Sony 'terminates' Indian merger with Zee

January 22 2024, by Simon Sturdee with Anuj Srivas in Mumbai

Reports said Sony was unhappy with Zee's performance since the merger was agreed in 2021.

Sony "terminated" on Monday the $10-billion merger of its Indian operations with local rival Zee Entertainment that would have created a new streaming giant in the world's most populous nation.

The joint entity with mooted annual revenue of $2 billion would have helped both firms better compete with Disney, Amazon and Netflix in the entertainment market of 1.4 billion people.

But with reports that Sony was unhappy with Zee's performance since the merger was agreed in late 2021, the Japanese giant said Monday that conditions to close the deal "were not satisfied".

Another stumbling block was reportedly Zee's insistence that its chief executive Punit Goenka, son of founder Subhash Chandra, run the combined entity.

Both men are being probed by India's financial markets regulator over alleged fraud. They deny any wrongdoing.

Zee said Monday that Goenka "was agreeable to step down in the interest of the merger" and that it proposed an extension of up to six months to close the deal.

It added in a statement that Sony was also seeking a "termination fee" of $90 million for alleged breaches by Zee, a claim that the Indian company said it "categorically refutes".

Divine sign

Goenka said on X, formerly Twitter, that "the deal that I have spent two years envisioning and working towards had fallen through, despite my best and most honest efforts".

"I believe this to be a sign from the Lord," he added, posting a selfie from a ceremony opening a grand new Hindu temple in the Indian city of Ayodhya.

Before the Sony deal was agreed, Goenka had also been under pressure to quit from Zee's largest shareholder Invesco.

Sony was to have owned 50.86 percent of the new entity with Goenka's family controlling 3.99 percent.

India's entertainment market, worth tens of billions of dollars, is already one of the world's biggest, while smartphone adoption is forecast to expand further in the coming years.

A collapsed deal will leave Sony and Zee more vulnerable at a time when Reliance (RIL) is negotiating a merger with Disney's India unit, Bloomberg News reported.

Reliance is owned by Mukesh Ambani, Asia's richest person.

Vivekanand Subbaraman, a media analyst at Ambit Capital, said Zee would now have to "go back to the drawing board" and would be short of capital.

"Sony was going to infuse $1.3 billion into the merger... Also, from an opportunity standpoint, it wasn't just TV. It was also digital where Zee was struggling," Subbaraman told AFP before Monday's announcement.

He added that Sony LIV, the Japanese firm's streaming service, had been "more successful" and was a "bigger business" than Zee's Zee5.

"With reports of the RIL-Disney merger, the competitive landscape and overall market condition looks very different now than before," Subbaraman added.

The Bombay stock market was closed for a public holiday but over the past month Zee's shares have fallen 13.6 percent and more than 30 percent in the past two years.

The announcement came after the Tokyo market closed, with Sony up 1.89 percent at 14,800 yen.

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