

**SHIV SHAKTI**

**International Journal in Multidisciplinary and Academic Research (SSIJMAR)**  
**Vol. 2, No. 2, March-April (ISSN 2278 – 5973)**

## **CASE STUDY**

**ON**

**Is DVR a better option for Shareholders**

**- Case of TATA MOTORS**

DR. ANUBHA GUPTA<sup>1</sup>

MS. SWATI SHARMA<sup>2</sup>

- 
1. Associate Professor (Finance), IILM GSM Greater Noida, [anubha.gupta@iilmgsm.ac.in](mailto:anubha.gupta@iilmgsm.ac.in)
  2. Assistant Professor (Finance), IILM GSM Greater Noida, [swati.sharma@iilmgsm.ac.in](mailto:swati.sharma@iilmgsm.ac.in)

## **Introduction**

The case talks about the dual class of shares – ordinary shares and shares with differential voting rights (DVR) with reference to Tata Motors. It is the first Indian company to issue 6.4 crore DVR shares in November 2008 as a part of its Rs. 4145 crore rights issue to pay back the loan taken to acquire Jaguar Land rover (JLR). The case would highlight the characteristics of such a class of shares vs. ordinary shares and also the returns reaped by DVR shareholders in terms of Dividend yield and capital gain yield. The case would also provide an opportunity to explore into the possibilities of Arbitrage between ordinary shares and DVR shares & finding their fair values.

## **What is DVR?**

Differential Voting Rights shares (DVR) as the name suggests, gives different voting powers to its holders, as compared to those of ordinary shares. A shareholder can only be lured into purchasing the same, either by giving him more dividends and lesser voting rights, or more voting rights but lesser dividends as compared to ordinary shares.

Under Rule 2(b) “differential voting rights” includes rights as to dividend or voting.

Also, under the rule 9(e); that a member of the company holding any equity share with differential voting rights shall be entitled to bonus shares, right shares of the same class.

The DVR shares trade on the stock market like any other ordinary shares. However, as compared to its ordinary share, the DVRs usually trade at a discount. One of the major reasons for lower market price of DVR shares is that despite a high dividend rate it provides it's holders with lesser voting rights.

## **Why DVR over Ordinary shares**

Companies sometimes prefer DVR shares over ordinary shares due to less voting rights so that they can prevent hostile takeovers from shareholders. The management has the

last word. A major advantage to the shareholders is in respect of capital gains with lesser investment. Majority of retail shareholders are not interested or do not exercise their voting rights. By holding DVRs, they tend to gain on increased dividends and also the capital gain on their net investment. Since the DVRs trade at a discount to ordinary shares, the holders of DVRs can have a much bigger chunk of shareholding than in ordinary shares with the same investment available.

The trend generally followed by the DVR shares of international and Indian companies is that, they trade at a discount to ordinary shares. In fact the companies that have lesser percentage of DVR shares in their total shareholding are offering more discount in DVR as compared to ones where this percent is more (Exhibit – 1).

The minimal voting rights of DVRs can pose a problem, since the management can take advantage and take things for granted. This could lead to mismanagement and even bad decisions. Another major drawback is that DVRs are not very actively traded on the stock market. Hence, liquidity is an issue.

## **TATA MOTORS and DVR**

The government of India permitted the issuance of DVR in 2001. Tata Motors became the first Indian company to issue the same in 2008. As part of its financing the JLR acquisition, Tata Motors raised about Rs 4,145 crore by way of issuing 6.41 crores shares. This was done by way of two part rights issue, the first included issuance of ordinary shares priced at Rs 340 a share, which was at 20% discount to the price of the stock price on the day of announcement. In the other part, an issue of “A” ordinary shares priced at Rs 305 per share. However, this class of “A” share had about 1/10th the voting right compared to ordinary share and are to receive about 5% more dividends. This category of shares is known as shares with Differential Voting Rights (DVR).

Initially, due to illiquidity in DVR shares and lack of interest shown by the institutions, the DVRs had traded at a wide discount to the Tata Motors ordinary stock (Exhibit -2). However, with growing popularity amongst investors and gradual transfer of shares from promoters to domestic and foreign institutional investors, this wide discount only seems to be reducing. This can be validated from the fact, that since Oct 2011, the DVRs have

outperformed the ordinary shares. The shareholders of the DVR shares enjoy almost the same rights as of ordinary shareholders.

