



Bharti Infratel Ltd

One-time assessment

CRISIL IPO Grade 4/5 (Above Average)

November 27, 2012

Grading summary

CRISIL has assigned a CRISIL IPO grade of '4/5' (pronounced "four on five") to the proposed IPO of Bharti Infratel Ltd (Bharti Infratel). This grade indicates that the fundamentals of the IPO are above average relative to the 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, its future market price or suitability for a particular investor.

Bharti Infratel (including its 42% equity interest in Indus Towers Ltd) is a leading passive infrastructure service provider for telecom services in India. Its network of towers covers all the 22 telecom circles in the country. The company stands to gain from the increase in penetration of voice and data services, which is expected to drive the telecom companies' (telcos) demand for base transceiver stations (BTS) and additional towers. The tenancy ratio is expected to increase as telcos roll out 3G/4G on 2100 Mhz and 2300 Mhz bands. Network expansion by India's leading telcos - Bharti Airtel, Vodafone and Idea Cellular Ltd - works in Bharti Infratel's favour; due to the right of first refusal, Bharti Infratel and Indus Towers will benefit from any expansion of the network by the three telcos. Large-scale operations, first-mover advantage and pool sharing arrangement among the top three telcos have resulted in better-than-industry tenancy ratio for Bharti Infratel; it is expected to improve further leading to high operating leverage and improvement in profitability. The assigned grade also reflects the strong and stable operating cash flows resulting from long-term contracts. The company's robust back-end processes, which ensure higher reliability of network uptime for its clients, support the grade.

However, low return on capital employed (RoCE) is a concern. Since tower infrastructure is a business with high operating leverage, the RoCE is expected to improve in line with increase in tenancy ratio albeit from a lower base. Low asset turnover and minimal use of leverage in a capital intensive industry have resulted in low return on equity (RoE) for Bharti Infratel over the past three years, which can increase if the leverage is corrected. Also, the overcapacity in the industry is expected to limit the demand for rollout of new towers. Further, regulatory changes and the resultant uncertainty pose a risk to telecom players as their network rollout plans could be hampered.

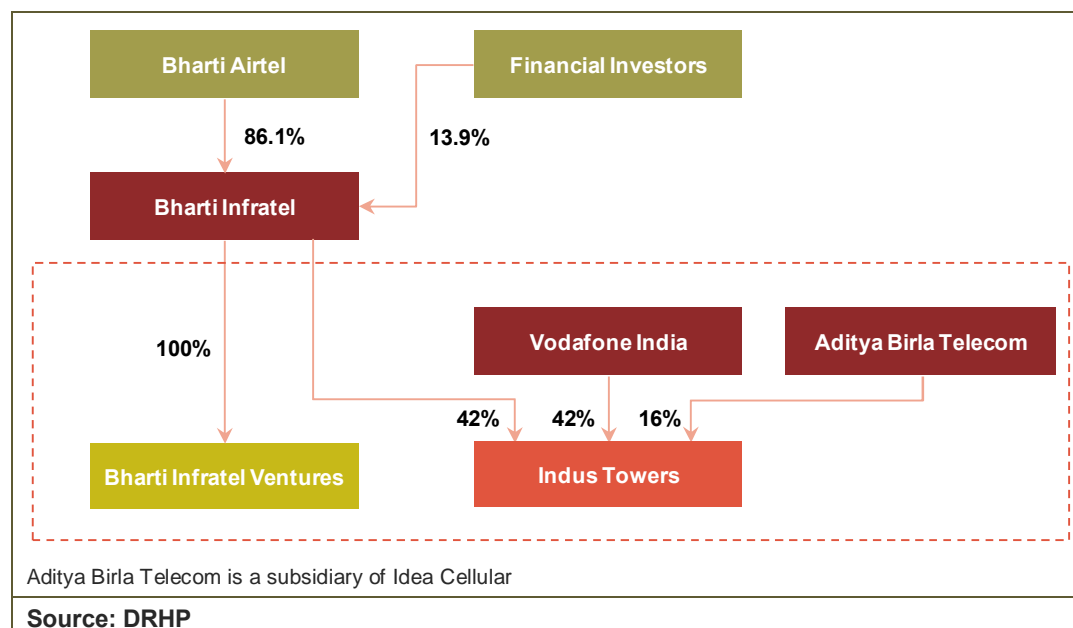
Bharti Infratel's consolidated operating income has increased at a four-year CAGR of 91% to Rs 92.6 bn in FY12 driven by addition of new towers and an increase in the tenancy ratio. EBITDA margins have remained steady at 35-37% over FY10-FY12. Strong growth in EBITDA and an increase in non-operating income (primarily interest income on loans given to group companies) resulted in adjusted net profit growing at 108% CAGR over FY08-12 to Rs 7.5 bn. RoCE and RoE have increased over the past five years largely due to increase in asset turnover but they continue to remain low (RoE was 5.3% in FY12). The company's consolidated net worth is Rs 139 bn as of FY12 and it has a low debt-equity ratio of 0.2x.

About the company

Bharti Infratel was incorporated in 2006 as a subsidiary of Bharti Airtel, a global telecommunications company which currently has operations in 20 countries across Asia and Africa. Bharti Airtel is India's leading telecom service provider with revenues of Rs 714 bn (as of FY12) and revenue market share of 30% (as on quarter ended June 30, 2012). Bharti Airtel and Bharti Infratel belong to the Bharti group, which has business interests in the telecommunications, real estate, insurance and retail sectors. Bharti Infratel is a provider of tower and related passive infrastructure. The company was formed as per the demerger scheme wherein Bharti Airtel transferred all its towers to Bharti Infratel through a scheme of arrangement effective as on January 31, 2008. Bharti Infratel operates in 11 of the 22 telecom circles.

Bharti Infratel entered into a joint venture with Vodafone India and Idea Cellular to set up Indus Towers Ltd to benefit from the tower sharing arrangement. Bharti Infratel, Vodafone India and Aditya Birla Telecom (subsidiary of Idea Cellular) hold 42%, 42% and 16%, respectively, of the equity interest in Indus Towers. Indus Towers operates in 15 telecommunications circles in India of which four circles overlap with those of Bharti Infratel.

Bharti Infratel owns 33,446 towers and Indus Towers owns 109,539 towers as on June 30, 2012.



History and key milestones

Year	Key milestones
2006	Incorporation
2007	Bharti Infratel, Bharti Airtel, Vodafone India Ltd, Idea Cellular Ltd and Idea Cellular Infrastructure entered into a joint venture to set up Indus Towers to operate 15 telecommunication circles in India
2008	Bharti Airtel transferred its passive infrastructure assets to Bharti Infratel pursuant to a scheme of arrangement that became effective on January 31, 2008 Compassvale, KKR Towers Company Mauritius Ltd, GS Investment Partners (Mauritius) I Ltd, Citigroup Financial Products Inc., AIF Capital Telecom Infrastructure Ltd, AXA Towers India, Anadale, GS Strategic, Millennium Mauritius I Ltd, Park Equity Holdings Ltd and Nomura invested in the company by subscribing to equity shares and compulsorily convertible debentures
2009	The company transferred its passive infrastructure assets in 11* telecommunication circles to its subsidiary, Bharti Infratel Ventures Ltd (BIVL), pursuant to a scheme of arrangement that became effective on May 5, 2011 with effect from the appointed date, i.e. April 1, 2009. This transfer was a precursor to the transfer of certain towers of Bharti Infratel to Indus Towers Citigroup Financial Products Inc. converted 118,650 compulsorily convertible debentures to 1,182,270 equity shares
2010	Compassvale, KKR Towers Company Mauritius Ltd, AIF Capital Telecom Infrastructure Ltd, Anadale, GS Strategic, Millennium Mauritius 1 Ltd, Nomura, AXA Towers India, GS Investment Partners (Mauritius) I Ltd and Park Equity Holdings Ltd converted an aggregate of 3,084,900 compulsorily convertible debentures to 39,120,640 equity shares
2011	BIVL has filed a scheme of arrangement before the High Court of Delhi pursuant to which all the business and undertakings of BIVL, Vodafone Infrastructure Ltd and Idea Cellular Towers Infrastructure Ltd will be transferred to and vested in Indus Towers

