Stake tussle erupts on Hutch India network

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The two-month-long battle for control at Hutchison-Essar, the Indian cellular venture of the Hong Kong-based Hutchison Whampoa Group, increased its tempo this week with Hutchison Whampoa also jumping into the race for control of its Indian subsidiary by offering to buy out the minority 5.11-percent stake in the Indian company held by the Hinduja family, an Indian business group.

In a notice to the Bombay Stock Exchange on Wednesday, Hinduja TMT Ltd., the India-based holding company of the family informed that it has received offers for purchase of its minority stake in Hutch-Essar.

"The board has set up a committee of directors to appraise the offers, negotiate and finalize the deal," Hinduja TMT said, thus confirming what has been a hot subject of speculation ever since Orascom Telecom of Egypt picked up a 19.3-percent stake last December in Hutchison Telecom International (the company that holds 49 percent in Hutch-Essar, and, is a subsidiary of Hutchison Whampoa) and thereby, a 10-percent stake in Hutch-Essar. The deal also entitled Orascom to a board nominee on Hutchison Essar.

And although Hinduja TMT did not name the entities that have made the offers, the Economic Times, India's largest financial daily, said in its report today that Hutchison Whampoa "is believed to have offered to buy the Hinduja group's stake in Hutch-Essar for $400 million according to industry sources."

The newspaper also reported that, besides the $400 million, Hutchison

Whampoa has offered a gain of up to $50 million on listing of the Indian subsidiary if the market value of Hutch-Essar post-listing exceeds $8 billion for Hutchison Essar.

In early March Hutchison Whampoa rejigged the shareholding structure of its Indian company to prepare for its planned initial public offering. "The simplified structure is an important step to prepare for a potential listing of Hutchison Essar and conforms to India's new regulations on foreign direct investment in mobile telecommunications operators in India," Hutchison Whampoa had said.

But the rejig, which also included altering the shareholding structures in the Hong Kong-based conglomerates group companies, Hutchison Whampoa sold a part of its stake in Hutchison Telecom International to Orascom, has driven a wedge between the two largest shareholders of Hutch-Essar; Hutchison Telecom International and the India-based Essar Group that holds 33 percent stake in Hutch-Essar.

Peeved with the fact that HTIL's stake sale to Orascom was done without the permission of the Indian shareholders, and the fact that deal also gives Orascom a berth in the board of Hutch-Essar, the Essar Group sent letters to the Indian prime minister, finance minister and communications minister, seeking a reversal of the deal since it did not adhere to the telecom laws of the land.

Simultaneously, the Essar Group also tried to consolidate its shareholding in Hutch-Essar by offering around mid-March to buy out the 5.11-percent Hinduja family stake.

But what began as a battle for more between the Indian and foreign partners of Hutch-Essar has now snowballed into a much bigger controversy. Because it appears that the Hutchison Whampoa-Orascom deal has also rattled the country's security adviser, MK Narayanan. In an official letter recently, the adviser warned the Indian administration that Orascom's acquisition of equity in Hutch International is a threat to India's national security as Orascom is a dominant mobile operator in Pakistan and Bangladesh, the two Islamic countries with which India shares unfriendly relationships.

Besides Pakistan and Bangladesh, Orascom also has major operations in Algeria, Bangladesh, Egypt, Iraq, Pakistan and Tunisia; countries with which Indian is uncomfortable too.

HTIL has operations in India, Israel, Thailand, Sri Lanka, Ghana, Indonesia, Vietnam and Macau.

But the controversy does not quite end there. Paranoia about telecom investors coming from "unfriendly countries" and investing in India's telecom companies that could increase the country's security risks has also forced the Left parties -- which supports the country's present United Progressive Alliance government led by Prime Minister Manmohan Singh -- to press the government for slamming the doors on "undesirable" telecom turks -- specifically British Telecom and Orascom.

Left leader Nilotpal Basu announced recently that his party has fired a letter to the prime minister urging the government to exercise greater vigil and ensure that "undesirable elements" don't manage to carve up lucrative slices of the telecom turf by subverting the guidelines that permit 74 percent foreign direct investment in the sector.

Basu said the Left has been "extremely disturbed" about the shareholding changes in Hutchison Essar and British Telecom's move to set up a joint venture called BT Telecom India Pvt Ltd with Indian partners "who are not clearly identified."

Consequently, India's FDI rules in telecom, which were relaxed last year (by allowing an increase in telecom FDI from 49 percent to 79 percent) after years of persuasion by the foreign investors, has again come under the scanner of the government.

India's Department of Telecom has proposed a new policy that would make it mandatory for a local telecom company to seek an approval from the Indian government -- first for inducting a strategic partner in its foreign holding company.

According to reports, DoT has also proposed the new telecom rules should make registration of offshore holding companies that invest in Indian telecom companies (like Hutchison Telecom International) mandatory in India.

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