



## **Videocon's Dhoot: The original value destroyer hides in plain sight**

**Remarkably, Videocon and its founder evoke nostalgia despite the fact that, as one of India's largest corporate defaulters, Dhoot's culpability has received scant attention.**

T Surendar Mumbai 10 June 2021

### **THE MORNING CONTEXT**



If you had defaulted on payments worth Rs 90,000 crore to a clutch of public sector and private sector banks, chances are that by now you'd either be behind bars or in a foreign country, where the long arm of the law can't reach you easily.

Well, not so fast. Because you could also very well be Venugopal Dhoot, embroiled in investigations of wrongdoing and yet living a charmed life in Mumbai. This is the story of how Dhoot took everyone for a jolly good ride over 35 years of corporate life.

Chances are this is a story you've never read before.

## **Once bitten, twice shy.**

In December 2020, Dhoot made a last-ditch attempt to salvage his bankrupt Videocon group. He put in a bid of Rs 31,000 crore, promising to make good on all the loans he had borrowed over a 10-year period.

To be able to do this, he put together a master plan where he would monetize assets, leverage the Videocon brand and make a splash in a new business—low-cost housing.

The banks rejected the bid outright. Dhoot's earlier excursions had already cost them dear. Earlier this week, the National Company Law Tribunal accepted an offer from Twin Star Technologies, a company owned by commodity billionaire Anil Agarwal, to buy 13 companies belonging to the bankrupt Videocon group.

Twin Star will pay Rs 2,962 crore for the companies, which are primarily into manufacturing consumer durables and have investments in oil and gas fields. The change of ownership marks the end of a three-and-a-half-decade run, during which Dhoot came to be counted among the top 25 billionaires in India and Videocon stood at the apex of the country's televisions and consumer durables business.

In fact, he beat the Tata and Birla groups to going global and, at one stage, was the world's largest manufacturer of picture tubes. Cut to the present. The Videocon group figures amongst the top five defaulting corporate debtors in the country, and owes banks and others nearly Rs 90,000 crore in principal and accumulated interest.

It was among the earliest to be declared a defaulter, back in 2017, right after the Insolvency and Bankruptcy Code took effect. In the five years leading up to being declared bankrupt, the market value of the group's locally listed companies, Videocon Industries and Trend Electronics, peaked at Rs 6,000 crore.

So, for nearly a decade, Dhoot pulled off the charade of being at the helm of a huge conglomerate, managing to coax banks into keeping their lending taps open until his house of cards just crumbled. Back-breaking

debt apart, Dhoot also faces charges of money laundering and cheating. But, by the looks of it, they don't seem to have cramped his life.

Three months ago, a court granted him bail in a case where he admitted to giving kickbacks to get large bank loans. The episode had earlier ended the tenure of then ICICI Bank managing director Chanda Kochhar, one of the most powerful women in the world of finance at the time.

The Enforcement Directorate also brought charges against him of gypping public sector banks out of thousands of crores; all it managed to do was question him for a few hours. Like his contemporary Dhirubhai Ambani, Dhoot relied a lot on public investors to build his business, tapping the public market several times for his suite of companies.

Even in its heyday, when Videocon was the biggest television brand in the country, Dhoot was accused of talking up their shares, a charge the company refuted.

A little perspective here will help. Two of his competitors in the appliances business—Whirlpool and more recently contract manufacturer Dixon Technologies—have gone on to create huge value for their investors in a span of just four years.

Their market capitalization stands at over Rs 25,000 crore each. To think that just before Videocon went bust in 2017, its revenue was more than that of the two companies put together.

Dhoot thus shares the stage with the Ruia of the Essar Group and Anil Ambani of the Reliance Group as one of the biggest value destroyers for investors in India.

In his 35-year run, Dhoot may have left a trail of destruction—lost jobs, unpaid investors and banks and over 500 small scale businesses that withered while waiting for dues—but the one thing he had in spades was ambition.

**Probably the reason for his undoing.** Without further ado, let's take a look at how Dhoot went and shot himself in the foot. How not to be an entrepreneur Since it began operations in 1985, much of Videocon's early

growth came from its propensity to access the capital markets for over half a dozen ventures.

The group's then flagship company, Videocon International, went public in 1987, two years after its incorporation; it went on to tap the markets half a dozen times in the next seven years. In 1994, it issued global depository receipts but by 1998 ran into a host of investor complaints.

In the intervening years, Dhoot went in for a public issue of a company called Gujarat Narmada Electronics, as he wanted to set up a manufacturing plant in Gujarat.