* Tamil Nadu and Chennai are considered as one circle

Source: DRHP

Issue details

Type of issue	Fresh issue and offer for sale
Fresh shares offered to public	146.2 mn shares
Offer for sale	42.7 mn shares
Fresh shares offered as per cent of post issue equity (dilution)	7.7%*
Object of the issue	<ul style="list-style-type: none"> ■ Installation of new towers ■ Upgradation and replacement of existing towers ■ Green initiatives at tower sites ■ General corporate purposes
Amount proposed to be raised	Not available at the time of grading
Price band	Not available at the time of grading
Lead managers	DSP Merrill Lynch, J.P. Morgan, Standard Chartered Securities, UBS Securities, Barclays Securities, Deutsche Equities, Enam Securities, HSBC Securities and Capital Markets, Kotak Mahindra Capital Company

*Including the offer for sale, the issue size is 10% of post-issue capital

Source: DRHP

Use of IPO proceeds

Sr No.	Particulars	Estimated cost (Rs mn)	Already incurred	FY14	FY15	FY16
1	Installation of 4,813 new towers	10,865.6	-	5,071.0	4,253.4	1,541.2
2	Upgradation and replacement on existing towers	12,140.8	-	5,048.8	5,307.2	1,784.8
3	Green initiatives at tower sites	6,393.6	-	2,990.8	2,768.4	634.4
4	General corporate purposes	N.A	-	-	-	-
	Total	29,400	-	13,110.6	12,329.0	3,960.4

Source: DRHP

Shareholding pre- and post-issue

Category of equity shareholders	Pre-issue		Post-issue	
	No. of equity shares	%	No. of equity shares	% [*]
Promoters (A)				
Bharti Airtel Ltd	1,500,000,000	86.09	1,500,000,000	79.42
<i>Subtotal (A)</i>	1,500,000,000	86.09	1,500,000,000	79.42
Public shareholding (B)				
Foreign institutional investors (2)	13,520,880	0.78	13,520,880	0.72
Private equity (1)	18,027,840	1.03	18,027,840	0.95
Investment fund (1)	18,027,840	1.03	14,422,272	0.76
<i>Subtotal (B)</i>	49,576,560	2.84	45,970,992	2.43
Non-institutions (C)				
Bodies corporate (7)	192,832,170	11.07	153,771,850	8.14
<i>Subtotal (C)</i>	192,832,170	11.07	153,771,850	8.14
Public pursuant to issue (D)				
<i>Subtotal (D)</i>	0	0	188,900,000	10.00
Total (A+B+C+D)	1,742,408,730	100	1,888,642,842	100.0

Source: DRHP

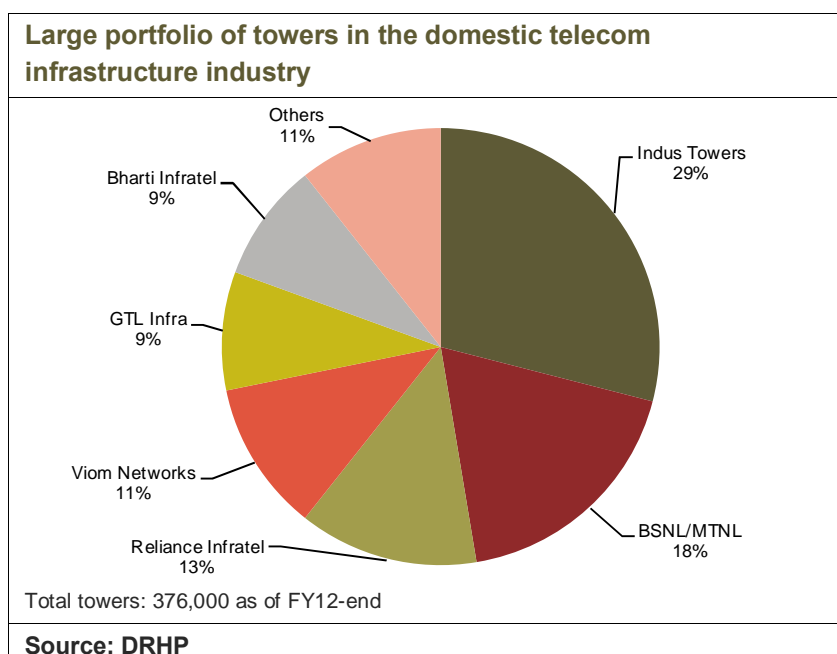
^{*} Throughout this report, Bharti Infratel consolidated refers to Bharti Infratel standalone plus its proportionate share in Indus Towers

Detailed Grading Rationale

A. Business Prospects

- **Leading player in the Indian telecom infrastructure industry**

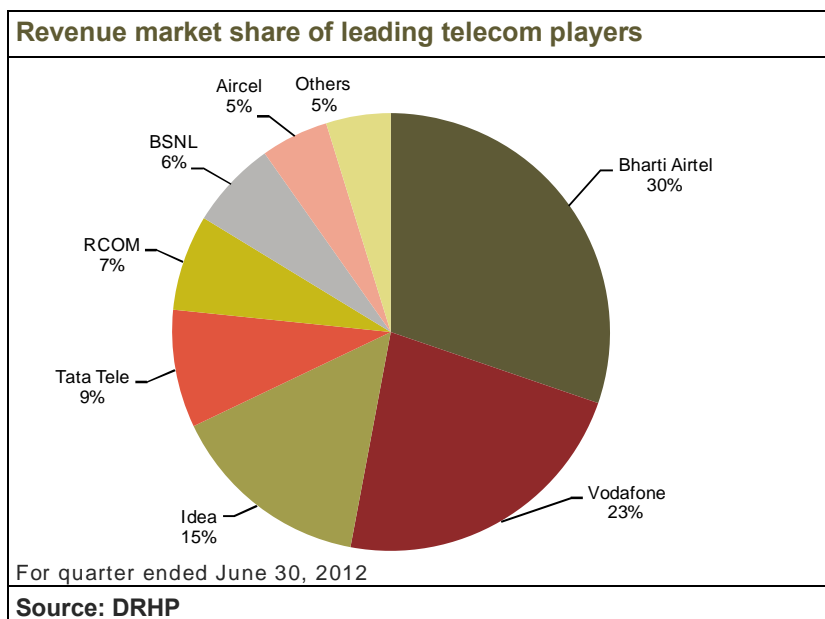
Bharti Infratel (including its 42% ownership in Indus Towers) is a leading provider of tower and related infrastructure in India based on the total number of towers. It owns 33,446 towers and Indus Towers owns 109,539 towers as on June 30, 2012. Bharti Infratel operates in 11 telecom circles while Indus Towers operates in 15 telecom circles with overlapping operations in four circles. The large-scale nationwide presence provides Bharti Infratel significant operating leverage and creates entry barriers for new players. It also gains from the first-mover advantage at many of the locations. The company has better tenancy ratio (x) than the industry due to its scale, first-mover advantage and pool sharing arrangement among the top three telcos - Bharti Airtel, Vodafone and Idea Cellular.