#### Rights of Tata Motors DVR shareholders ('A' Ordinary Shares)

- The 'A' Ordinary Shareholders will receive dividend for any financial year at 5% points more than the aggregate rate of dividend declared on Ordinary Shares for that financial year
- Right to attend general meetings and class meetings of all Ordinary shares.
- If any resolution at any such meeting is put to vote by a show of hands, each 'A' Ordinary Shareholder shall be entitled to one vote, i.e., the same number of votes as available to holders of Ordinary Shares. If any resolution at any such meeting is put to vote on a poll, each 'A' Ordinary Shareholder shall be entitled to one vote for every ten 'A' Ordinary Shares held.
- Right to receive offers for rights shares and be allotted bonus shares, if announced. Please note that 'A' Ordinary Shareholders shall be entitled only to further 'A' Ordinary Shares and that such a rights or bonus issue shall be made to 'A' Ordinary Shareholders in the same proportion of 'A' Ordinary Shares to Ordinary Shares prior to the issue.
- Where the promoters (as provided in the last quarterly filing with the stock exchanges prior to making the offer) or any other acquirer of the Company proposes at any time to voluntarily delist the securities of the Company in accordance with the SEBI (Delisting of Securities) Guidelines, 2003 (hereinafter the Delisting Guidelines) or any other applicable law from the stock exchanges on which such securities are listed, both the Ordinary.
- Right to free transferability of 'A' Ordinary Shares; and
- The 'A' Ordinary Shares will not be convertible into Ordinary Shares at any time. The 'A' Ordinary Shares will not at any time exceed 25% of the total issued Ordinary Share Capital (including 'A' Ordinary Share Capital) of the Company.
- Such other rights as may be available to an Ordinary Shareholder of a listed public company under the Companies Act and Articles of Association.

## **Valuation & Arbitraging in Tata Motors DVR**

Globally the DVRs trade at about 10-15% discount as compared to its ordinary shares. The Tata motor DVRs can be considered to be an apple of the eyes of shareholders, as it is trading at 40% discount. The DVRs mostly trade at a discount at the time of issue and immediately after that; this is due to the fewer voting rights enjoyed by the shareholders. Also shareholders are little apprehensive about DVR shares, particularly because of lack of awareness. But as they cross their infant age, this gap seems to narrow down providing good opportunity to investors. As more companies start making DVR issues, market awareness about this would spread and the discount on DVRs would be determined by market dynamics. This holds true for the Indian market as well which has now become more familiar with this instrument and hence the discount would come down at par with global expectations.

In case of Tata Motors DVRs, institutional holding in Tata Motors DVR has consistently risen from 12.77% in December 2008 to 41.44% in December 2012. Along with it the stake of promoters has narrowed down from 84.27% to 0.88% during the same period (Exhibit -3). This signals restoration of public faith & increase in liquidity for Tata Motors DVR shares. The increasing volume of trades in Tata Motor DVR is an evidence for the same (Exhibit -4).

With the initial share price difference between Tata Motors & Tata Motors DVR and narrowing down of this gap, Tata motors DVR seems to provide a promising investment opportunity to the shareholders of DVRs. The financials given in Exhibit -5 also support the credentials of Tata Motors and provides a hopeful platform to shareholders to arbitrage in ordinary shares and DVR shares.

## **Conclusion**

Though DVRs are considered to be a good investment opportunity & also they are a safe bet for Shareholders, the only limitation they have is liquidity. The fall in market value in Tata Motors DVR leading to a heavy discount can be blamed on lack of awareness among shareholders and also the financial downtrend due to the financial crisis of

2008-09. But looking at the increased participation of institutional investors and lowering down of promoters' stake, liquidity seems to be no more a concern for Tata Motor DVR shares. Saying it is a good option for shareholders as compared to ordinary shareholders is little tricky. Since banking upon more dividend yields and capital gains along with price differential is not always promising, unless it is supported by strong fundamentals and future prospects (Exhibit -6). Moreover since DVRs owe their origin to the premise of preventing hostile takeover by outsiders, and meeting capital requirements at the same time, shareholders shall also look for the management and the promoters before entering into the same.

When the difference widens to a large extent, one could also do an arbitrage – buy DVR and sell futures of normal shares – on the hope that the discount would narrow going forward and the arbitrage position can be closed at a profit. The price at which Tata Motors DVR share is trading seems to be at its best (Exhibit -7). This definitely is going to provide a promising opportunity to the shareholders but the timing in such a case is of course the only unknown factor.

