



Spice Communications

IPO Fact Sheet

Issue details

| | |
|-----------------------------------|--------------------------|
| Issue opens: | June 25, 2007 |
| Issue closes: | June 27, 2007 |
| Issue size: | 11.3 crore equity shares |
| Reservation for employees: | 0.2 crore equity shares |
| Fresh issue to public: | 11.1 crore equity shares |
| Face value: | Rs10 each |
| Break-up of fresh issue to public | |
| - QIB's portion: | 6.7 crore shares |
| - Retail portion: | 3.3 crore shares |
| - Non-institutional portion: | 1.1 crore shares |
| Price band: | Rs41 to Rs46 |

Objects of the issue

The objects of the issue are to achieve the benefits of listing on the stock exchanges and to raise funds for (a) part payment of the company's long-term debt; (b) the payment of the long distance (ie national long distance [NLD] and international long distance [ILD]) licence fees; (c) capital expenditure requirements; (d) other general corporate purposes; and (e) meeting the expenses of the issue.

Proposed utilisation of issue proceeds

| Particulars | Rs crore |
|---|----------|
| Part payment of long-term debt | ND |
| Licence fee for NLD/ILD and related capital expenditure | 63.6 |
| Network equipment and other capital expenditures | 177.6 |
| General corporate purposes | ND |
| Issue expenses | ND |

ND: Not disclosed

Shareholding pattern

| Shareholder category | Pre-issue | | Post-issue | |
|----------------------------|---------------------|--------------------|---------------------|--------------------|
| | No of equity shares | % of share capital | No of equity shares | % of share capital |
| Promoters | 281,489,370 | 48.8 | 281,489,370 | 40.8 |
| Institutions | 18,406,678 | 3.2 | 18,406,678 | 2.7 |
| Telecom Malaysia (TMI) | 270,450,600 | 46.9 | 270,450,600 | 39.2 |
| Others (including public) | 6,467,241 | 1.1 | 119,578,352 | 0.9 |
| Total share capital | 576,813,889 | 100.0 | 689,925,000 | 100.0 |

Company background

Spice Communications Ltd (SCL) commenced operations in 1997 as a cellular service provider in the telecom circles of Punjab and Karnataka. The company was the first cellular service operator to commence commercial operations in the Punjab circle. As in end of May 2007, the company had a subscriber base of around 3 million users. It is the second largest operator in Punjab with a subscriber base of 2.05 million and market share of 23.9% of the total wireless subscriber base in the circle. In Karnataka, the company has a base of 0.95 million subscribers and market share of 7.5%, making it the fifth largest wireless operator in the circle. It has a combined market share of 14.4% in the two circles and 1.7% share of the all-India wireless subscriber base.

The company is promoted by the BK Modi group and headed by Dilip Modi. It has roped in Telecom Malaysia (TM), a major regional telecom player, as a strategic investor in the company. TM through its Indian subsidiary TMI holds a 46.9% stake in the pre-issue paid-up equity capital whereas the Modi group holds a 48.8% stake in the company.

Key strengths

Consolidating its position in the existing circles

After the entry of the strategic investors into the company in the form of TM in May 2006, SCL has made significant investments in the two existing circles. For instance, the company has aggressively increased the number of cell sites by 81.6% to 2,377 sites (a 68% increase in Punjab and over

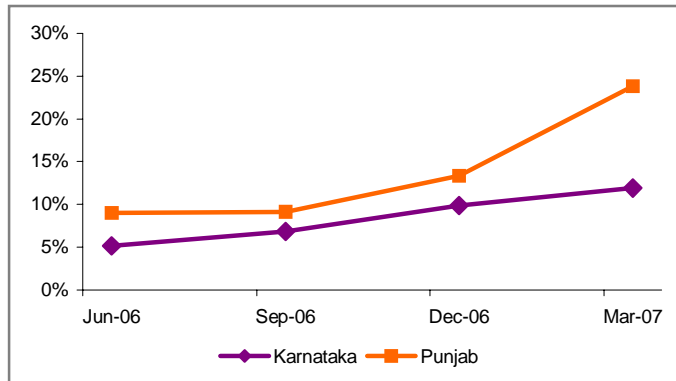
100% growth in Karnataka) in the nine-month period June 2006 to March 2007. This has enabled the company to substantially expand its coverage to 817 towns as compared to 454 towns in June 2006.

Investing in infrastructure

| | Jun-06 | Mar-07 |
|----------------------|--------|--------|
| Cell sites | | |
| Punjab | 809 | 1358 |
| Karnataka | 500 | 1019 |
| Towns covered | | |
| Punjab | 374 | 587 |
| Karnataka | 80 | 230 |

The aggressive investment made in building the infrastructure and expanding the coverage has resulted in a gradual improvement in the company's share of monthly net subscriber additions and the overall market share in the two circles. Its market share improved by 86 basis points to 7.5% in Karnataka over the nine-month period ended March 2007. On the other hand, it has been able to effectively deal with the aggressive push by Bharat Sanchar Nigam in the Punjab circle in the last one year.

Improving share of net adds (% of total wireless subscriber additions/quarter)



Source: Sharekhan Research

This clearly reflects the management's ability to build on the infusion of fresh funds by the TM group. The strategic investment also provides the company an opportunity to leverage the operational expertise, technology capabilities and marketing skills of the TM group, which is a major regional telecom player with investments in various Asian countries such as Sri Lanka, Bangladesh, Indonesia, Cambodia, Singapore and Pakistan.