- **Ownership by large telecom operators confers competitive advantage**

Bharti Airtel is the promoter of Bharti Infratel, which along with Vodafone and Idea Cellular, owns Indus Towers. Bharti Airtel is the largest wireless telecommunications service provider in India by wireless revenues for the quarter ended June 30, 2012. Bharti Airtel, Vodafone and Idea Cellular collectively have the largest telecom market share in India and accounted for 68% of the total wireless telecom revenues as of Q1FY13.

Bharti Airtel is a tenant at almost all of Bharti Infratel's towers. At least one among Bharti Airtel, Vodafone and Idea Cellular is a tenant at almost all of Indus Towers' towers. Also, due to the right of first refusal (for telcos' passive infrastructure needs), Bharti Infratel (consolidated) will benefit from any expansion of the networks of the three telcos. In its 11 circles of exclusive operation, Indus Towers has the right of first refusal for development of new towers or co-locations for each of Bharti Airtel, Vodafone and Idea Cellular. Similarly, Bharti Airtel has granted Bharti Infratel the right of first refusal in relation to all of Bharti Airtel's new towers and co-location requirements in the seven circles where Bharti Infratel operates exclusively.



Bharti Infratel's and Indus Towers' operations in different telecom circles

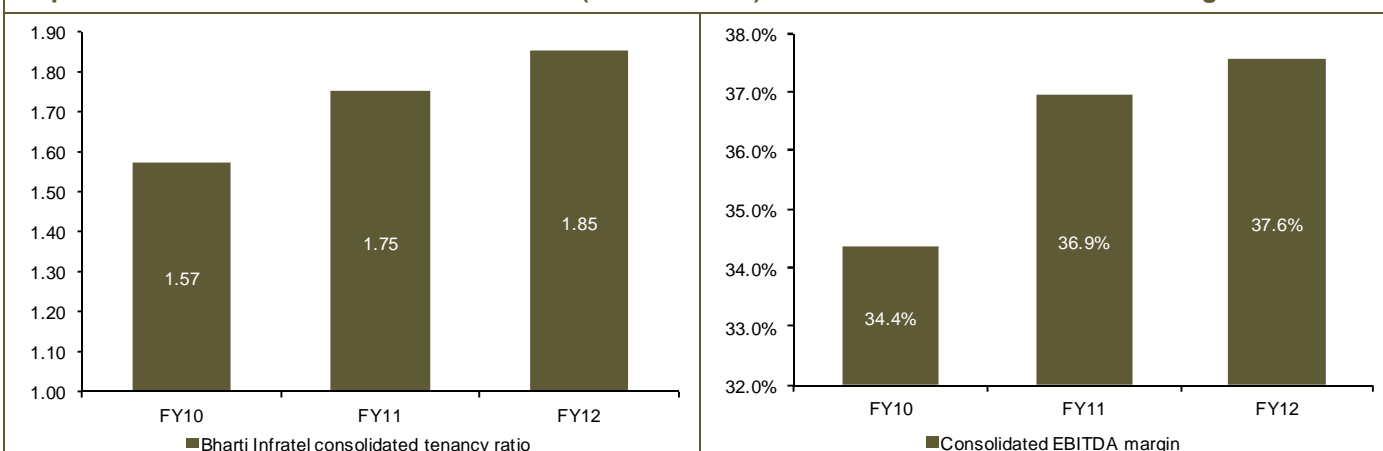
	Number of circles	circles	Rights of entities
Circles with presence of Bharti Infratel but not Indus Towers	7	Jammu & Kashmir, Himachal Pradesh, Madhya Pradesh, Chhattisgarh, Bihar, Orissa, Assam and North-East states	Bharti Infratel has the first right of refusal for all new towers and co-location for Bharti Airtel
Circles with presence of Indus Towers but not Bharti Infratel	11	Andhra Pradesh, Delhi, Gujarat, Karnataka, Kerala, Kolkata, Maharashtra & Goa, Mumbai, Punjab, Tamil Nadu (including Chennai), West Bengal	- Bharti Infratel does not operate in these circles - Indus Towers has first right of refusal to Bharti Airtel, Vodafone and Idea for setting up new towers or co-locations
Circles with presence of both Indus Towers and Bharti Infratel	4	Haryana, Rajasthan, Uttar Pradesh (West), Uttar Pradesh (East)	- Bharti Infratel cannot roll out new towers in these circles though it can add co-locations to the existing towers - Bharti Infratel has the first right of refusal for co-location from Bharti Airtel - Indus Towers has the first right of refusal for rollout of new towers from Bharti Airtel, Vodafone and Idea

Source: DRHP, CRISIL Research

▪ **Higher-than-industry tenancy ratio**

The key economic driver of a tower business is the tenancy. Tower companies incur significant capital expenditure (capex) for setting up a new tower. Operating expenses of a tower - such as site rentals, security and maintenance - are largely fixed. Thus, each increment in tenancy (tenants per tower) is accompanied by a minimal increase in costs and results in increase in profitability. Bharti Infratel and Indus Towers have been able to increase their tenancies over the past three years due to their strong parentage and national presence.

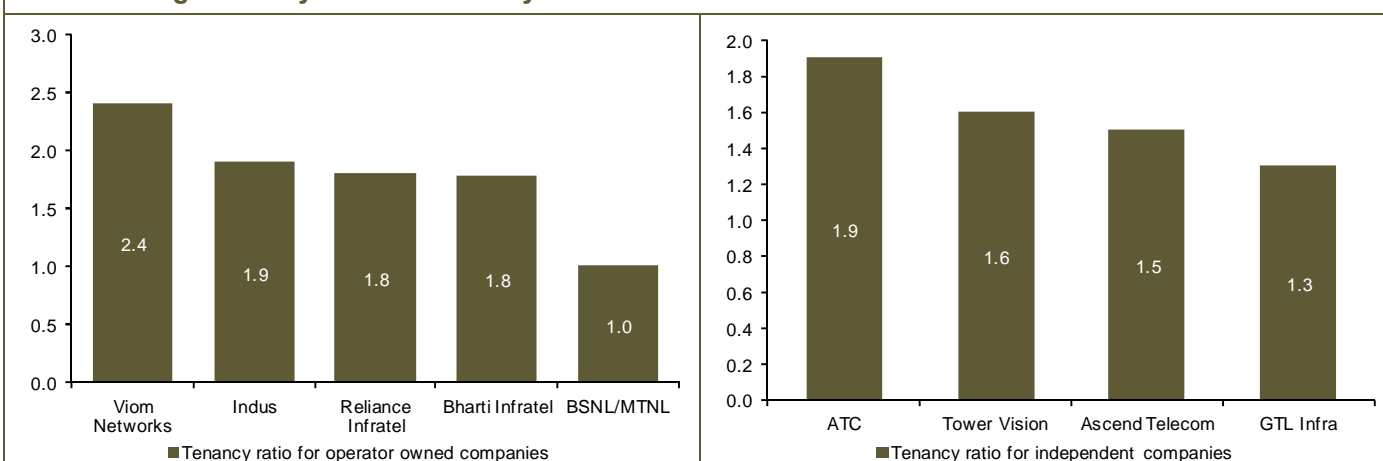
Improvement in tenancies for Bharti Infratel (consolidated) has resulted in better EBITDA margin



Source: DRHP

Source: DRHP

Better average tenancy than the industry's 1.7 for FY12



Source: DRHP

Source: DRHP

▪ **Tower sharing is the way forward**

Traditionally, operators owned captive tower assets and there was little sharing of the infrastructure. However, telecom tower assets being capital intensive led to significant debt on balance sheets of telecom operators (telcos). In an effort to clean up the balance sheet and reduce investments in passive infrastructure (towers), some companies hived off their telecom assets into separate companies. It also helped the telcos consolidate their market position by focusing on core operations of providing network coverage and customer services. Tower sharing also emerged as a preferred way of reducing the investment requirement. This was the primary basis for the formation of Bharti Infratel and Indus Towers. Also, independent tower companies such as GTL Infrastructure and American Tower Company are heralding the concept of tower sharing. CRISIL Research expects increased tower sharing to drive the tenancy ratio upwards to 2.13 in FY15 from 1.8 in FY12.

