SYMBIOSIS LAW SCHOOL, HYDERABAD

CENTRE FOR CORPORATE AND COMPETITION LAW

"LE DILEMMA"

MAY 6TH – 7TH, 2023

SAMPLE PROBLEM

About RT Entertainment –

RT Entertainment Enterprises (formerly **RT Telefilms**) is an Indian media conglomerate owned by Tony Groups. Headquartered in Mumbai, it has interests in television, print, internet, film, businesses related to mobile contents, and operates 45 channels worldwide. They provide a wide variety of media entertainment in various fields. In the year 2008, RT Networks launched RT motion pictures and RT limelight now known as RT Studios for the development, production, distribution and marketing films in various Indian languages. As of 2022, the net revenue is Rs. 8,310 crores. They are a Global Content Company with a strong presence across broadcasting, digital, movies, music and live entertainment. Spread over 190 countries, connecting and entertaining over 1.3 billion people globally, RT Entertainment has been powering the Media & Entertainment space across the world for nearly three decades.

About Pixel Entertainment-

Pixel Entertainment is an Indian Hindi-language general entertainment pay television channel, that was launched on 30 September 1995, and is owned by DB Entertainment, a subsidiary of the Japanese Pixel. Pixel India's YouTube channel has over 133 billion total views, making it the third most-viewed YouTube channel overall; and over 146 million subscribers, making it the third most-subscribed YouTube channel as of November 2022. Pixel LIV was launched in India in January 2013 and it has access to 18 years of content from channels that comprise part of the Pixel Entertainment Network. That translates to more than 700 movies and 40,000+ hours of television show coverage in Hindi, English, Tamil. The streaming service was overhauled and dubbed Pixel LIV 2.0 and started rolling out with new user experience and an all-new brand identity.

RT Entertainment – Pixel India Merger

Two of India's largest media companies, RT Entertainment Enterprises Limited and Pixel Entertainment India, have agreed to a multibillion-dollar merger. The arrangement has the potential to turn the merged entity into one of the largest and most sought-after in the country. Both companies are expected to benefit from the merged entity and the synergies produced between them, which will not only accelerate business growth but will also allow shareholders to participate in its future success.

In December 2021, RT Entertainment Enterprises and Pixel Entertainment India had announced plans to merge to create India's second-largest media company, following RT Entertainment's dispute with one of its largest shareholders Investa over matters related to corporate governance.

How will the RT Entertainment - Pixel merger be structured?

While RT Entertainment is still struggling for cash to bankroll its expansion plans, the merger with Pixel Pictures will give the combined entity greater access to cash flows and capital heft. Currently, as per the relative valuation ratios, RT Entertainments should have a stake of around 61.25% in the merged entity. However, it is Pixel Pictures that will bring in the much needed cash into the combined venture. In fact, Pixel will bring with it an assurance that the merged entity will have a cash chest of at least $1.5-1.6 billion or Rs.11,000-12,000 crore.

As a result, Pixel Pictures will get a larger 52.93% share in the combined entity. The balance 47.07% stake will be held by RT Entertainment. Since RT Entertainment will cease to exist as an independent entity, the shareholders of RT Entertainments will be issued shares of the merged entity on a proportionate basis. Pixel Pictures will be the majority partner in the merged entity.

As of now, the shareholders of RT and Pixel Entertainments have entered into a non-binding term sheet. As per the term sheet, they will combine their linear networks, digital assets, production operations and program libraries to create a common pool with greater synergies. Since RT Entertainments is a listed entity, the deal will require the approval of the stock exchanges and SEBI. Since both the channels come under the Ministry of Information and Broadcasting, the approval of the ministry will also be mandatory. In addition, since it is a combination that will consolidate market share, the approval of the Competition Commission of India (CCI) will also be required. Both RT Entertainments and Pixel Entertainments believe that the merger will be value accretive for the combined entity.

Financial Parameters	RT Entertainment	Pixel Pictures	Combined Entity
Annual Revenues	Rs.7,730 crore	Rs.5,846 crore	Rs.15,000 crore
Net Profits	Rs.793 crore	Rs.976 crore	Rs.2,000 crore
Cash on Books	Rs.1,800 crore	Rs.11,000 crore	Rs.12,000 crore

What will the financials of the combined entity look like?

Here is a quick comparison of the sum of parts of the combined entity.

Current Status of the Merger

Pixel merger sole silver lining for RT Ent as weak earnings continue;

Brokerage firms lowered their earnings estimates and target price for Pixel Entertainment Enterprises Ltd after the company reported disappointing earnings for the quarter ended December. However, they did not tinker with the ratings, factoring in the prospects of merger with RT Entertainment Enterprises Ltd.

The merger has faced hiccups with the Competition Commission of India and the National Company Law Tribunal, leading to delay in the process. The competition watchdog had allowed the merger to go through on a few conditions, including shutting down of some entertainment channels. It had earlier raised concerns that the competitive advantages of the combined entity would be unparalleled, which merited further investigation for approval of the merger.

Another challenge for the merger emerged after some lenders and an operational creditor filed insolvency petitions against RT Entertainment. The NCLT hearing on these issues is scheduled for today, and analysts said this would be key for the merger.

Disclaimer: Indian laws are applicable for the present situation.

ISSUES:

1. Based on the given scenario, by looking at the financials, current status and the latest updates should the merger be pursued further by both the companies? State valid legal reasons to substantiate the answer.
2. If the merger proceeds to happen, what are the pro-competitive and anti-competitive effects that will be faced by the market? Provide an analysis based on the various objections raised by CCI and NCLT.

Note-

The Problem is a work of fiction. Names, characters, places, and incidents are either products of the author's imagination or used fictitiously. Any resemblance to actual events or locales or persons, living or dead, is entirely coincidental. Any resemblance to actual firms, institutions, organizations, or any other entities is entirely coincidental and in the exercise of the authors' attempt to further academic research.