Editorial - March 2010

Facing mounting competitive pressures at home, Bharti Airtel, India's largest operator both in terms of revenue as well as subscribers, now seems to have embarked on a strategy of growing organically by turning around loss making telcos. Atleast that's what the latest acquisitions of Bharti seems to suggest. Last month, Bharti Airtel in a distress sale picked up 70 pc stake in Warid Telecom's Bangladesh unit for a base price of $100,000 on a condition that it would make an investment of $300 million to buy fresh equity in Warid. The company is the fourth-largest operator in the country with 2.79 mn subscribers. Now Bharti has acquired the loss making assets of Zain in 15 African countries, the operations span across resource rich countries like Kenya, Nigeria, Ghana, Sierra Leone to the utterly least developed countries like Malawi. Bharti's total cost of acquiring Zain is $10.7 billion; Bharti's total payout on Zain would be $9 billion after deducting the latter's net debt of $1.7 billion. Zain recorded a loss of $112 million in these 15 countries during the nine months of the current fiscal. Its revenues have fallen 11 per cent and EBIDTA by 16 per cent. It has about 42 million subscribers in these 15 countries which account for a population of 469 million.

Scripting success stories out of loss making enterprises and growing in the process is nothing new in the world of business. Laxmi Narayan Mittal, the boss of Arcelor Mittal developed this strategy into a fine art as he built a fortune, turning around failed steel mills from Trinidad to Mexico and from Canada to Indonesia. However, this has been attempted for the first time in telecom and how it plays out remains to be seen.

Bharti wants to leverage its size to extract a better deal from the equipment vendors. Zain pays 30-40 per cent more for its equipment when compared to Bharti. If Zain's African operations can get equipment at the rates Bharti pays to Ericsson and Nokia Siemens Networks, this combined with other joint procurement policies will enable the company to save huge amounts annually.

But growing the African operations would be an uphill task for Bharti. Nine out of Zain's 15 African markets are well penetrated with more than 33 per cent subscriber population. Mobile penetration exceeds 45 per cent in five markets. These include Ghana and Nigeria where Zain's operations are bleeding due to stiff competition from MTN. Zain is also suffering losses in Uganda, again a territory with 35 per cent penetration. MTN is the market leader here. Ironically now, in most markets MTN will be a big competitor for Bharti. Not surprisingly, the Bharti scrip has taken a knock post-Zain acquisition announcement.

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