Low teledensity in Bharti Infratel's circles offers growth opportunities

Bharti Infratel is expected to benefit from the expected increase in teledensity in the 11 circles it operates in. Six of the seven circles where Indus Towers is not present are category C and one circle is category B; these have much lower teledensity than category A and metro circles. The expansion of services in these relatively underpenetrated markets by telcos provides a significant opportunity to Bharti Infratel. Rural India currently suffers from low penetration of telecom services, and we believe that these areas offer potential for growth of voice services. As per the Telecom Regulatory Authority of India (TRAI) data as on March 31, 2012, urban wireless penetration was 162.8% while rural wireless penetration was 38.3%. While a slowdown is expected in urban net additions, rural India is expected to account for a large share of the increase in net additions. CRISIL Research expects the total mobile subscriber base to touch 1,024 mn by FY17 from 919 mn in FY12.

Teledensity across Bharti Infratel's seven exclusive circles

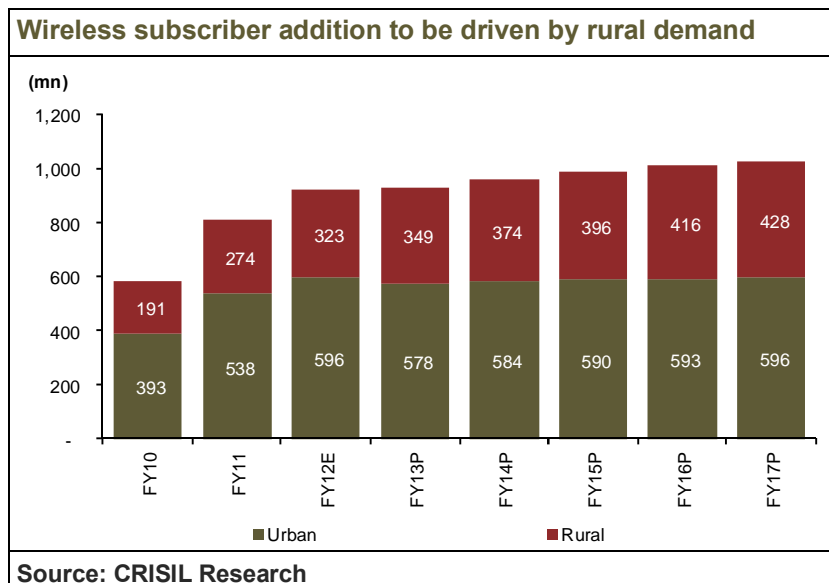
Circle	Category	Teledensity (%)
Madhya Pradesh	B	52.7
Himachal Pradesh	C	116.2
Orissa	C	64.7
North-East	C	63.8
Jammu & Kashmir	C	53.1
Bihar	C	48.4
Assam	C	45.9

Teledensity across Bharti Infratel's four overlapping circles

Circle	Category	Teledensity (%)
Uttar Pradesh (East)	B	59.9
Uttar Pradesh (West)	B	59.9
Rajasthan	B	71.3
Haryana	B	87.1

As on March 31, 2012

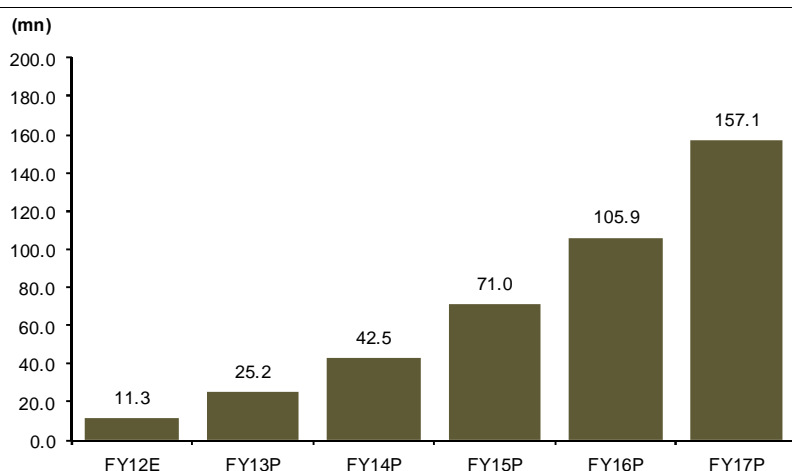
Source: DRHP



Increase in use of data services will drive demand for additional BTS

As wireless telecommunications subscribers' demand for data services increases, telcos in the metros and A category circles will seek to expand their existing networks to accommodate the rollout of 3G services, as well as newer technologies such as 4G. This will benefit Indus Towers as it has an extensive presence in metro and A category circles. B category and C category circles have untapped consumer potential for voice services and will also see increasing demand for data services.

Strong growth expected in 3G subscriber base



Source: CRISIL Research

It is estimated that the current usage per active subscriber for 3G is 330 MB for handsets. Increasing usage of 3G services and fall in their prices along with increasing penetration of higher-end mobile phones should give momentum to the adoption of data services. With an expected increase in the usage, additional network capacity will be required. Even if the current co-location of the 3G sites (2100 MHz) is on the 900 MHz grid, additional network capacity and optimisation will require incremental sites. It is estimated that operations at 2100 MHz require 1.6x and 1.2x towers than those required at 900 MHz and 1800 MHz, respectively, to cover the same geographical area.

Tower requirement multiplier across frequency bands

		900 MHz	1800 MHz	2100 MHz	2300 MHz	2600 MHz
Base frequency band	900 MHz	1.0x	1.6x	1.9x	3.2x	3.7x
	1800 MHz		1.0x	1.2x	2.0x	2.3x
	2100 MHz			1.0x	1.7x	2.0x
	2300 MHz				1.0x	1.1x
	2600 MHz					1.0x

Source: DRHP

The three largest telecom players - Bharti Airtel, Vodafone and Idea - will benefit from the strong growth expected in data services. Rise in rural penetration and rollout of 3G and 4G services will require additional investments for installation of base stations due to the demand for additional capacity, in turn increasing the demand for tower bases. This demand would be catered by Bharti Infratel (consolidated) as it has the right of first refusal to the three large telcos in 15 circles and to Bharti Airtel in the remaining seven circles. Increase in number of BTS on their towers will be an additional revenue stream for Bharti Infratel (consolidated) and will also offer operating leverage.

▪ **Long-term annuity contracts provide high revenue visibility**

Bharti Infratel and Indus Towers have long-term master service agreements (MSAs) with the tenant telcos. The contract is long term wherein telcos are required to pay rent for the tower usage and power charges for the equipment installed by them on the site. The pass-through mechanism in the agreement along with long-term nature of the agreement provides annuity cash flows to the company. All telcos are offered similar terms for installing their active infrastructure at the towers. The terms are primarily based on the location, land rentals and power usage. Also, the agreement encourages the sharing of the tower infrastructure across various telcos as the cost savings resulting from sharing of a tower are passed on to the existing as well as new telcos added on the tower. The largely fixed cost structure of operations, combined with ample opportunity to increase tenancy (a single GBT can support four-five tenants as compared to industry average tenancy of 1.7), will continue to result in healthy and stable cash flows over the medium term.

