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Mallya to raise Rs 2,000 crore from conservative SBI

EW DELHI | BANGALORE: Beer-to-Airline tycoon Vijay Mallya knows the value of brands. And he's pretty good at convincing even the most traditional of bankers that brands have value, and worth.

Recently, the audacious 55-year-old chairman of the UB Group convinced conservative, government-owned State Bank of India (SBI) to accept the Kingfisher airline brand — registered separately from its beer and wine brands — as collateral to raise Rs 2,000 crore in debt. It's not that others haven't monetised brands to raise cash. They have. But what others haven't managed to do is to convince public sector banks to accept brands as collateral.

"Earlier only private sector banks were lending against intangibles, and that too selectively and only as a top-up to other collateral. But with transactions involving brands and intellectual property becoming commonplace, even public sector banks seem to getting comfortable," says Sanjeev Agarwal of audit and consulting firm Ernst & Young.

In an environment where credit is relatively scarce and lenders cautious, companies like Kingfisher are recognising the value hidden in intangible assets such as intellectual property, brands and customer relationships. Which perhaps explains why such assets have begun to play an increasingly significant role in capital raising and bank lending.

Sometime ago, New Delhi-based LT Foods (earlier called LT Overseas) used its Daawat brand of packaged rice as collateral to raise debt for its \$50 million (Rs 200 crore) acquisition of US-based rice firm Kusha Inc.

Mr Agarwal says that in the past six months he has been part of similar deals involving as many as five-six companies and as many brands. He did not disclose any details, citing client confidentiality.

Globally, many companies have used their brands' value to open lines of credit. Perhaps the most famous example is Walt Disney, which did so in 1988 in the Japanese market to raise as much as \$725 million.

Mr Mallya's UB Group itself has leveraged brands to raise funds for recent acquisitions. The group's liquor business — United Spirits — offered some of its leading whiskies like Bagpiper and a few Whyte & Mackay brands as collateral to raise over Rs 6,000 crore from institutions such as ICICI Bank.

Other Indian companies, ranging from a leading Mumbai-based retailer to an Ahmedabad-based apparel maker have in the past pawned their brands to banks.

While lending against tangible, 'visible' assets such as capital, land, buildings and factories is the norm, increasingly borrowers and lenders are coming around to the view that value needs to be unlocked from intangibles too.

For one, intangibles hold an over two-thirds share of enterprise value for Indian companies, according to a two-year old global study on intangible assets by the London-based Brand Finance Institute. Moreover, the fact that many businesses have exhausted all sources of tangible assets for raising debt means India Inc will have to look at structuring capital deals around intangibles like brands.

In the case of Kingfisher Airlines — it is registered as a separate brand with the trademark office, distinct from beer and wine — the move to value the airline brand separately was initiated early last year when the company initiated talks with private equity funds to raise \$400 million.

The brand's worth, estimated at around Rs 1,900-crore, has been included in the balance sheet, boosting the airline's valuation, pegged at over \$1.1-billion.

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A company official said on condition of anonymity that the airline's brand valuation was included in the balance sheet after considerable boardroom deliberation and has aided overall valuation, especially in a depressed market for aviation stocks.

SBI's move to accept brand valuation as collateral may also go some distance in hardselling the airline's overall valuation.

The UB group declined to comment on either the airline's brand valuation or its raising of funds from SBI using the brand as collateral. SBI and LT Foods did not respond to ET's queries on the same.

While the numbers of companies and banks relying on brands as collateral is small and growing, borrowers and lenders are by and large chary, even secretive on the issue. There is concern that borrowers pawning brands could be seen as desperate while lenders may be perceived as too aggressive.

"There is no conviction on brand value, and moreover when the business goes down, the erosion in the value of brands is steeper. We have so far turned down a few proposals that we received on lending against brands," says MM Agarwal, executive director in-charge of corporate banking at Axis Bank. Lack of robust and widely acceptable valuation metrics is surely hampering this process of using them to raise funds for business activities.

Ramesh Jude Thomas, head of brand consultant Equitor Consulting, says recent changes in accounting standards mean that companies have to carry out regular valuations of their intellectual property assets, which obviously increases their visibility.

"Therefore, there is clearly no lack of encouragement for companies and their financial advisers to use these key assets in their financing," he observes.

M Unnikrishnan, the India head of Brand Finance, is convinced that brands are an inexhaustible reservoir of corporate value and perhaps the hardest of all asset classes.

"Sadly, it precisely due to these reasons they are often taken for granted and abused until companies have their back against the wall," he remarks.

Global Parallels:

Calvin Klein's \$58-million securitisation in 1993, which was linked to future sales of its perfume products.

DreamWorks used \$1-billion raised from the securitisation of copyright in a film portfolio to refinance outstanding credit facilities in 2002.

Fashion brand Guess raised \$75-million in 2003 from securitisation of its domestic and international trademark licences.

Athlete's Foot, a sports footwear retailer, raised around \$40-million from securitising its franchise resources.

Burn Stewart Distillers raised £31-million from Belgium-based bank KBC against its whisky brands in 2008.

Source: Linklaters, London; Intangible Business Limited, London