

Vodafone buys out Essar from India unit for \$5 bn

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A Vodafone executive speaks during a demonstration of their 3G services in New Delhi last October. British mobile phone giant Vodafone is taking full control of its Indian joint venture by buying out its local partner Essar Group, a statement said Saturday, ending a troubled relationship.

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Vodafone, which has sought to make India a crown jewel in its expanding emerging markets portfolio, said it will pay Essar Group companies \$5.46 billion for the one-third holding in Indian mobile-phone services provider Vodafone-Essar.

"The settlement marks the end of a four-year partnership between

Vodafone and Essar in India, during which Vodafone Essar has grown to reach almost 140 million subscribers," the British firm said in the statement.

Vodafone had announced plans for the buyout in March after friction between Vodafone and the Essar Group, founded by billionaires Shashi and Ravi Ruia, became more public over the valuation of Essar's [minority stake](#).

The deal caps a process which began when Vodafone bought a 67 percent stake in Hutchison Essar Ltd from Hong Kong-based Hutchison Whampoa for \$11.1 billion in 2007, marking its first foray into India.

The company, which was renamed Vodafone Essar, now is the third-largest [mobile operator](#) in India's fiercely [competitive market](#).

Vodafone's pact with Essar gave the Indian conglomerate an option to sell its stake in Vodafone Essar to the British firm for \$5 billion.

The figure of \$5.46 billion to be paid to the Essar Group is higher than the \$5 billion initially announced and reflects tax on the transaction.

However, Vodafone has insisted it doesn't have to pay tax on the initial 2007 deal with Hutchison Whampoa that gave it control of Vodafone-Essar.

It argues the deal was between two companies based outside India while Indian authorities counter that tax must be paid on the transaction because it involved an asset based in India.

India's Supreme Court is slated to hear the dispute over the Vodafone-Hutchison transaction on July 19.

The tax department is seeking \$2.6 billion in tax from Vodafone, plus up to the same amount in penalties, on the \$11.1 billion Vodafone-Hutchison deal. Vodafone's purchase of Essar's stake pushes the British firm slightly above the 74 percent foreign companies are allowed by law to hold in Indian telecom firms.

[Vodafone](#) chief executive Vittorio Colao said in May the company could sell some of its Indian business in an initial public offering (IPO) to comply with local foreign direct-investment rules.

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