Long-term contracts with high termination penalties: As a tower gets a tenant, it usually generates stable cash flow in the form of tower rentals from occupants over the term of the MSA between the two parties. The MSAs range between five and 15 years (which may be extended as mutually agreed), and early termination of the contract by the telco triggers significant penalties. Typically, these penalties are 35% of the total payment to be made for the remainder of the term of the service contract or one year's payment, whichever is higher. Such high penalties in the event of early contract termination provide stability to Bharti Infratel's (consolidated) business throughout the term of the MSAs and provide high revenue visibility.

Low churn: Towers are an integral part of the telco's network and shifting to another tower leasing company is inconvenient. In addition, the complexity in adjusting to a competitor's tower sites further lowers the churn rate. Most contracts between service providers and tower companies are long term in nature, thereby increasing the switching costs.

Low risk of technological obsolescence: Tower companies provide passive infrastructure which is not vulnerable to changes in technology.

▪ **Well-developed systems and processes**

Bharti Infratel and Indus Towers have built a robust back-end system to support their widespread network of towers. These investments have helped the company to come up with technological innovations aimed at enhancing operational efficiencies and reducing costs. Bharti Infratel has tied up with IBM as its vendor for automation of supervision, control and maintenance of its tower infrastructure. Through applications such as the TOC (tower operations centre) and Mobile Field Force Management developed under the outsourcing program with IBM, Bharti Infratel is able to centrally monitor, manage and control its tower portfolio. The TOC, centrally located in Gurgaon, helps to monitor its towers on a continuous basis, ensuring faster response time on the ground. Indus Towers uses various service providers to provide it similar IT applications and services.

Tower performance is largely a function of the availability of electricity at a site, which is seasonal due to electricity usage and capacity constraints. Bharti Infratel (consolidated) is required to maintain uptime levels of 99.95% at some of its towers and 99.9% at some of its towers under its MSAs. The robust systems have helped Bharti Infratel (consolidated) maintain high uptime levels with minimal outages in transmission and consistently meet the MSA requirements. The uptime service level for Bharti Infratel for June 2012 was 99.88% and 99.94% for Indus Towers.

- ***Transition to solar power will diversify energy sources***

Bharti Infratel has rolled out several environment-friendly initiatives such as towers powered by integrated power solutions including solar power. The renewable energy (solar) initiative will continue to have long-term benefits for Bharti Infratel, by reducing the environmental impact of its operations. As on June 30, 2012, Bharti Infratel operated 1,255 solar-powered sites, while Indus Towers operated 975 solar-powered sites.

- ***Dependence on promoter companies, large sites with single tenant***

Being an operator-owned entity, Bharti Infratel (consolidated) is the preferred vendor for any rollout of towers for Bharti Airtel, Vodafone and Idea Cellular. As per CRISIL Research, the payback before tax is more than nine years for a single tenant which falls to 5.4 years for a tenancy of 2. The payback period further reduces with additional 3G/4G loading. As on June 30, 2012, out of Bharti Infratel's total portfolio of 33,446 towers, Bharti Airtel is the sole operator on 15,108 towers. Indus Towers operated 109, 539 towers, out of which 42,083 had one among Bharti Airtel, Vodafone India and Idea Cellular as the sole operator. On a portfolio basis, Bharti Infratel has an average co-location factor of 1.9.

However, we note that since the anchor tenants have got 3G licensees and are targeting to increase their rural footprint and distribution, the synergies of sharing by way of lower costs and faster time to market will benefit both Bharti Infratel and Indus Towers. An average GBT site can take up to four-five tenants and average RTT up to two-three tenants and therefore, provides ample opportunity for tower sharing. Given the high operating leverage nature of the business, the move will increase the returns of the company.

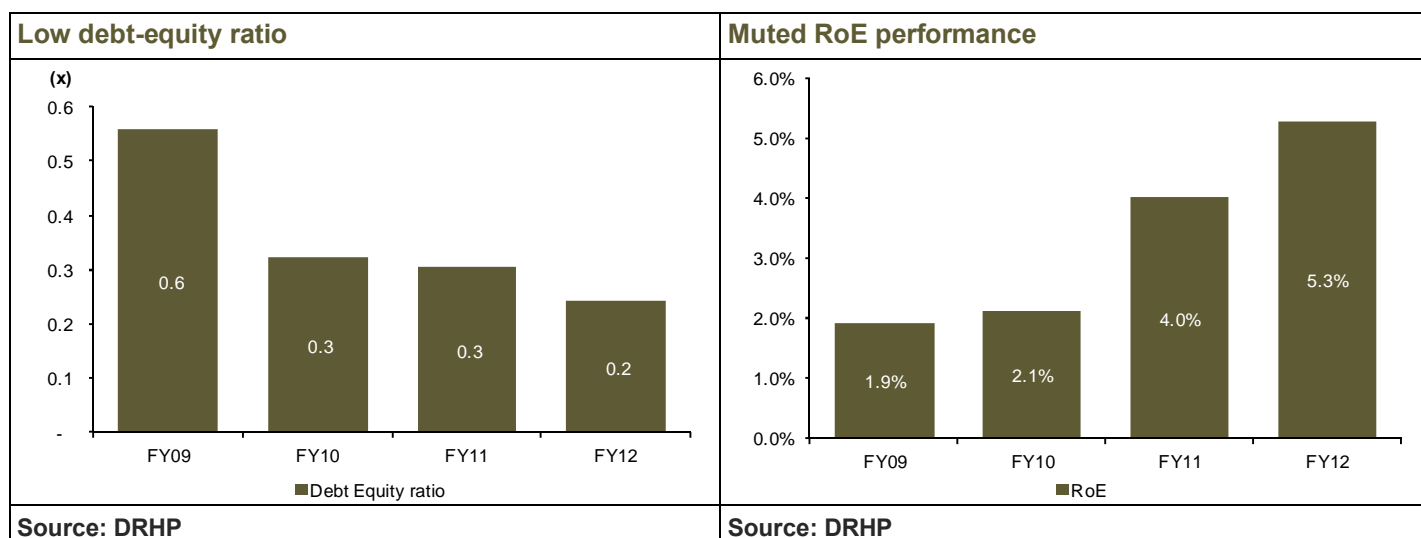
- ***Overcapacity in the industry; limited new tower additions expected***

As per CRISIL Research estimates, the total number of telecom towers installed in India has grown at a CAGR of 14% over FY08-FY12 to 360,000. The current tenancy ratio of 1.7 implies that the current passive infrastructure capacity is underutilised. However, the shareable pool of towers is lower as not all towers in the pool are available for sharing (e.g. BSNL/MTNL is only for captive and, therefore, has tenancy ratio of 1.0). Further, the footprint required to operate on different bands is different and, hence, the currently available footprint of towers may not be adequate to service the demand, as and when operators roll out 3G and 4G services. We expect the rollout of new towers to remain muted in the medium term due to adequate capacity being available in the industry and continued funding constraints faced by some competitors of Bharti Infratel. A tower can have three-four tenants whereas the current all-India level tenancy is 1.7, thus providing residual capacity. The total number of towers in India is expected to increase at a CAGR of less than 1% over the next three years.

While tower rollout is forecast to slow down, telcos will continue to add BTSs as they rollout 3G and broadband wireless access (BWA) and increase penetration in rural areas. This will also help in improving the tenancy ratio over the medium term.

