Vodafone to buy out Indian partner for $5B

March 31 2011, By ERIKA KINETZ , AP Business Writer

In this Sept. 20, 2007 file photo, an Indian worker carries a Vodafone sign to erect it on a street lamp post in Mumbai, India. Vodafone said Thursday, March 31, 2011 it it paying $5 billion cash to buy out the Essar Group's stake in their Indian joint venture. The buyout of Essar's 33 percent stake has been long expected and brings to an end what by many accounts has been an increasingly sour relationship between the partners. (AP Photo/Gautam Singh, File)

(AP) -- Vodafone has agreed to pay $5 billion cash to buy out the Essar Group's stake in their Indian joint venture.

The buyout of Essar's 33 percent stake has been long expected and brings to an end what by many accounts has been an increasingly sour relationship between the partners.

The final settlement is expected by November and the payment is already reflected in its balance sheet, Vodafone said in a statement Thursday.

The buyout will reduce Essar's stake to zero and raise Vodafone's from 42 percent to just over 75 percent, putting it in violation of India's foreign direct investment laws, which cap foreign ownership of telecom companies at 74 percent.

After Essar's exit, the remaining 24.6 percent of Vodafone Essar Ltd. would be held by entities controlled by Vodafone's other Indian business partners: Analjit Singh, chairman of Max India Ltd., which has interests in health care and insurance; and India's Infrastructure Development Finance Company Ltd.

"We will remain within FDI thresholds," said Ben Padovan, a Vodafone spokesman in London. "An IPO may be considered in the future."

Essar, which also has a 1.5 percent stake in India's Loop Telecom, declined comment Thursday.

Vinod Sharma, head of private broking and wealth management at Mumbai's HDFC Securities, said the transaction would allow Vodafone to tighten its management control and give Essar cash to deploy across its business empire.

"It will improve the managerial efficiency," he said. "Essar can use that money elsewhere for other ventures where they can call the shots."

Vodafone entered the Indian market in 2007, paying $11 billion for a 67 percent stake in Hutchison Essar.

Since then the British company has been frustrated by high licensing fees, shifting regulations, an unanticipated $2.6 billion tax bill and a sudden proliferation of competitors that sparked a price war in India's fast growing mobile market.

Last May, Vodafone wrote down the value of its Indian business by more than 25 percent, or 2.3 billion pounds ($3.5 billion).

In the six months through September 2010, Vodafone's customers in India grew 42.7 percent and service revenues from India accounted for 8.8 percent of the group's total during the December quarter, according to company reports.

Today Vodafone Essar Ltd. is India's third largest mobile operator by subscribers, with a 16.5 percent share of India's 752.2 million wireless subscribers as of December, according to India's telecom regulator.

Vodafone shares were down 0.75 pct at 178.5 pence in late morning trading on the London Stock Exchange.