the second-largest business after media?

Infrastructure would be a very large business. Financial services is small right now but we are looking to grow it.

What are your acquisition plans for the infrastructure sector?

Within infrastructure, we looked at a few M&As and are largely focused on roads, solar and transmission. We have concluded a couple of acquisitions in the roads and BOT (build-operate-transfer) segments.

We did some fundraising on the roads and solar side from Goldman Sachs and Piramal, respectively. Right now, we have close to 700 MW of solar power, of which around 200 MW is operational. The rest is still under execution. We would reach the capacity of 1,000 MW in a year or so.

What is the thought process in terms of acquiring smaller assets in the green energy segment? Will you look at a small firm that has won a bid and yet to start construction?

We have largely built through winning bids. In the solar side, we have not focused on acquisitions. A lot of smaller companies are available, but the energy and time to be spent to find the assets are not commensurate.

In BOT, through bidding we have about five projects in transmission with us. Two of these would start operations any time soon and the other three are under execution. All these were organically launched. But we are keeping our eyes open. If any deal that comes by and makes business sense, we would look at it from an acquisition perspective.

What are the areas that you will look at for acquisitions?

We are actively looking at roads, media and entertainment. For roads, we would be looking at deals similar to the ones we closed in the past.

Why roads?

We want to increase our portfolio size. Eventually, with a largest portfolio size, we could look at the public market for funding. The risk profile we can take is very different, compared with traditional financial investors. They can't take certain risks that we can, whether it is regulatory or execution. The traditional PE players can't take these risks. Being a strategic player, we do due diligence, address risks and wait for potential returns. We don't work with the idea that our risk is with a seven-to eight-year horizon. It could be a decade or more.

Are you looking at acquisitions in financial services?

We will keep an eye on the financial business. If there is any opportunistic asset, we will definitely look at it. We could still consider acquisitions in the business that we have already closed. We are still a small player in this segment.

How are you funding your deals? Do you have any war chest to fund future acquisitions?

Each group company has its own funding strategy, whether it's Zee Entertainment or Zee Media. Some deals are in cash while some are in stock. We don't do acquisitions if the funding strategy is not in place.

Education is another space we want to actively look at. It is a huge space which is highly unorganised and fragmented. There is a tremendous opportunity for growth for any company there. We are a leading player but still a small player. This sector is ripe for M&A though it is looked at cautiously.

We don't look at large investments until we get operational control. The Tree House deal [which has been called off] is pre-school. We are bullish on pre-school and K12. We will look at buying more in these segments.

We are not looking at any acquisition outside of existing businesses. Having said that we are an entrepreneurial group—if any opportunity presents itself, then why not?

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