

Peak XV, Prosus flag Byju's lapses for exit

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On Monday, in a joint statement, Byju's and its lenders said they have reached a consensus on restructuring its \$1.2 billion term loan B.. REUTERS/Dado Ruvic/illustration/File Photo (REUTERS)

Mumbai: Peak XV Partners (formerly Sequoia Capital India) informed its limited partners (LPs) on Monday that it has resigned from the board of Byju's due to its inability to influence the management of the edtech firm to improve compliance and governance norms, a person briefed on the letter sent by Peak XV said. The issue also figured in a statement issued by another investor Prosus on Tuesday.

Prosus (formerly Naspers) said though Byju's grew considerably, over time, its reporting and governance structures didn't evolve sufficiently for a company of that scale.

"Despite repeated efforts from our Director, executive leadership at Byju's regularly disregarded advice and recommendations relating to strategic, operational, legal, and corporate governance matters. The decision for our Director to step down from the Byju's Board was taken after it became clear that he was unable to fulfil his fiduciary duty to serve the long-term interests of the Company and its stakeholders," Prosus said.

Prosus is the largest non-promoter shareholder of Byju's with a stake of around 9.6% and has invested more than \$500 million in the company.

This would be the first instance of the investors elaborating the reasons for exiting the board of Byju's. On 22 June, when the three investors—Prosus, Peak XV and Chan Zuckerberg Initiative—confirmed their resignations, Byju's said the investors had resigned as their shareholdings fell below the requisite threshold for a board seat.

On Tuesday, a spokesperson for Byju's said, "We have noted the observations of our valued investors. We have updated our shareholders about definitive steps taken to improve corporate governance and financial reporting." The spokesperson didn't respond to additional queries on the concerns raised by the investors. A Peak XV spokesperson too didn't respond to queries.

In June, three of the company's non-promoter directors—G.V. Ravishankar representing Peak XV, Vivian Vu representing Chan Zuckerberg Initiative, and Russel Dreinstock representing Prosus—resigned from the board, leaving Byju Raveendran, his wife Divya Gokulnath and brother Riju Raveendran as the only board members.

The company said it is in the process of reconstituting the board and is looking to onboard independent members soon. Earlier this month, it onboarded T.V. Mohandas Pai, former chief financial officer of Infosys, and Rajnish Kumar, former chairman and managing director of State Bank of India, as part of a new council to help the promoters revive the company.

In a recent interview, Kumar said the council would advise the promoters on governance matters and organizational structure and that Raveendran is bound to listen to them.

Sahil Kanuga, co-head, international dispute resolution and investigations practice, and Maulin Salvi, leader, corporate governance practice, at Nishith Desai Associates, said, "The board could and should have given due regard to the advice and recommendations given by such investor representatives. The answer to most issues lies in self-governance at the board level, which play a pivotal role in the growth and development of start-ups."

On Monday, in a joint statement, Byju's and its lenders said they have reached a consensus on restructuring its \$1.2 billion term loan B. The proposed amendment, that will be effective before 3 August, seeks to address loan acceleration, end all litigation, and prevent any further enforcement actions, as per the statement.

"The steering committee of ad hoc term loan lenders, who collectively own over 85% of Byju's \$1.2 billion term loan, today said that they had agreed to work collaboratively toward a signed and completed term loan amendment prior to 3 August," according to the joint statement. "We made progress with Byju's for a completed loan amendment. This announcement is consistent with stated goals of working constructively with Byju's management to protect the value of the franchise. We look forward to completing the loan amendment over the next two weeks and are committed to do our part to deliver on our agreed upon timeline," it added.

The announcement comes months after the lenders, led by Redwood Capital, dragged Byju's to a US court seeking that loan repayment be speeded up and gaining control of the US entity, Byju's Alpha.

With bondholders renegotiating the loan terms with the company amid financial filing delays, the Byju Raveendran-led startup is facing increasing pressure to effectively manage its cost of capital.

Responding to the lawsuit, Byju's decided to suspend interest payments on the loan till the dispute was resolved, but ended up defaulting. In its plea, Byju's termed the TLB lenders predatory and moved to disqualify Redwood as a lender. But the resignation of statutory auditors and non-promoter directors on its board compounded the challenges faced by India's most valued startup.

The investors and bondholders seems to be bullish on the larger edtech segment in India and growth prospects for Byju's. In its statement, Prosus elaborated that Byju's sits at the intersection of India and Education, two very important and strategic areas of investment for the firm. "Although we no longer have a representative serving on the Board of the Company, we continue to believe in the potential of Byju's and its role in revolutionising access to quality education in India and around the world. As a shareholder, Prosus will continue to assert its rights, collaborating with other shareholders and government authorities to safeguard the long-term interests of the Company and its stakeholders," it said.

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