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## CRISIL Equities assigns IPO grade 3/5 to One97 Limited

CRISIL Equities has assigned a CRISIL IPO grade of "3/5" (pronounced "three on five") to the proposed initial public offer (IPO) of One97 Limited (One97). This grade indicates that the fundamentals of the IPO are average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to One97 reflects its diversified presence in the domestic telecom value-added solutions (VAS) industry (excluding peer-to-peer SMS). CRISIL Research expects this industry to grow at a CAGR of 21% from Rs 40.8 bn in FY09 to Rs 135.3 bn in FY15. The growth will be driven by telecom service providers' (TSPs') efforts to increase the usage of VAS to enhance their average revenue per user (ARPU), increasing availability of VAS-compatible affordable handsets, growing popularity of content on mobile and launch of 3G services. Over the years, One97 has emerged as an integrated VAS provider to TSPs. Unlike other VAS providers, One97's VAS services are also focused on the cost side of TSPs. These services include customer lifecycle management, target marketing, outbound dialing, and unstructured supplementary services data (USSD) gateways and SMS centers (SMSC).

CRISIL Equities believes that the implementation of mobile number portability and consolidation amongst TSPs will benefit established VAS providers like One97. The grade also takes into account the entry barriers created by One97 in the customer lifecycle management services space, where it is the only service provider to eight large TSPs in India.

The grade is constrained by the impact of the fragmented nature of the Indian VAS industry, low entry barriers and the dominance of TSPs, which are always on a cost-reduction spree while negotiating business contracts with VAS providers. It factors in stiff competition from much larger VAS providers of consumer and enterprise VAS. The grade also considers the capital intensive nature of the VAS industry where the VAS providers have to invest in IT hardware to get incremental business. As a result, there remains a risk in case of loss of clients.

The grade is further moderated by high debtor days of ~110 days in 9MFY10 (based on annualised revenue for FY10) and by the risk of software write-offs in the future due to the technology intensive nature of the business.

### About the company and the issue

One97 was founded in 2000 by Mr Vijay Shekhar Sharma, Managing Director and promoter. Mr Sharma is a first generation entrepreneur with more than 10 years of experience in the telecom and new media industries. One97 is a leading provider of telecom VAS to TSPs (they use VAS services internally and for their subscribers) and enterprise customers. It develops and procures content and applications to provide the relevant platform for delivery of VAS products and services. These platforms are integrated with the core network elements of TSPs. These applications can be deployed on any telecom network and accessed from most mobile handsets. One97 utilises the interactive voice response (IVR) system, SMSs, USSD and wireless application protocol (WAP) technology to deliver products and services.

The company has received funding from Intel Capital, Softbank Asia Infrastructure Fund Partners and Silicon Valley Bank.

One97's business segments include network, consumer and enterprise services, which contributed 53.5%, 35.7% and 10.8% to 9MFY10 revenues, respectively. In 9MFY10, the company's top client contributed 27% to total revenues of Rs 841 mn. The company reported EBITDA margin of 37.7% and PAT margin 14.7% for the same period.

Out of the total proposed IPO proceeds of Rs 1,200 mn, Rs 940 mn would be used for procuring telecom equipments, hardware and software, and the balance for general corporate purposes.

### About CRISIL IPO Grading

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