Bharti Cellular: hot stuff?

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Syndication for Bharti Cellular (BCL)'s $125 million offshore loan is due to close as Project Finance goes to press. While the transaction provides funds for the largest mobile operator in India, one of the fastest growing mobile markets, the banking industry remains cautious about telecom credits and the syndication is not expected to attract overwhelming interest. ?But we are expecting several banks to join the four bank underwriting group,? says Kevin Tham, head of loan syndicate south Asia at ABN Amro in Singapore

The six-year facility was arranged by joint leads ABN Amro, Development Bank of Singapore, Standard Chartered and WestLB, and is provided alongside a $160 million ECA facility solely underwritten by ABN Amro and guaranteed by EKN. This was very much an ABN Amro deal. The European bank led the overall loan package, compiled the information memorandum, modeled the cashflows, and brought in the other three lead banks.

Combined, the facilities represent the largest external commercial borrowings raised by any Indian telecom operator in the year 2002 and the first foreign currency syndicated loan for the borrower.

The two month plus syndication period (syndication was launched in November) has been relatively lengthy. The underwriters put this down to timing ? taking place over the Christmas period ? and negotiations with Indian banks who are likely to join. ?Getting commitments from Indian institutions takes quite a bit longer than the norm,? notes one source close to the deal.

The facilities take out short-term loans provided in the Indian bank market, and which funded Bharti Cellular's roll-out of cellular services in Mumbai, Maharashtra, Gujarat, Madhya Pradesh, Haryana, Uttar Pradesh (West), Tamil Nadu and Kerala. Total project cost is estimated at $700 million. It is understood that the initial loans were provided by Industrial Development Bank of India and Infrastructure Leasing and Financial Services (IL&FS)

The loans are described as, ?quas-limited recourse? by Daniel Kamacho, at ABN Amro in Hong Kong. ?The borrower was able to draw on a partial guarantee from its parent Bharti Televentures says Camacho, ?but we were looking primarily at cashflow and assets to assess the deal.? Bharti Televentures itself is 34.5% owned by Bharti Telecom Ltd, 28.5% by Singapore Telecom and 19% by Warburg Pincus. Other investors include the International Finance Corporation, Asian Infrastructure Fund Group and New York Life Insurance. SingTel and Warburg Pincus have now invested about $1 billion into Bharti.

The US Dollar facilities were fully swapped into Indian Rupees and even with the cost of the swap are considerably cheaper than long-term local currency funding. According to Ravi Kaushal, vice president of finance at Bharti Televentures, a long-term local currency loan would have cost about 8% to 9%. The syndicated loan, by contrast, is priced at 170bp over Libor, all in. Three levels of participation are on offer ? co-arranger for a take of $15 million (carrying a fee of 50bp); senior manager for a ticket of $10 million (with a fee of 40bp); and manager for a take of $5 million and a fee of 30bp.

For offshore banks, the deal sets an attractive pricing level to counter the current lack of enthusiasm for Indian deals. Market sources note a reluctance to participate in Indian financings because of political risk concerns and the steadily more aggressive pricing of Indian institutions.

Despite the high equity component in the financing of the project, Bharti sources say funded equity is approximately Rs51.95 billion, while net debt is Rs25.07 billion resulting in a net debt to funded equity ratio of 0.48.

Bharti Televentures is still a loss-maker but Kaushal says the company's loss shrunk 83% in the most recent quarterly results (October to December 2002). The consolidated net loss narrowed to Rs700 million from Rs417 million a year earlier. Total income doubled to Rs8.5 billion from Rs4.2 billion in the same period a year before.

Banks involved in the current deal are not expecting any more transactions from Bharti in the near future. ?They now have a fully funded business plan for the next several years,? says a financier. ?I think they'll only be back in the market if subscriber numbers substantially exceed expectations.?

BCL has already emerged as the single largest mobile operator in the country with a subscriber base of over 2.2 million and operations in 15 out of 22 so-called ?mobile circles?. Bharti's dominance also appears to be increasing. In the quarter ended 30 September 2002, Bharti's share of the total mobile net additions was 58%.

But bankers predict the Indian telecoms market will generate a large number of project deals in the next two to three years. India's mobile telephony penetration rate, according to Bharti, is currently just 1% (amounting to 10.5 million subscribers). Coming off this low base, growth rates are similar to those witnessed in China over the last five years, Bharti sources say subscriber numbers nationally are currently growing by 750,000 a month.

Other India telcos hoping to tap the international bank market can expect a premium over the all-in cost paid by Bharti. ? Bharti is a growth play rather than a well established operator but it's still the number one mobile player in Indian and has very strong sponsors. Facilities for other Indian mobile operators would likely be higher priced,? says a financier.

Bharti Cellular Limited

Status: Financial close December 19, 2002. Syndication ongoing.

Size: $700 million

Location: India

Description: Roll out of mobile network in India.

Sponsor: Bharti Televentures

Debt: $285 million: $160 million ECA facility; $125 million syndicated loan

Arrangers: ABN Amro, Development Bank of Singapore, Standard Chartered and WestLB

Tenor: 6 years

Lawyers to the lenders: Foreign ? Linklaters Allen & Gledhill, Hong Kong; Domestic ? Udwadia, Udeshi & Bergis, Linklaters Hong Kong and Singapore.