## EXHIBIT -1

### DVR SHARES VS ORDINARY SHARES & THEIR DISCOUNT

Company	Country	Prem/(Disc)	Share Capital mix (%)		Voting Rights	
		%	Ordinary	DVR	Ordinary	DVR
Volkswagen	Germany	11	63	37	1	No
News Corp	U.S	(1)	30	70	1	No
Viacom	U.S	(12)	9	91	1	No
Samsung Electronics	Korea	(36)	87	13	1	No
Roche	Switzerland	(4)	19	81	1	No
BMW	Germany	(31)	92	8	1	No
Tata Motors	India	(52)	85	15	1	1/10 <sup>th</sup>
Pantaloon Retail	India	(34)	93	7	1	1/10 <sup>th</sup>
Gujarat NRE Coke	India	(26)	91	9	1	1/10 <sup>th</sup>

Source: way2wealth

## EXHIBIT -2

### TATA MOTORS VS TATA MOTOR DVR (2008 ONWARDS)



Source: Google finance

### **EXHIBIT -3**

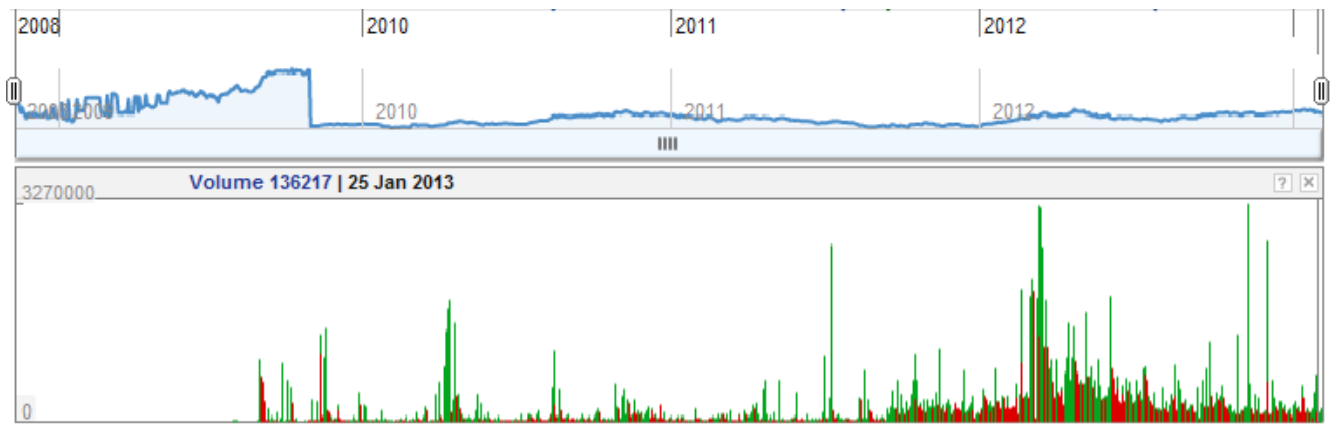
#### **SHAREHOLDING PATTERN OF TATA MOTORS DVR**

Description as on (%)	Dec'2008	Dec'2009	Dec'2010	Dec'2011	Dec'2012
Shareholding of Promoter & Promoter Group	84.27	56.59	19.1	9.1	0.88
Public Shareholding					
Institutional	12.77	14.8	28.87	46.61	41.44
Non Institutional	2.27	4.6	3.08	3.57	2.79
Individuals & Others	0.59	4.76	7.59	12.45	9.53
Foreign Institutional Investors	0.1	19.25	41.36	28.27	45.36
<b>Total Equity</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>	<b>100</b>

Source: created from information [www.tatamotors.com](http://www.tatamotors.com)

