

Bharti may rope in holding co

Abhineet Kumar & Ishita Russell / Mumbai/new Delhi May 27, 2009, 0:30 IST

Bharti Telecom, the unlisted holding company of Bharti Airtel, may issue fresh equity to the MTN group to give it the 25 per cent economic interest in India's largest mobile service provider.

On Tuesday, Bharti Airtel said it had resumed talks with the South African telecom service provider to acquire a 49 per cent stake in it, in lieu of \$4.1 billion and 25 per cent economic interest of Bharti Airtel to MTN, besides 11 per cent economic interest in Bharti Airtel to MTN share holders.

"An economic interest in the Indian company can be created by transfer of existing shares or issuing fresh shares of the holding company," said Anoop Narayanan, partner, Majmudar & company, a Mumbai-based international corporate law firm. A Bharti Airtel spokesperson declined to comment.

Bharti Telecom, which holds 45.3 per cent stake in Bharti Airtel, got delisted from the Bombay Stock Exchange in October 1999. According to the shareholding pattern of the company on December 31, 2006, Sunil Bharti Mittal-promoted Bharti Group's apex holding firm, Bharti Enterprises, and other affiliates hold more than 70 per cent in Bharti Telecom. Sources familiar with the developments said the shareholding hasn't changed much since then. The Bharti spokesperson didn't want to give any details of the shareholding, since it is an unlisted entity.

Pastel, a unit of Singapore Telecommunication, held more than 26 per cent in Bharti Telecom at that time. About 1.98 per cent stake of the company was held by minority share holders, who did not sell the stake in the delisting buyback offer.

"Such transfer or issue of shares must comply with the norms prescribed by the Indian regulators and also must be within the total percentage of permitted foreign equity in an Indian telecom company," said Narayanan. The Indian government allows 74 per cent FDI in a telecom company or its holding company.

The promoters cannot divest their stake in Bharti Telecom, as it would require 55 per cent of the parent company to give 25 per cent economic interest in the mobile service provider. This would not only cross the FDI limit but also dilute the promoters' stake substantially.

However, by issuing fresh equity to MTN in Bharti Telecom, the company would be complying with the FDI requirements.

"Issuing convertible debentures or warrants by Bharti Airtel could be the other route to give MTN economic interest and not shares," said another banker who has been involved with other telecom deals in the country. "The chances of Bharti Telecom getting involved in the deal is high," he said.

Concurred Nishchal Joshipura, Head of M&A Practice at Nishith Desai Associates" "There are multiple ways in which an indirect interest could be structured. It would be interesting to see how an indirect interest in Bharti Airtel is structured through Bharti Telecom, in light of the various restrictions under the FDI policy and guidelines regarding indirect foreign investment."

Analysts say the deal could help Bharti realise its goal of having a global foot print, but the impact on medium-term earnings will hurt valuations. Bharti Airtel shares today fell again, by 5.05 per cent at the Bombay Stock Exchange, to end at Rs 770.40.

Says Gaurav Dua, Head of Research at Sharekhan, "The deal would be earning per share (EPS) dilutive for Bharti in the next couple of years. Our rough calculations show that the earning dilution could be around 6-8 per cent for the next two years."

The expanse of the presence across the 21 countries has raised worries about the corporate laws in those countries, as well as geo-political factors. Says Harit Shah, telecom analyst, Angel Broking: "The integration of the acquisition is likely to be a key challenge for Bharti, given the significant size of MTN and its operations across diverse geographies, which could also lead to regulatory issues. MTN has operations in countries like Congo, Iran, Sudan and Afghanistan, which are countries where political risk tends to be on the higher side."