Is Singtel hanging up on India?

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The India telecom sector was abuzz with reports that Singtel may be selling out of India ever since October when Vodafone acquired a smallish stake in Bharti Tele-Ventures for a huge $1.5 billion. But if the latest moves that it is rumored turn out to be true, Singtel may indeed hang up on its India investment after all.

One of the first foreign investors in the Indian telecom sector, the Singapore-based Singtel is believed to have hired a merchant banker to value its 31-percent stake in Bharti Tele-Ventures, the privately owned Indian telecom company that is one of the largest mobile-phone service providers in India.

Although according to reports Bharti officials said that the company has "no knowledge of Singtel selling out" and neither has "Vodafone announced that it is increasing its stake in the company just yet," industry sources say that this could be precursor to Singtel cashing out of Bharti.

At the end of October 2005 the U.K.-based Vodafone and the world's largest mobile company struck a deal with Bharti Tele-Ventures to acquire a 10-percent stake in the Indian company. Of the entire stake that changed hands, Sunil Mittal, the founder of Bharti, sold 4.4 percent, while the remaining was sold by the venture-capital firm Warburg Pincus.

The deal was significant for India and its telecom sector not only because it was the largest foreign direct investment deal in the country until then, but also because it came barely a week after India allowed the foreign direct investment ceiling to increase from 49 percent to 74 percent in the telecom sector. Foreign investors had been demanding the upward revision for over a decade.

But the Vodafone deal also swamped the telecom sector with the speculation that since it traditionally does not invest as a financial investor in any market but likes to play a larger management role, there is bound to be more churning in the shareholding pattern of Bharti.

Currently Sunil Mittal still remains the largest shareholder of the company with 46 percent, with Singtel (31 percent) as the next largest. The rest is held by Vodafone and the public shareholders.

The question is, if Singtel does sell out, who could be the buyer?

All fingers point to Vodafone, and there are reasons for it. "I think that Vodafone would soon aim to buy a larger stake from either the Mittals or Singtel became clear in November when it acquired an enabling permission from the Indian government to buy a stake in Bharti's holding company," said a telecom analyst from a large IT research and advisory company requesting anonymity since the company cannot "officially comment on speculations."

Indeed the enabling approval, which Vodafone obtained from the Indian government to buy a 49-percent stake in Bharti Enterprises -- the holding company for Bharti Tele -- just a month after buying the 10-percent stake, needs to be taken seriously. According to reports then, Vodafone had sought that approval to avoid going to the government repeatedly if and when it chooses to increase its stake in Bharti Tele.

In fact one report even quoted a Bharti Tele spokesperson as saying, "The Mittal family does not intend to sell any more stake. Vodafone can increase its share in the company if Bharti's foreign partners are willing to sell their stake."

Yet another pointer to this possibility is Vodafone's Indian-born chief Arun Sarin's statement at the time of the October deal. "We will be interested in increasing our stake over time and whenever the opportunity is available in the future," Sarin had said.

Moreover, for Vodafone, add analysts, India is perhaps the most crucial market. Its performance over the recent years would explain why. "Vodafone's revenue is slowing down considerably. It grew at just about 1.71 percent in fiscal year ending March 2005 versus Bharti's over 69 percent," said the telecom analyst. "Further Vodafone has incurred losses for 5 years in a row in writing off goodwill."

Vodafone's other problem is that it does not have a presence in other high-growth telecom markets like Russia and Brazil. And although it has a significant presence in China, that country's regulations do not allow foreign players to take controlling stake in domestic telecom companies.

India on the other hand is a mobile-telephony wunderkind. Its telecom market -- worth about $5 billion -- has 65 million mobile-phone users, a base that has been growing at about 90 percent over the past five years. The country is currently adding about 3 million mobile users a month, yet its teledensity is a mere 11 percent in the larger cities and below 3 percent in the countryside, where two-thirds of Indians live. Even countries such as Bolivia and Moldova, which are poorer than India, have a teledensity of about 24 percent.

But if India is that attractive as a telecom investment destination, the other important question is why would Singtel want to cash out at all? "Apparently, besides dividend income there's little left for Singtel in Bharti," feels the telecom analyst. "Going by Vodafone's price for the

10-percent stake, Singtel stake should be worth at least $4.5 billion. Plus such large stake normally attracts a premium as well."

Singtel paid $400 million for a cornerstone 28-percent stake in Bharti in August 2000 and topped its investment up to $650 million in 2001 to take it to 31 percent.

"Considering Singtel's investments then, $4.5 billion and some more, is a pretty good return," the analyst added.