Public issues for a host of companies that engaged in the manufacture of consumer durables followed. There was the listing of Videocon VCR, followed by that of Videocon Leasing and Industrial Finance, which was later renamed Videocon Industries.

It's a whole other matter that thousands of investors in the Videocon group lost their money as the underlying businesses never performed well.

Soon, most companies were merged into Videocon Industries, which subsequently became the flagship of the group. Of the 15 group companies that have been referred for bankruptcy proceedings, only four have some business income to speak of.

Before being declared bankrupt, Videocon Industries had a revenue of Rs 13,122 crore for the 15 months ended March 2017, but that dwindled to Rs 906 crore in the 12 months ended March 2019.

During the same period, its losses went down just a tad from Rs 6,485 crore to Rs 5,987 crore. Thanks to the pandemic induced lockdowns, revenue is expected to have dipped further in the last two years, for which the company hasn't declared its financial results.

Over the years, more than 80% of the Videocon group's revenues came from its consumer electronics and home appliances business. The rest came from its oil and gas business, primarily its share of production from

the Ravva field in the Krishna-Godavari basin, in which it picked up a 25% stake in the 1980s from state-owned Oil and Natural Gas Corp. Ltd.

The revenue from oil and gas, though, has been falling as the yield from the field dropped over the years, and is at about Rs 500 crore annually. In September 2018, a year after being declared bankrupt, prospective bidders were invited to take over the operations of the group's businesses.

Early into the process, lead lender State Bank of India realized that many of the group's companies did not hold any value. So it clubbed 13 companies into one unit and put it up for sale and, after more than 18 months, found a successful bidder in Vedanta group-owned Twin Star Technologies. Incidentally, Vedanta also owns a stake in the Ravva field, and that probably explains the interest.

Among the other bidders were Dixon Technologies and Dhoot himself. The other two companies that are being separately resolved—Trend Electronics and KAIL—haven't found any takers yet. If a report card were to be drawn up today, all that Dhoot has to show for is a stake in a fast depleting oilfield. His other companies don't amount to much.

One can argue that what has happened is par for the course in entrepreneurship, but Dhoot comes across as someone who served only his own ends.

A copybook example of how not to be an entrepreneur."Among the biggest weaknesses of the Videocon group was the fact that Dhoot had no respect for talent or professionals in his organization.

He surrounded himself with sycophants who would never give him the bad news," says a retired senior banker who has served on Videocon's board, asking not to be named. Party's over Most businessmen who largely rely on banks for resources to run their business don't usually get on the wrong side of the law as it could lead to the taps getting turned off.

Even among wilful defaulters who owe banks thousands of crores, it would be hard to find cases of overt criminal intent. In fact, most of those

tagged as wilful defaulters by banks don't automatically face criminal charges if their transactions are above board. Not so in the case of Dhoot.

In the last four years, there have been multiple instances of wrongdoing—enough for the Enforcement Directorate to pin charges against him. He has had to resort to filing for anticipatory bail to avoid arrest. We'll come to that in a bit. Dhoot has also had his share of close shaves in business.

At the turn of the century, as Korean competition (primarily Samsung and LG) brought his business to its knees and banks wouldn't lend, he used Videocon's brand image to raise public capital.

Subsequently in 2005, as the Indian economy saw an uptick and local businesses began to think global, he made two big-ticket acquisitions that not only scaled his business ambitions, but also slowly pushed him to creatively handle his finances.

Until then Videocon International was his flagship company. He listed Videocon Industries (earlier Videocon Leasing and Industrial Finance), under which his global acquisitions in the durables business had been made.

The reason being that Dhoot had already merged his cash-spewing oil business into Videocon Industries and banks were more than willing to lend to this company. Much of all this happened when the Indian economy was growing at an annual rate of nearly 10%, before the global economic meltdown of 2007-08.

Oil prices were at their peak and Dhoot's initial investment of a mere Rs 20 crore in Ravva was spewing cash. In 2008, just the oil business brought in revenues of Rs 2,000 crore for the group. The party did not last. Some of Dhoot's business calls began to backfire and he needed cash to keep things going.

The assets that he had acquired—Thomson SA, one of the biggest manufacturers of picture tubes and electronic components, in 2005, and the domestic assets of loss-making Electrolux, which gave Videocon a 25-year access to the Electrolux and Kelvinator brands in India—were proving to be white elephants.

Glass shell picture tubes were fast going out of fashion and Videocon had scaled up its capacity dramatically in durables. So both acquisitions began to flounder within a short span and added to losses. Parallely, Dhoot had expanded in two other areas—telecom and oil and gas exploration overseas.