- ***Lower returns due to low asset turnover and leverage***

Bharti Infratel (consolidated) has generated low RoEs of 2-5% over the past three years due to lower asset turnover. The RoCE of the business is low at 7.8% due to the capital intensive nature of the business and sub-optimal tenancy ratio. However, as additional tenancies require a very small amount of additional opex and capex, the high marginal RoCE is expected to kick in as tenancies rise. Also, in spite of the highly capital intensive nature of the tower business, Bharti Infratel (consolidated) has rolled out its tower network with a low debt-equity ratio of 0.2x. With strong operating cash flows from operations and an expected increase in equity base from the IPO proceeds, the net debt-equity ratio will remain low and suppress RoE. Correction in the leverage ratio could provide an upside to RoE.



▪ **Regulatory changes are a key monitorable**

The telecom sector, including the telcos, active infrastructure providers and passive infrastructure providers (tower companies) are exposed to risk arising from regulatory changes, which may have a negative impact on their businesses.

A majority of the regulations under deliberation will have a greater impact on the telcos and active infrastructure players. However, any pressure on profitability of the telcos will have a trickle-down impact on the tower infrastructure players. The rollout of towers slowed down in FY12 due to financial stress faced by some players in the sector and increased uncertainty related to spectrum pricing. The February 2012 Supreme Court order cancelling 122 2G licences, allocated in 2008, further compounded the policy-related uncertainty in the industry. Following the judgment, players such as Elisalatt-DB and STel announced their decision to exit India, while Uninor decided to focus only on nine circles.

With the regulatory spectrum auction over, there is clarity on which telcos remain (even with a shrunk footprint). Increased spectrum cost due to the auction will result in a more rational and increased tariff and expansion strategies for the telcos, thereby helping them in the short to medium term.

Changes in some other regulatory proposals such as spectrum refarming may impact telcos positively, if they materialise, as they may need to deploy additional capacity.

B. Financial Performance

Bharti Infratel's consolidated operating income has increased at a four-year CAGR of 91% to Rs 92.6 bn in FY12 driven by addition of new towers and increase in the tenancy ratio. The average sharing factor of Bharti Infratel's tower was 1.82 and that of Indus Towers was 1.96 as on March 31, 2012. EBITDA margin contracted from 36.6% in FY08 to 29.9% in FY09 owing to a sharp increase in power and fuel costs. However, it has since remained steady at 35-37%. Strong growth in EBITDA combined with increase in non-operating income (primarily interest income on loans given to group companies) resulted in adjusted net profit growing at 108% to Rs 7.5 bn in FY12. RoCE and RoE have increased over the past five years largely due to increase in asset turnover. The company's consolidated net worth is Rs 139 bn as of FY12 which includes fair valuation reserve of Rs 16 bn and it has a low debt-equity of 0.2x

Financial performance snapshot

Particulars	FY08	FY09	FY10	FY11	FY12
Total operating income (Rs mn)	7,051	50,507	70,395	85,305	94,686
EBITDA margin (%)	37	30	34	37	38
Adjusted net profit / (loss)	404	1,952	2,530	5,515	7,507
Adjusted net margin (%)	5.7	3.9	3.6	6.5	7.9
RoCE (%)	1.4	1.9	3.8	6.2	7.8
RoE (%)	0.8	1.9	2.1	4.0	5.3
Adjusted EPS (Rs)	0.3	1.2	1.5	3.2	4.3
No. of equity shares (mn)*	1,615	1,622	1,742	1,742	1,742
Net worth (Rs mn)	102,552	98,112	130,468	134,141	139,434
Asset turnover (x)	0.12	0.34	0.36	0.38	0.39
Debt-equity ratio (x)	0.3	0.6	0.3	0.3	0.2

Note: The financial numbers in this document has been re-classified as per CRISIL's standard and, hence, may not match with DRHP numbers.

Source: DRHP, CRISIL Research

C. Management Capabilities and Corporate Governance

Management has vast experience in the telecom domain

Bharti Infratel's top management is led by Mr Akhil Gupta (MD and Vice Chairman) and Mr Devender Rawat (CEO and officiating COO). They are supported by Mr Biswajit Patnaik, Head - Sales and Marketing, Mr Sairam Prasad, Head - Operations and Maintenance, Mr Pankaj Miglani, CFO and Mr Prashant Keole, Chief Deployment Officer.

Profile of key management personnel

Name and Designation	Joining date	Experience
Mr Akhil Gupta – MD and Vice-Chairman	March 2008	Over 28 years of experience. He was involved in the formation of Indus Towers
Mr Devender Rawat – CEO and officiating COO	July 2010	23 years of experience in various sectors including telecom
Mr Biswajit Patnaik – Head Sales and Marketing	October 2008	16 years across various sectors including telecom
Mr Sairam Prasad – Head Operations and Maintenance	September 2009	19 years across various sectors including telecom
Mr Pankaj Miglani - CFO	August 2011	18 years of experience; prior association with Bharti Airtel
Mr Prashant Keole – Chief Deployment Officer	October 2007	21 years across various sectors including telecom

Source: DRHP

Maintained industry leadership

Due to the strong promoter backing, Bharti Infratel and Indus Towers together have been able to maintain healthy tower rollout across all the telecom circles in India. Also, Bharti Infratel and Indus Towers have a better tenancy ratio than the average industry tenancy ratio of 1.7. The management has also invested in back-end systems and processes, which have helped the company maintain high uptime levels.

Board composition and independent directors

The board comprises 10 directors, of whom five are independent directors. One independent director has been on the board since April 2009; the other three joined the board in September 2012 and one in November 2012.

Profile of independent directors

Independent Director	Profile
Mr Narayanan Kumar	Vice chairman of the Sanmar Group, Chennai and is the Honorary Consul General of Greece in Chennai. He is also a member of the board of governors of Institute for Financial Management & Research and a governing council member of the AU-KBC Research Centre (Anna University). He was the president of the Confederation of Indian Industry.
Mr Vinod Dhall	Has about 27 years of experience in various fields including competition law, corporate affairs, economic regulation and finance. In the past, he has held various positions with the Government of India including the post of the special secretary – Ministry of Finance. He has also been an ex-officio member of SEBI, Life Insurance Corporation, General Insurance Corporation and has been associated with the United Nations Industrial Development Organisation. He is currently a practicing lawyer.
Mr Jitender Balakrishnan	Has 39 years of experience, which includes his experience in the financial sector with IDBI Bank Ltd where he was the Deputy Managing Director and thereafter an advisor to IDBI Bank Ltd. He is currently an advisor to various corporates.
Mr Bharat Sumant Raut	Has 42 years of experience in accountancy and law. He was, in the past, associated with Sharp and Tannan, Chartered Accountants as a partner, with Price Waterhouse, Chartered Accountants as a partner and with B S R & Co., Chartered Accountants and B S R & Associates, Chartered Accountants as their founding partner. He is a practicing lawyer since 2006.
Ms Leena Srivastava	She is the vice chancellor and executive director of TERI University, Delhi. She has worked on a range of issues covering energy for economic growth, climate and environment, etc. She is also a member of Energy Partnership Advisory Board of World Economic Forum, International Advisory Committee of The Coca Cola Company, Caterpillar's Sustainable Development Advisory Board and Foresight Advisory Council of Suez Environment.

Annexure I

Business Profile

Bharti Infratel provides telecom tower and related infrastructure to telcos in India. The company owns 42% interest in Indus Towers, which is in the same business. Bharti Infratel and Indus Towers cover all the 22 telecom circles in India. Bharti Airtel, Vodafone India and Idea Cellular are the company's key customers.

