

COMPANY WATCH: BHARTI TELE-VENTURES LTD



- Vodafone, the world's largest mobile company acquires 10% beneficial stake for \$1.5 bln
- Singtel continues to be the growth partner, not to dilute its stake in the company
- Market leadership remains unchallenged in GSM segment
- Strong quarterly financial results



Bharti Tele-Ventures Ltd, the largest GSM mobile operator in India, received its second strategic investment last month. It already had Singtel, Asia's largest mobile operator as a strategic investor. Now Vodafone Group Plc, the world's top mobile operator by revenue, has bought a 10 percent interest in the company for \$1.5 billion.

Vodafone, through Vodafone Mauritius Ltd., has contracted to subscribe shares in Bharti Enterprises, giving it a 4.39 percent stake in the company. Additionally, Vodafone, through Vodafone International Holdings BV, has bought a 5.61 percent stake from investment group Warburg Pincus, taking the total interest in the company to 10 percent. Bharti Enterprises, a private limited company, owns 68% in Bharti Telecom.

According to Vodafone, the consideration paid is equivalent to a purchase price of Rs.351 (\$8.07) per BTVL share and represents a 7.4% premium to the 5-day average share price of BTVL on 27 October 2005. Vodafone will have the right to appoint two directors to the BTVL Board.

The acquisition of shares from Warburg Pincus is not subject to regulatory approval and is expected to close by the end of November 2005. With this transaction, Warburg Pincus has exited BTVL completely. The acquisition of Bharti Enterprises shares is conditional upon regulatory approvals and certain customary conditions. The transaction is expected to complete in the first quarter of the calendar year 2006.

Vodafone: Why India, Why Bharti?

The Official Reason:

- India is a large and under-penetrated market of global importance with significant growth potential, Mobile and fixed line penetration in India currently at approximately 6.0% and 4.4%, respectively
- India is 4th largest economy in the world in PPP-adjusted terms with a population of 1.1 billion
- India is 3rd largest mobile market in Asia with 65.1 million customers currently, after China and Japan where Vodafone is already present
- India is witnessing 53.3% year-on-year mobile market growth, representing 22.6 million customer additions
- Bharti has strong and highly respected management team
- 14.1 million mobile customers as on 30 September 2005, equivalent to a 21.8% customer market share
- One of only three Indian mobile operators with a nationwide footprint
- in the six months ended September 2005, BTVL's mobile business delivered year-on-year growth of 62% in customers, 58% in revenues and 64% in EBITDA
- in the six months ended September 2005, BTVL's fixed line business delivered year-on-year growth of 39% in customers, 30% in revenues and 34% in EBITDA

Vodafone: Why India, Why Bharti?

Nothing Secret About It: Vodafone's desire to enter into the fast moving Indian market was evident for quite some time now. Vodafone's negotiations with Bharti were going on for a long time, and apparently Vodafone was waiting only for some clarity in the legal framework (read Foreign Institutional Investor limit to be hiked to 74%).

Bharti was an obvious choice for Vodafone as it was the only suitable company to serve two purposes:

(a) establishing presence in a high growth market like India (Vodafone has no presence in the other fast growth markets like Russia and Brazil, while Chinese regulations don't allow a foreign company to take a controlling stake in domestic telecom service providers); and

(b) making a profitable investment to give a boost to its own profits. Vodafone's own revenue growth is just 1.71% vs Bharti's 69.6%. Vodafone has been reporting losses for last five consecutive years and although the losses were on paper, as it had to amortize considerable sums each year in order to write off goodwill under UK GAAP.

There are only a few significantly large players in the Indian GSM market other than Bharti – BSNL, Hutch and Idea. BSNL and Hutch were out of the shopping cart for obvious reasons. BSNL is a 100 percent government-owned company, while Hutch is a part of Hutchison Whampoa Group. While Idea Cellular had been up for grabs for long time it offered very little footprint for a company like Vodafone. Idea is present only in 8 out of 23 telecom circles across the country, and controls only 12% market share in the GSM segment. The other players except the big-4 have market share of less than even 5%.