It doesn't take much to figure out why Dhoot needed cash. In 2008, Dhoot invested in a renewables energy firm called NuPower Renewables, which happened to be owned by Deepak Kochhar, husband of Chanda Kochhar.

As we now know from what he told the Enforcement Directorate during his interrogation, Dhoot alleged that he was forced by Chanda Kochhar to invest in her husband's company before loans could be sanctioned to the Videocon group. The revelation is part of the ED's chargesheet.

Chanda Kocchar took charge of ICICI Bank in 2009 and was in meetings that sanctioned a loan of Rs 300 crore to Dhoot the same year. A day after ICICI Bank sanctioned the loan, Dhoot transferred Rs 74 crore to NuPower through one of his group firms.

This transaction was flagged as a quid pro quo arrangement by whistleblower Arvind Gupta in 2016, which later became a hot topic, leading to Chanda Kochhar's resignation from the bank in 2018. The matter did not end there.

In 2016, Dhoot transferred ownership of a swanky apartment in CCI Chambers in South Mumbai to the Kochhars for a pittance. This was again a period when Videocon was struggling to raise cash as then Reserve Bank of India governor Raghuram Rajan had rewritten rules, making it difficult to evergreen overdue loans.

In the course of his interrogation by the ED, Dhoot said that Deepak Kochhar had threatened to declare the loans taken from ICICI Bank as non-performing assets.

This would have sent Videocon group into a tailspin but that anyway happened a year later when RBI listed it as a defaulter. A second case, let's call it the Mozambique case, appears more serious. It also dates back

to 2008. On the back of its oil bounty, a Videocon subsidiary acquired a 10% "participating interest" in an oil and gas block in the Rovuma area of Mozambique from US-based Anadarko Petroleum.

In 2012, a SBI-led consortium sanctioned the firm a standby letter of credit for \$2.77 billion for its oil and gas assets in Mozambique, Brazil and Indonesia, as well as for refinancing of existing facilities. In particular, a loan of \$400 million from Standard Chartered Bank, London, was to be refinanced so that the SBI-led consortium could have total control of the project.

The agreement was that once the loan was refinanced, Videocon would close its loan account with Standard Chartered Bank and recover its collateral. Then months after the refinancing package for Standard Chartered Bank was agreed upon, Videocon said that its loans from the London bank had increased to \$530 million.

Since SBI wanted control, it paid the increased amount but it did not follow through to ensure that Videocon closed its loan account with Standard Chartered Bank and released the lien on its assets.

In January 2014, ONGC Videsh and Oil India acquired Dhoot's 10% stake in the Rovuma block for \$2.5 billion and they wanted a no-objection certificate from lending banks before making payment for the Mozambique asset. It then came to light that Dhoot had drawn another \$650 million from Standard Chartered Bank, which he proceeded to ask the SBI-led consortium to pay.

It transpired that Videocon had not released the lien on its asset as the consortium had not asked for it when it refinanced the debt. Eventually, the consortium ended up paying \$704 million to Standard Chartered Bank.

The Central Bureau of Investigation case in this connection is that Dhoot, along with unnamed banking officials, had caused a loss to the exchequer. Dhoot contended that all the transactions were between banks and there was no wrongdoing on his part.



It is not clear for what purpose Dhoot used the additional loan from Standard Chartered Bank. “Clearly, the system had been taken for a ride. But it would be tough to pin the blame on anyone as there would have been a team of senior managers who would have done this transaction.

Who will they single out?” asks a retired managing director with SBI, asking not to be named. Then, there’s the case of cheating against Dhoot. According to a case filed with the Delhi police, he was accused of selling the same shares to two different buyers. Some background here will help. In 1995, Videocon had bought 3 million shares of unlisted Tirupati Ceramics for Rs 4 crore.

It went on to divest the shares for Rs 60 lakh in 2011. Subsequently, in 2013, the promoters of Tirupati Ceramics wanted to buy back the shares from Videocon and sounded Dhoot out. Instead of disclosing that the shares had been sold, he sold the same shares again to the promoters of Tirupati Ceramics for Rs 90 lakh.

Dhoot put this down to a “communication gap” between his offices but it is not clear if the issue was ever settled. But in 2018, just after Videocon was called out as a defaulter, the Delhi police did file a complaint of cheating against Dhoot. The fall of Dhoot and his ventures seemed complete.

Not only had he lost his business empire, he was now accused of criminal wrongdoing, though none of the charges had been proved. Tiger by the tail No story on Dhoot is complete without factoring in his unbridled ambition.