Circles of operation

Company	Circle
Bharti Infratel	Jammu & Kashmir, Himachal Pradesh, Haryana, Uttar Pradesh (East), Uttar Pradesh (West), Rajasthan, Madhya Pradesh and Chhattisgarh, Bihar, Orissa, Assam and North-East states
Indus Towers	Andhra Pradesh, Delhi, Gujarat, Haryana, Karnataka, Kerala, Kolkata, Maharashtra & Goa, Mumbai, Punjab, Rajasthan, Tamil Nadu (including Chennai), Uttar Pradesh (East), Uttar Pradesh (West), West Bengal

Source: DRHP

Number of towers

	FY10	FY11	FY12	Q1FY13
Bharti Infratel	30,564	32,775	33,147	33,446
Indus Towers	103,230	108,732	109,325	109,539
Bharti-Consolidated	73,921	78,442	79,064	79,452

Source: DRHP

Number of co-locations

	FY10	FY11	FY12	Q1FY13
Bharti Infratel	49,999	57,621	60,160	60,714
Indus Towers	178,144	201,106	213,685	216,058
Bharti-Consolidated	124,819	142,086	149,908	151,458

Source: DRHP

Average sharing factor/tenancy ratio

	FY10	FY11	FY12	Q1FY13
Bharti Infratel	1.51	1.70	1.79	1.82
Indus Towers	1.62	1.79	1.90	1.96
Bharti-Consolidated	1.57	1.75	1.85	1.90

Source: DRHP

Planned installation of new towers

Circle Category	GBT	RTT	Total	Circle Category	FY14	FY15	FY16	Total
Category B	1,398	160	1,558	Category B	741	603	214	1,558
Category C	2,919	336	3,255	Category C	1,504	1,282	469	3,255
Total	4,317	496	4,813	Total	2,245	1,885	683	4,813

Source: DRHP



Subsidiaries/joint ventures

Name	Business	Ownership
Bharti Infratel Ventures Ltd (incorporated in December 2007)	Maintaining and operating telecom tower infrastructure	100%
Indus Towers Ltd	Maintaining and operating telecom tower infrastructure	Bharti Infratel (42%), Vodafone India (42%) and Idea Cellular (16%)

Source: DRHP

Shareholding pattern

Pre-issue shareholding pattern	Post-issue shareholding pattern
<p>Promoters 86% Institutions 3% Bodies corporate 11%</p>	<p>Promoters 79% Institutions 3% Bodies corporate 8% Public 10%</p>
Source: DRHP	Source: DRHP

Annexure II

Comparison of Bharti Infratel with international tower companies

Company Name	Number of towers			Average tenancy			Co-locations#		
	2009	2010	2011	2009	2010	2011	2009	2010	2011
Bharti Infratel*	73,921	78,442	79,064	1.57	1.75	1.85	124,819	142,086	149,908
International Peers									
American Towers	20,000	21,146	21,575	2.5	2.6	2.7	50,000	54,980	58,253
SBA	8,324	9,111	10,524	2.5	2.4	2.3	20,810	21,866	24,205
Crown Castle	22,200	22,300	22,200	2.9	2.9	3.0	64,380	64,670	66,600
TBIG(Indonesia)	716	2,035	3,411	1.9	1.8	1.6	1,378	3,660	5,545

*Bharti Infratel along with its economic interest in Indus Towers

Co-location is number of towers multiplied by average tenancy

Company Name	Revenues (US\$ mn)			EBIDTA margin (%)			PAT (US\$ mn)			D/E (x)			RoE (%)		
	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011	2009	2010	2011
Bharti Infratel*	841	1,030	1,123	53.9	57.5	57.9	47	102	139	0.3	0.3	0.2	2.1	4.0	5.3
International Peers															
American Towers	1,464	1,614	1,802	72	74	74	210	304	282	1.2	1.6	2.1	7	11	12
SBA	556	627	698	61	62	64	-141	-195	-126	3.9	8.4	NA#	NA	NA	NA
Crown Castle	1,601	1,776	1,907	60	63	65	-114	-310	168	1.8	2.4	2.5	NA	NA	6
TBIG(Indonesia)	33	74	111	75	76	78	23	36	56	1.9	0.6	1.1	68	24	20

The company's net worth has significantly eroded in 2011

* Converted at US\$/Rs 54. Also, revenues and EBIDTA exclude power costs to make it comparable with international players

Source: DRHP

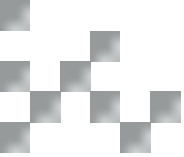
Annexure III: Profile of the Directors

Name	Designation	Age	Qualification	Date of appointment	Experience	Directorships in other entities
Rakesh Bharti Mittal	Chairman, Non-Independent and Non-Executive Director	56	Post diploma in Electronics and Control from the Y.M.C.A Institute of Engineering	Sep 3, 2012	NA	<ul style="list-style-type: none"> ■ Atrium Restaurants India Private Ltd ■ Beetel Teletech Ltd ■ Bharti AXA Life Insurance Company Ltd ■ Bharti (RM) Holdings Private Ltd ■ Bharti (RM) Resources Private Ltd ■ Bharti (RM) Services Private Ltd ■ Bharti (RM) Trustees Private Ltd ■ Bharti (Satya) Trustees Private Ltd ■ Bharti Airtel Ltd ■ Bharti AXA General Insurance Company Ltd ■ Bharti Enterprises (Holding) Private Ltd ■ Bharti Infotel Private Ltd ■ Bharti Insurance Holdings Private Ltd ■ Bharti Management Private Ltd ■ Bharti Overseas Private Ltd ■ Bharti Telecom Ltd ■ Bharti Ventures Ltd ■ Centum Learning Ltd ■ Comviva Technologies Ltd ■ FieldFresh Foods Private Ltd ■ IFCI Ltd ■ Indian School of Business and ■ Indus Towers Ltd
Akhil Kumar Gupta	Vice Chairman and Managing Director	56	Certified chartered accountant, a fellow member of ICAI and an advanced management program from Harvard Business School	March 31, 2008	More than 28 years	<ul style="list-style-type: none"> ■ Avanti Investfin Private Ltd ■ Bharti Airtel Ltd ■ Bharti AXA General Insurance Company Ltd ■ Bharti AXA Life Insurance Company Ltd ■ Bharti Enterprises (Holding) Private Ltd ■ Bharti Enterprises Ltd ■ Bharti Infotel Private Ltd ■ Bharti Infratel Ventures Ltd ■ Bharti Insurance Holdings Private Ltd ■ Bharti Overseas Private Ltd ■ Bharti Telecom Ltd ■ Bharti Ventures Ltd ■ Gemini Estates Private Ltd ■ Indus Towers Ltd and ■ Tierra Enviro Private Ltd

