Vodafone's $19bn Indian connection rings up $3.5bn US bond

Vodafone's $19bn connection with the Indian mobile market has seen the British-based global giant ring up a $3.5bn US bond offering.

After weeks of will-it-won't-it, Vodafone finally secured its place at the top table of the already big and potentially giant Indian cellular phone market with the $11.1bn cash acquisition of 67% control of Hutch Essar, one of the big four mobile players in the second-most populous nation on earth.

On top of the cash payment, Vodafone is taking on $2bn of debt, putting a total enterprise value on Hutch Essar of $18.8bn.

With more than 23 million customers, Hutch Essar has around 16% of Indian users in what is the fastest growing mobile market in the world. Hutch Essar is adding more than a million users every month and plans to have up to 25% of the market within a five-year timeframe in which the Indian economy is expected to boom.

The deal sees Vodafone take control of the two-thirds stake in the company originally owned by the sprawling Hutchison Whampoa conglomerate of Hong Kong.

Vodafone Chief Executive Arun Sarin said that after stripping out the dilutive impact of goodwill amortisation, the deal would be earnings-accretive in the second year.

"This is clear evidence of how we are executing our strategy of developing our presence in emerging markets," said Sarin. "The transaction is within our stated financial investment criteria and we are confident this will prove to be an excellent investment for our shareholders."

The deal is expected to see Vodafone debt rise to around £23bn ($45bn).

Within a fortnight of the announcement of the acquisition, in which UBS was the financial adviser, Vodafone launched a $3.5bn mix of fixed and floating rate notes, led by Morgan Stanley and Lehman Brothers.

Vodafone already had in place a €25bn medium term note programme which it had tapped last summer and autumn.

This, the first dollar-denominated bond issue in a year from Vodafone, was said to have been twice oversubscribed.

A 30-year $1.2bn fixed rate was priced at 140 basis points over swaps, while a $1.3bn 10-year fixed was priced at 100 points over.

A five-year $500m fixed and five-year $500m floater were priced at the equivalent of 28 basis points over.

Hewlett-Packard joined Vodafone in kickstarting what is expected to be a US bond market deluge this year.

Raising $2bn, HP priced a five-year $600m floater at 11 basis points over Libor, a $900m five-year fixed at 54 points over, and a $500m 10-year fixed note at 71 basis points over.

The deal was led by Citigroup, Deutsche Bank and JPMorgan.

The growing trend of hedge funds coming to the stock market – and effectively allowing the investor in the street in on what has been perceived as the preserve of the wealthy – has gathered pace with the €770m flotation of **BH Macro.**

The newly quoted company will invest its net proceeds into the high-performance $11bn Brevan Howard Master Fund run by top London-based hedge fund manager Brevan Howard Asset Management.

To attract a broad range of investors, BH Macro issued 45 million dollar-denominated shares priced at $10, 27 million euro shares at €10, and a further 10.5 million of sterling-denominated shares with a price of £10 a share.

The offer managed by Citigroup, Goldman Sachs and JPMorgan Cazenove was ultimately a little disappointing as Brevan Howard had originally targeted a fundraising venture that would amass €1bn.

Chairman Ian Plenderleith said Brevan Howard and BH Macro were tapping a new investor base.

"This offers investors direct access to one of the world's leading hedge funds, which is also a significant step forward for the hedge fund industry as a whole," he said.

The financing package also includes a £700m capital expenditure facility over 18 months, paying 40 basis points over in the first year, and rising to 45 points over, along with an 18-month £200m working capital tranche on the same terms.

Robert Lea is City Correspondent of *The London Evening Standard*.

EQUITIES

ISSUER	AMOUNT	TYPE	NO OF SHARES	TRANCHE OFFER PRICE	PRICING DATE	EXCHANGE	BOOKRUNNER
Smurfit Kappa Group	$1,943m	IPO	78,787,879	$21.45	13/03/2007	Dublin, London	Citigroup, Deutsche Bank, Davy Stockbrokers, Goldman Sachs
Sports Direct	$1,828m	IPO	309,600,000	$5.91	27/02/2007	London	Merrill Lynch
Safestore Holdings plc	$407m	IPO	86,956,525	$4.68	09/03/2007	London	Merrill Lynch, Citigroup

IPO=Initial Public Offering

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