In the 1980s, colour televisions were the biggest opportunity. Shortly after the Asian Games in 1980, hosted by Delhi, colour TVs became objects of desire, even though import duties were sky high—near 300%.

Having a colour TV in the living room was a status symbol and dozens of Indian companies had jumped at the opportunity to make and sell them. Dhoot was one of them.

To be competitive, Dhoot chose manufacturing locations in backward regions of Maharashtra that gave him tax breaks. These plants fetched

him a rebate on taxes on investment and, in the initial years, up to 70% of output were exempted from sales tax.

In the early days, Dhoot also shrewdly employed women, on the assumption that they would not unionize and disrupt work. All these made his operation more cost efficient than other players in the industry.

By the mid-1990s, Videocon became the leader in the colour TV industry, overtaking the likes of Philips, the premium multinational brand in the Indian market then.

The success saw Dhoot expand into several consumer durables like refrigerators, washing machines and even video cassette recorders. This was also when Dhoot had invested in the oil and gas sector, when the government first allowed private companies into the sector.

It was a sort of wild card investment at that time as Dhoot knew nothing of oil prospecting. In the late 1990s, foreign competition in the form of the technologically advanced Korean and Japanese companies hit Indian shores.

Videocon initially formed a joint venture with Samsung to manufacture their durables here but later lost its leadership in the market to the very same company in just five years.

It was then that Dhoot turned to strategy consultants McKinsey for advice. He was told to double down on consumer durables. McKinsey suggested licensing out popular foreign brands like Akai and Sansui and then selling the products in India to combat the likes of Samsung, Daewoo and Sony.

The plan was to use Indian cost efficiency and global branding to drive volumes. The plan worked initially. Bear in mind that all this while Dhoot raised capital from the stock market as the banks were loath to lend to consumer durables players.

All this changed by 2005. Dhoot developed global ambitions for his consumer durables business, failing to notice that the market for his biggest product—televisions—was moving away from glass shell cathode

ray tubes to liquid crystal display and plasma screens. Having committed to two massive acquisitions in 2005, Dhoot had caught the tiger by the tail.

He couldn't wind down his business nor could the bankers who lent him money let him fail. But with oil prices shooting up and his rookie investment in the Ravva field yielding unimaginable returns, Dhoot thought he could do no wrong. His ambitious expansion into new areas appears very similar to that of Mukesh Ambani, who too was leading India's most valuable firm, Reliance Industries, into new lines of business.

Dhoot wanted to expand his oil and gas business, was trying to procure telecom licences and had a foot in the direct-to home entertainment business with Videocon d2H, which he listed on the Nasdaq after unsuccessfully trying to do so in India in 2014.

Bankers who had kept away from his business became more forthcoming shortly after he made his big global acquisitions in the consumer durables business. They didn't want to be left out of the party and, with time, got more enmeshed with the group as they lent more money to its oil and gas business after the initial success of the Ravva field.

"The genesis of the bad loans of many of the defaulters starts after the Lehman crisis when banks restructured loans to save themselves rather than the companies. So, they can't blame the entrepreneurs for flouting the norms," says Jitender Balakrishnan, former executive director at IDBI Bank.

The consumer durables business, with its assets spread out across the world, wasn't viable and flopped, and when oil prices started falling, Videocon began to unravel.

It didn't help that its telecom plans ran aground as well, after the Supreme Court in 2012 cancelled all licences handed out by the Congress-led United Progressive Alliance government. Bank loans to the Videocon group went from under Rs 10,000 crore in 2007 to over Rs 40,000 by 2015, even though its core business was not in the best of shape.

It turns out that the banks were just funding losses over the years and it was inevitable that their actions would eventually blow up in their face. And that's exactly what happened.

**In the end, Dhoot sank and so did the assets of the banks that kept him afloat.**

A cautionary tale for banks that underwrite the unbridled ambitions of Indian businessmen

**Dear Mr. RBI,**

**Are you ok with 94% haircut for Banks in Videocon Resolution Plan ?**

**Total Loan Rs. 46,000 crores  
Resolution at Rs. 2,900 crores**

**PEOPLE'S MONEY FOR PEOPLE'S WELFARE,  
NOT FOR CORPROATE LOOT**



## **ALL INDIA BANK EMPLOYEES' ASSOCIATION**

*Central Office: PRABHAT NIVAS*

*Singapore Plaza, 164, Linghi Chetty Street, Chennai-600001*

Phone: 2535 1522 Fax: 2535 8853, 4500 2191

e mail ~ [chv.aibea@gmail.com](mailto:chv.aibea@gmail.com)

Web: [www.aibea.in](http://www.aibea.in)