Name	Designation	Age	Qualification	Date of appointment	Experience	Directorships in other entities
Sarvajit Singh Dhillon	Non-Independent and Non-Executive Director	45	Bachelor's degree in Arts from Middlesex University, UK and a Master's degree in Business Administration from the Stanford University, US	Jan 2, 2012	Over 23 years of experience	<ul style="list-style-type: none"> ■ Beetel Teletech Ltd ■ Bharti Enterprises Ltd ■ Bharti Infratel Ventures Ltd ■ Bharti Retail Ltd ■ Bharti Telecom Ltd ■ Bharti Wal-Mart Private Ltd ■ Cedar Support Services Ltd ■ Centum Learning Ltd ■ Centum Work Skills India Ltd ■ Comviva Technologies Inc ■ Comviva Technologies Ltd ■ Guernsey Airtel Ltd and ■ Jersey Airtel Ltd
Sanjay Nayar	Non-Independent and Non-Executive Director	51	Bachelor's degree in Science (mechanical engineering) from University of Delhi and a post graduate diploma in management from the Indian Institute of Management, Ahmedabad	Jan 31, 2011	Over 27 years of experience	<ul style="list-style-type: none"> ■ Amalgamated Bean Coffee Trading Ltd ■ Avantha Power & Infrastructure Ltd ■ Coffee Day Resorts Private Ltd ■ Dalmia Cement (Bharat) Ltd ■ Dalmia Cement Ventures Ltd ■ Grameen Capital India Ltd ■ Heritage View Developers Private ■ Indian School of Business ■ KKR India Advisors Private Ltd ■ Magma Fincorp Ltd ■ Pratham Education Foundation ■ Pratham Institute for Literacy Education Vocational Training and ■ Valleyview Probuild Private Ltd
Narayanan Kumar	Independent and Non-Executive Director	62	Fellow member of Indian National Academy	April 2008	40 years of experience	<ul style="list-style-type: none"> ■ Bharti Airtel Ltd ■ Cubbon Road Properties Private Ltd ■ eG Innovations Private Ltd ■ eG Innovations Pte. Ltd, Singapore ■ Entertainment Network (India) Ltd ■ Madhura Kumar Properties Private Ltd ■ Madhuram Narayanan Centre for Exceptional Children ■ Madras Cricket Club ■ MRF Ltd ■ N K Trading and Consultancy Private Ltd ■ Nani Palkhivala Arbitration Centre ■ Singapore India Partnership Foundation ■ Take Solutions Ltd and ■ Times Innovative Media Ltd

Name	Designation	Age	Qualification	Date of appointment	Experience	Directorships in other entities
Vinod Dhall	Independent and Non-Executive Director	68	Bachelor's degree in Law from University of Delhi and a Master's degree in Mathematics from University of Allahabad	Sep 3, 2012	About 27 years of experience in various fields including competition law, corporate affairs and economic regulation and finance	<ul style="list-style-type: none"> ■ Asian Hotels (North) Ltd ■ ICICI Prudential Life Insurance Company Ltd ■ ICICI Prudential Pension Funds Management Company Ltd ■ ICICI Prudential Trust Ltd and ■ Schneider Electric Infrastructure Ltd
Jitender Balakrishnan	Independent and Non-Executive Director		Bachelor's degree in Mechanical Engineering from University of Madras and a Diploma in Industrial Management from University of Bombay	Sep 3, 2012	39 years of experience	<ul style="list-style-type: none"> ■ Aditya Birla Finance Ltd ■ Bharti AXA General Insurance Company Ltd ■ Bharti AXA Life Insurance Company Ltd ■ Boruka Power Corporation Ltd ■ Binani Industries Ltd ■ Equinox Realty and Infrastructure Private Ltd ■ Essar Services India Ltd ■ Essar Steel India Ltd ■ IL&FS Investment Managers Ltd ■ India Glycols Ltd ■ Magus Estates and Hotels Ltd ■ Polyplex Corporation Ltd
Bharat Sumant Raut	Independent and Non-Executive Director	63	Certified chartered accountant and a fellow member of ICAI	Sep 3, 2012	42 years of experience in law and accountancy	<ul style="list-style-type: none"> ■ Bharti AXA General Insurance Company Ltd ■ Bharti AXA Life Insurance Company Ltd ■ FIL Trustee Company Private Ltd ■ Geltec Private Ltd ■ IDFC Pension Fund Management Company Ltd ■ i-flex Solutions Trustee Company Ltd ■ Tuscan Ventures Private Ltd and ■ Universal Medicare Private Ltd
Leena Srivastava	Independent and Non-Executive Director	52	Doctor of Philosophy from Indian Institute of Science	Nov 5, 2012	NA	<ul style="list-style-type: none"> ■ Strategic Media Works Private Ltd ■ TERI Technologies Ltd and ■ Torrent Pharmaceuticals Ltd
Murray Philip King	Non-Independent and Non-Executive Director	53	Bachelor's degree in commerce from University of Queensland and is a member of the Institute of Chartered Accountants in Australia	Nov 5, 2012	32 years of experience in finance and accounting	<ul style="list-style-type: none"> ■ AKAL Pty Ltd ■ Alpha West ERP Pty Ltd ■ Alpha West Holdings Pty Ltd ■ Alphawest Pty Ltd ■ Alphawest Services Pty Ltd ■ AUE Music TV Pty Ltd ■ AUEVR Music TV Pty. Ltd ■ AUSSAT Finance Ltd ■ Aussat New Zealand Ltd ■ Billing Services Australia Pty Ltd ■ BKAL Pty Ltd

Name	Designation	Age	Qualification	Date of appointment	Experience	Directorships in other entities
						<ul style="list-style-type: none"> ■ Cable & Wireless Optus Satellites Pty Ltd ■ CV Services International Wholesale Pty Ltd ■ Evolution IS (ACT) Pty Ltd ■ Evolution IS Pty Ltd ■ Inform Systems Australia Pty Ltd ■ Membertel Pty Ltd ■ Microplex Pty Ltd ■ Optus Administration Pty Ltd ■ Optus Backbone Investments Pty Ltd ■ Optus Billing Services Pty Ltd ■ Optus Broadband Pty Ltd ■ Optus Data & Business Holdings Pty Ltd ■ Optus Data Centres Pty Ltd ■ Optus E_Commerce Pty Ltd ■ Optus E_Solutions Pty Ltd ■ Optus Finance Pty Ltd ■ Optus Insurance Services Pty Ltd ■ Optus Internet Pty Ltd ■ Optus Investments Pty Ltd ■ Optus Kylie Holdings Pty Ltd ■ Optus Mobile Holdings Pty Ltd ■ Optus Mobile Investments Pty Ltd ■ Optus Mobile Pty Ltd ■ Optus Multimedia Pty Ltd ■ Optus Narrowband Pty Ltd ■ Optus Network Investments Pty Ltd ■ Optus Networks Pty Ltd ■ Optus Rental & Leasing Pty Ltd ■ Optus Retailco Pty Ltd ■ Optus Share Plan Pty Ltd ■ Optus Stockco Pty Ltd ■ Optus Systems Pty Ltd ■ Optus Vision Interactive Pty Ltd ■ Optus Vision Investments Pty Ltd ■ Optus Vision Media Pty Ltd ■ Optus Vision Pty Ltd ■ Path Communications Pty. Ltd ■ Perpetual Systems Pty. Ltd ■ Prepaid Services Pty Ltd ■ Reef Networks Pty Ltd ■ Satellite Platform Investment Pty Ltd ■ Sibalo Pty. Ltd ■ SIMPlus Mobile Pty Ltd ■ Singapore Telecom Australia Investments Pty Ltd



Name	Designation	Age	Qualification	Date of appointment	Experience	Directorships in other entities
						<ul style="list-style-type: none"> ■ Singapore Telecom Australia Pty Ltd ■ SingTel Optus Pty Ltd ■ Source Integrated Networks Pty Ltd ■ The Net Effect Pty. Ltd ■ Ubowireless Pty Ltd ■ UE Access Pty Ltd ■ UE Vialight Pty Ltd ■ UEComm Operations Pty Ltd ■ UEComm Pty Ltd ■ UECOMM Share Plans Custodian Pty Ltd ■ United.com Pty Ltd ■ Unwired Australia Pty Ltd ■ Vanilla Shelf Co No.2 Pty Ltd ■ Virgin Mobile (Australia) Pty Ltd ■ Virgin Mobile (Australia) Services Pty Ltd ■ Virgin Mobile Pty Ltd ■ Vividwireless Group Ltd ■ Vividwireless Pty Ltd ■ VR Music TV Pty Ltd ■ World Wide Web Pty. Ltd ■ XY Zed LMDS Pty Ltd ■ XYZED LMDS Holdings Pty Ltd and ■ XYZED Pty Ltd

Source: DRHP

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