



Rising Against Bears: The Dhirubhai Ambani Story [Dhirubhai Ambani Vs Bear cartel - 1982 Case Study]

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Abstract:

The 1982 case study has highlighted the rivalry between the Reliance Industry's CEO of Late Dhirubhai Ambani and Manu Manik's bear cartel of the Indian Stock Exchange. How the bear cartel targeted the company and affected the share value of Reliance Industry through short selling has been showcased. On the other hand, what moves and strategies were used by Dhirubhai Ambani to turn the table of this game and defeat the bear cartel in their strategy and plan discussed with complete justification and analysis.

Introduction

The case study is about one of the biggest business rivalries between Dhirubhai Ambani, the Bear Cartel of Kolkata, and the Bombay Stock Exchange in the early 80s. With the growing business market and huge reputation reliance Industry introduced its first IPO in October 1977. The company issued 2.8 million equity shares at 10 rupees each, and then it often obtained funds by selling convertible debentures to its retail investors. In a very less time, the price of Reliance shares went up to 50 rupees by the end of 1980 which again massively increased to 186 rupees per share by the end of 1982. The problem occurred when the bear cartel of the stock exchange decided to short-sell their shares to generate higher profits and bring down the price of Reliance shares.

Issues

The case is structured to achieve the following objectives of the case study:

- To understand the conflict that occurred between Dhirubhai Ambani and the Bear cartel of the stock exchange.

- To evaluate the dark sides of Indian stock exchange activities and the biggest business rivalry that occurred in the early 80s.
- To identify the activities of the bear cartel and their impact on the valuation and performance of Reliance Industry Ltd.
- To observe the checkmate business strategies and moves of Dhirubhai Ambani from the case study.

Reliance Industry Ltd.

Dhirubhai Ambani founded Reliance Commercial Corporation in 1958 as a side business trading goods, mostly spices and polyester yarn. The partnership expired in 1965, and Dhirubhai carried on the company's polyester business. In Maharashtra, Reliance Textile Industries Pvt. Ltd. was established in 1966. In the same year, it opened a plant for synthetic textiles in Gujarat's Naroda. It changed its name to Reliance Industries Limited on May 8, 1973. The business entered the textile industry in 1975, and “Vimal” went on to become its flagship brand. Mumbai serves as the home base for the Indian global corporation Reliance Industries Limited. Energy, petrochemicals, natural gas, retail, telecommunications, mass media, and textiles are some of its industries. By market capitalisation, sales, and ranking as the 100th largest firm globally, Reliance is the biggest publicly traded corporation in India. It accounts for 7% of all goods exported from India and is the largest private taxpayer and exporter.

Short Selling and Bear cartel activities in the case study

"Bears" are a group of investors that actively bet against the market and seek to benefit from declining stock prices to generate higher profits. These investors often use short selling of organisational shares to boo profit when stock prices fall. In the course of stock exchange operations, short selling and betting against the market are frequent practices and are not illegal or unethical. In the year 1982, the bear cartel of “Manu Manek” also known as the Black Cobra of the stock market targeted the Reliance industry to short-sell their shares at very high quantities to earn huge profits and bring down the share value of the company. Along with the bear cartel of the

Bombay Stock Exchange (BSE), a bear cartel of the Kolkata stock exchange also joined the master plan of Manu Manek.

Reliance Industry Ltd. vs Bear Cartel

In the year 1977 Reliance Industries issued 2.8 million equity shares in the stock market at the rate of 10 rupees each which significantly increased to 50 rupees by the end of 1978. With the increasing valuation and business of Reliance Industries soon the stock price of the company increased to 104 rupees per share by the end of 1980. Since the trust of investors and the reputation of the company, were very strong, the renowned "Black Cobra" bear Manu Manek decided to short-sell the shares of the company. Since many retail investors in India and foreign investors were investing in Reliance, the bear cartel saw an opportunity to manipulate the stock market by short-selling. To do that, the bear cartel of Manu Manek sold more than 3.5 lakh shares in the market through short selling. As a result the share price of Reliance Industries negatively went down to 121 rupees per share in just two days. Due to this massive fall of the company in the stock market, the confidence and trust of investors also reduced over the period. After a while when the price of Reliance shares again started to go up, the bear cartel again targeted the company to short-sell more shares and generate more profits and bring down the company in the ground.

Chanakkyaniti of Dhirubhai Ambani

Dhirubhai Ambani is not only known for his humble and great nature but also known for his great business strategies and market knowledge. Before the stock market manipulation by the bear cartel, the financial performance of Reliance shares was growing at a significant rate. With a huge increase in share value, the company had provided more than 300% returns to its retail investors just within 4 years. To defeat the bear cartel in their own game, Dhirubhai Ambani gathered all his trustworthy NRI investors from West Asian countries to buy back all the reliance shares from the market. This move not only brought a huge buying wave in the stock market but also created a huge supply shortage of Reliance shares. Due to the huge Reliance share shortage in the market, the demand for the company shares went massively high and the Indian stock market stopped their activities for a few days. The demand for the stock was so huge that the value of existing in the

market increased to more than 20% in 1984. Since the main motivation of the bear cartel was to generate profit by short-selling the shares, Dhirubhai Ambani strictly ordered his collaborators and investors not to sell a single share of the company. Because of that the bear cartel of the stock market had to face huge pressure to get the company shares as their delivery was near and they had no shares of that company. Since the bear cartel was unable to provide shares to the NRI investors, they requested them to extend the delivery date and here comes another big move of Dhirubhai Ambani and his right hand Anand Jain. The buyers agreed to extend their delivery date but with a condition of “Unda Badla”. Because the sellers were not able to provide reliance shares on the promised date, they had to pay additional 25 rupees as a premium on each share. This move by Dhirubhai Ambani completely broke the financial stability and power of the bear cartel. The bear cartel has only two options either they deliver the shares on the extended date with an additional premium of 25 rupees on each which could make many sellers bankrupt or somehow they manage to get Reliance shares at a higher price to deliver on the previously promised date for settlement.

Conclusion

Since the entire master plan was set by Dhirubhai Ambani himself, no one could identify him in the entire game. The bear cartel went to Dhirubhai Ambani and requested to release some shares in the market so they can sell and complete their booked order. Then the investor of Dhirubhai Ambani sold the reliance shares at a higher market price to the bear cartel so they can complete their share order. This move not only showed them who is the real business and strategic king in the market but also showed them the Chanakya Niti of the late Dhirubhai Ambani.

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