Bharti, on the other hand, is present in all the circles, and has the highest market share of 27.5% in the GSM segment. Bharti also has the advantage of being an integrated telecom player with services ranging from mobile to basic, broadband, national long distance (NLD) and international long distance (ILD).

Vodafone has had previous experience of working with a regional player in India. It had exited India in June 2003 by selling its entire 21% stake in regional mobile operator RPG Telecom, because RPG did not provide a strong position in the Indian market.

With only 10% ownership in Bharti, Vodafone remains free to acquire stakes in other Indian telecom companies. Current Indian regulations restrict companies from concurrently owning more than 10% stakes in any two telecom companies.

The Benefits for Bharti:

- Better bargaining power for procurement of handsets
- Savings in capital expenditure on network
- Co-branding
- Strategic benefits, as Vodafone has the experience of working in under-penetrated as well as over-penetrated markets
- Vodafone's 3G experience to help Bharti, when the Indian market opens for 3G

Tussel for Control Between Vodafone & Singtel Not Ruled Out in the Long Run:

- Bharti CMD Sunil Mittal has made it clear that the promoters are not willing to dilute their stake in the company further. Also, some media reports indicate that the total indirect holding of the Mittal family has already come down to 26.3% from 30.07% forcing them to maintain the current shareholding. Sunil Mittal assured the shareholders of the company in a TV interview just after the announcement of the deal that he will remain Chairman of the company even after 5 years, though he may relinquish the executive responsibilities as MD.
- Singtel, the existing foreign partner having more than 30.84% stake (combination of direct and indirect) in the company, has already made it clear that it is not willing to dilute its position in Bharti. Singtel has also indicated that it may like to increase its stake, if additional stake comes at a price making economic sense.
- Vodafone CEO Arun Sarin has already expressed his desire to increase the stake in BTVL over time.

Rest of the Market:

- Consolidation among the players without pan-India footprint, such as Idea Cellular, Spice Telecom and Aircel may speed-up
- The future of Idea Cellular remains uncertain, as it has now only two promoters after the exit of Cingular Wireless, Aditya Birla Group and Tata Group with almost equal shareholding of 50:50 (Aditya Birla Group has little advantage, as its total holding is roughly 50.20%). Aditya Birla Group had earlier been reluctant in taking the full control over the company. On the other hand, Tata's have a parallel pan-India CDMA network running by another group company Tata Teleservices. Interestingly, Idea Cellular CEO released a statement just after the Vodafone announcement saying, "The investment by Vodafone in Bharti Tele Ventures brings to the forefront the potential of the Indian telecom market in the eyes of international investors." Much has been said between the lines.
- The deal also paves the way for Hutch-Essar and Reliance Infocomm IPOs by setting a high valuation benchmark in the industry.

Quarterly Results At a Glance:

- Net profit (PAT): \$119 mln, up 43% YoY, up 1.71% QoQ
- Revenues: \$617 mln, up 46.3% YoY, up 6.56% QoQ
- EBIDTA: \$233.2 mln, up 47.4% YoY, up 7.4% QoQ
- Mobile subscribers: 14.0 mln as on 30th Sept '05, up 13.8% QoQ

Record Monthly Subscriber Additions in October:

- Adds record number of 0.67 mln new mobile subscribers during the month.
- Total no of mobile subscribers reach 14.74 mln, increased by 4.78% month-on-month. Growth rate higher than all India average of 4.15% during the month.
- Top position remains unchallenged in the GSM mobile segment, with a 27.82% market share.
- In 13 out of total 23 telecom circles, Bharti's growth rate was higher than the national average. Its Mumbai circle witness a remarkable 11.1% growth, however, it had a slower pace in other metros like Delhi, Calcutta and Chennai with less than 2% growth rate month-on-month.