### **EXHIBIT -4**

#### **VOLUME TRADING AT TATA MOTORS DVR**



Source: HDFC securities



**EXHIBIT -5****TATA MOTORS FINANCIALS**

<b>Consolidated Profit and Loss Statement</b>					
<b>Rs in millions, year end Mar</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>
Revenues	1,231,333	1,656,545	1,987,193	2,167,331	2,366,179
% change Y/Y	33%	35%	20%	9%	9%
Profit Before Tax	104,372	135,339	167,528	191,925	205,927
% change Y/Y	170%	30%	24%	15%	7%
Tax	12,164	-400	44,258	52,083	56,501
Tax Rate (%)	11.7%	(0.3%)	26.4%	27.1%	27.4%
Net Income (Reported)	92,736	135,165	122,963	139,366	148,865
% change Y/Y	218%	46%	-9%	13%	7%
Net income (Adjusted)	90,888	125,325	126,487	139,366	148,865
% change Y/Y	219%	38%	1%	10%	7%
Adjusted EPS (in Rs)	28.5	39.5	39.9	43.9	46.9
% change Y/Y	186%	39%	1%	10%	7%
Dividend	4.00	4.04	6.00	6.00	6.00
Dividend Payout	14.0%	10.2%	15.1%	13.7%	12.8%

<b>Consolidated Balance Sheet</b>					
<b>Rs in millions, year end Mar</b>	<b>FY11</b>	<b>FY12</b>	<b>FY13E</b>	<b>FY14E</b>	<b>FY15E</b>
Net Worth	191,715	331,499	432,716	550,335	677,454
Gross Debt	327,914	471,490	480,616	492,667	505,923
Net Fixed Assets	434,931	562,125	675,759	762,007	839,031
Net Current Assets	40,511	85,564	78,370	117,836	177,081
Others	61,291	130,115	134,573	139,255	144,171

**Ratio Analysis - Consolidated**

%, year end Mar	FY11	FY12	FY13E	FY14E	FY15E
Book Value Per Share (in Rs)	60	104	136	173	213
Cash EPS (in Rs)	43	57	60	66	72
ROE (%)	48.4%	40.8%	28.4%	25.3%	22.0%
ROCE (%)	22.9%	22.1%	23.3%	22.1%	20.6%
P/E (x)	10.3	7.4	7.4	6.7	6.2
EV/EBITDA (x)	6.5	5.1	4.3	3.8	3.4
P/B (x)	4.9	2.8	2.1	1.7	1.4
Net Debt: Equity (x)	1.1	0.9	0.7	0.4	0.3
Gross Debt: Equity (x)	1.7	1.4	1.1	0.9	0.7

**Source: JP MORGAN – Asia Pacific Equity Research/ 24<sup>th</sup> January 2013**

**EXHIBIT -6****DIVIDENDS SINCE 2008**

Symbol	Face Value	2008-09	2009-10	2010-11	2011-12
TATAMOTORS	2	6	15	20	4
TATAMTRDVR	2	6.5	15.5	20.5	4.10

**Source: Compiled with information from NSE website**

**TATA MOTORS VS. TATA MOTORS DVR**

NSE data	Ordinary (Rs)	NO. OF SHARE (Crores)	DVR (Rs)	NO. OF SHARE(Crores)
Mar-09	188.9*	10.43	175.25*	ONLY 70
Mar-10	813	10.77	484.55	0.19
Mar-11	1249	4.86	719.9	0.66

Mar-12	290.45	24.77	168.05	13.86
--------	--------	-------	--------	-------

\* the share price is high price as on 31st March for each year ending

Source: Compiled with information from [www.tatamotors.com](http://www.tatamotors.com)

**EXHIBIT -7**

**SHARE PRICE OF TATA MOTORS DVR**



Source: <http://www.hdfcsec.com/company/Tata-Motors-DVR.html>

## **REFERENCES:**

1. Differential Voting Rights under Grey Area - Murtuza Bohra & Kanishk Thakur/ SSRN-id1899032
2. SEE Pandya Arnav, 'Change in Voting Rights', Business Standard, (July 9, 2009), available on <http://www.business-standard.com/india/storypage.php?autono=326742>
3. <http://aswathdamodaran.blogspot.in/2011/05/dual-share-structure-google-model.html>
4. Source: <http://www.moneylife.in/article/tata-motors-dvr-shares-trade-at-40-discount-analysts-foxed/3099.html>
5. [www.tatamotors.com](http://www.tatamotors.com)
6. S:\Vispi\Tata Motors\others\website update - Website related items\'A' Ordinary Shares\A Ordinary Shares.doc
7. <http://www.mca.gov.in/MinistryWebsite/dca/notification/notification2002.htm>  
(Last visited April 05, 2010).
8. JP MORGAN – Asia Pacific Equity Research – 24<sup>th</sup> January 2013