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Sberbank Looks to Buy Stake in Detsky Mir

By Maria Dranishnikova

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Sberbank has won antitrust approval to buy a blocking stake in Detsky Mir. **Denis Grishkin**

Sberbank may become a co-owner of Detsky Mir by buying part of an additional share emission, according to an announcement on the Federal Anti-Monopoly Service's web site at the end of last week.

The regulator has given permission to Sberbank to buy a blocking stake of 25 percent plus 1 share in Detsky Mir - Center, the operator of the children's goods retail chain, which is part of Sistema.

Sberbank has been negotiating with Sistema about participating in the charter capital of the retailer, a bank spokesman said. Sistema president Leonid Melamed said in a July interview with Vedomosti that the company is not opposed to finding an investor for Detsky Mir.

"A partnership would be beneficial for the company. It could be a financial partnership or a

strategic one," Melamed said. Neither side would disclose the size of the possible deal. The whole company could be worth $120 million to $150 million, excluding debt, said Alexei Krivoshapko, director of Prosperity Capital Management.

The bank could purchase an additional share issue by closed subscription, said Sistema spokeswoman Julia Belous. Detsky Mir shareholders will consider the question of increasing charter capital by issuing additional stock at an extraordinary shareholders meeting on Nov. 1, she said.

"There are ongoing discussions with Sberbank about the conditions of its possible involvement in the purchase of an additional share issue," Belous said. Detsky Mir's charter capital is divided into 2,213 shares with a face value of 100 rubles ($3.30) each.

If the deal goes through, the money will be spent to increase the value of the company by reducing debt and improving margins, a source at Sistema said.

Several versions of a deal structure are under consideration. A source close to shareholders of Sistema said Sberbank might get an exit option that will allow it to sell its share to Sistema at a higher price.

A partnership with Sberbank can be part of preparations for selling a stake in the retailer to a strategic investor, said a source close to Detsky Mir's management.

Sistema acquired a controlling stake in Detsky Mir in 1995 and six years later announced plans to establish a network of children's goods stores, the flagship of which should be Detsky Mir on Lubyanskaya Ploshchad.

"We are now building a retail chain throughout Russia, Belarus, Ukraine, and so forth. ... It will be a great retail chain," Vladimir Yevtushenkov, Sistema's chairman of the board, said optimistically in 2001.

In 2008, Sistema brought its share of Detsky Mir from 70.53 to 91.35 percent. Sistema now owns 98.96 percent thanks to the purchase of an additional share issue earlier this year.

But the crisis brought problems to the retailer. The last profitable year for the company was 2007, when it made 303.8 million rubles ($10 million), according to Russian accounting standards.

From 2008 the company has been operating at a loss — it was in the red by 1.3 billion rubles ($43.3 million) that year, and 2.14 billion rubles in 2009. "Many retailers have operating losses. ... There is no point in considering it a problem," Yevtushenkov said late 2009.

Net loss for the chain in the first half of 2010 totaled 753 million rubles, on a gross income of 7.86 billion rubles. Outstanding debt as of June 30 (covering the second quarter of 2010) was 13 billion rubles, mostly on 5.59 billion rubles of bank loans — of which 1.42 billion rubles was short-term debt — and 1.5 billion rubles of bonds maturing in May 2015.

In April 2009, Sistema sold to VTB for only 60 rubles a controlling stake in real estate developer Sistema-Hals, which was accompanied by the title to the Detsky Mir building on Lubyanka. Detsky Mir - Center now operates 130 stores in 68 Russian cities, with total retail

space of more than 212,000 square meters.

Its doubtful that Sberbank's participation in the charter capital of Detsky Mir will make the search for a strategic partner easier, said Krivoshapko. It's more likely a negative factor, since the bank is not considered to be a professional investor, he said.

There are other cases of banks getting involved in the consumer sector. Czech PPF Group has 50 percent plus one share of electronics retail chain Eldorado; MDM-Bank has a share of retail chain Tekhnosila.

In June 2009, Sberbank Capital took ownership of a controlling share of retail chain Mosmart. In exchange, Sberbank restructured more than 3 billion rubles of Mosmart's credits and gave new long-term loans. In August 2009, Sberbank Capital gained control of Vester Group's retail business in exchange for writing off 2.2 billion rubles of the Kaliningrad company's debt.

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