Aggressive expansion plans

SCL has applied to regulatory authorities to provide cellular services in additional 21 circles throughout India to establish a pan-India presence. The expansion strategy involves a

gradual built-up of nationwide cellular services through a mix of organic and inorganic initiatives. However, the company has still not received approval from the regulatory authorities and would face technical issues like the allocation of spectrum that could derail its organic expansion plans.

The company is also likely to face constraints in terms of raising resources for expansion. Over the next two years, we believe that the company would require around \$200-250 million of investments in the existing circles to further increase coverage to maintain its market share and roll out long distance telephony services. Consequently, the plan to roll out cellular services in 21 new circles appears to be over ambitious. Perhaps the company could gradually enter into one or two more circles and operate on a cost-effective model of sharing the infrastructure (ie cell sites) already set up by the existing operators or by infrastructure outsourcing companies. Even in the existing circles the company owns only 35% of cell sites. However, any move to expand into new circles would require another round of funding that would lead to further dilution in the equity base.

On the positive side, the company has received a letter of intent from the Ministry of Communications and IT for providing NLD and ILD services. The company is expected to begin rolling out the long distance network from the last quarter of the current calendar year. For the ILD services, SCL is expected to leverage the synergies of the TM group's investment in all submarine cables landing in Malaysia and their access to capacity in the other submarine cable networks globally.

Comparable operational parameters

Despite competing with most of the leading wireless service providers in its existing circles, the company has healthy operational parameters. For instance, the company's average revenue per unit (ARPU) at Rs368 is higher than that of some of the other leading service providers. The contribution of the non-voice business is also relatively decent which has resulted in revenue per minute of Rs0.79, in line with that of the other operators, in spite of its limited footprint.

Comparable on key operational parameters

| | RComm | BAL | Idea | Spice@41 | Spice@46 |
|--|-------|------|------|----------|----------|
| ARPU (Rs) | 360 | 406 | 332 | 368 | 368 |
| Revenue/MOU | 0.74 | 0.86 | 0.82 | 0.79 | 0.79 |
| Non voice revenues (% of mobile revenues) | 6.8 | 10.1 | 9.2 | 8.9 | 8.9 |

Concerns

Intense competition

The Indian telecom sector is highly competitive with five to six operators providing wireless service in each of the telecom circles. The tariffs are one of the lowest globally and the marginal players with limited footprint are at a disadvantage compared to pan-India players due to their scale of operations.

The intense competition would only heighten the consolidation process in the telecom industry. SCL has already been in news for a possible merger or acquisition by another large-sized wireless player. SCL would continue to be an attractive candidate for possible merger & acquisition activity in the industry.

In an investment mode

SCL plans to foray into long distance telephony services and possibly expand into additional circles. Consequently, the company would have to incur huge capital expenditure and would be at a disadvantage as compared to the incumbent players in those circles. This is likely to put pressure on its profitability and cash flows over the next couple of years.

No NSE listing

As per the issue document, the scrip would be listed only on the Bombay Stock Exchange as it does not meet the net worth criteria of the National Stock Exchange (NSE). This could potentially act as a disadvantage for the stock due to clear preference of foreign institutions to trade on the NSE. However, the management believes that after the public issue the company's net worth would improve and make it eligible for listing on the NSE.

Valuation

In terms of peer comparison, SCL is offered at a substantial discount to its peers on enterprise value (EV) per subscriber basis. At the given price band of Rs41-46, the stock is offered at 44-48.5% discount to valuations of \$551.6 commanded by Idea. Similarly, on market cap-to-sales basis also, the stock is offered at a steep discount to its peers. However, the valuations are in line with the peers on EV/earnings before interest, tax, depreciation and amortisation (EBITDA) basis.

Given the steep discount to its peers (on EV/subscriber and market cap/sales basis), the offer price leaves some scope for appreciation over the long term and offers an

opportunity to investors to invest in the fast growing Indian telecom sector. Moreover, the pre-issue placement of 24.9 million shares at a price of Rs45 each to foreign institutional investors (including Lehman Brothers) and some other domestic investors would act as a reference price. However, we do not expect huge listing gains.

Offered at a steep discount to its peers

| | Reliance Comm | Bharti Airtel | Idea | Spice @41 | Spice @46 |
|--|------------------|------------------|---------|--------------|--------------|
| CMP (Rs) | 513.0 | 825.5 | 116.5 | 41.0 | 46.0 |
| EV (\$ million) | 29,152.0 | 39,485.0 | 8,420.0 | 853 | 924 |
| Subscriber base (in mn as on end May 2007) | 29.8 | 40.7 | 15.3 | 3.0 | 3.0 |
| EV/Sub (\$) | 979.9 | 969.1 | 551.6 | 283.6 | 307.4 |
| Adjusted EV/Sub (\$)* | 647.3 | 808.2 | 551.6 | 283.6 | 307.4 |
| EV/EBITDA | 21.4 | 21.5 | 23.3 | 20.4 | 22.2 |
| Mcap/Sales | 7.1 | 8.5 | 6.9 | 3.7 | 4.1 |

* Enterprise value (EV) of Reliance Communications and Bharti Airtel is adjusted for the value of the non-mobile service businesses

In case of SCL, revenue and EBITDA figures of the fiscal ended December 2006 (six-month period) are annualised for calculation.

Financials

Profit and loss account

Rs (cr)

| Particulars | Mar-04 12 mth | Mar-05 12 mth | Mar-06 12 mth | Dec-06 6 mth |
|--------------|------------------|------------------|------------------|-----------------|
| Revenue | 536.3 | 606.6 | 661.5 | 385.1 |
| Other income | 18.6 | 36.9 | 18.8 | 8.8 |
| Expenditure | 385.9 | 440.1 | 514.9 | 300.5 |
| PBIDT | 169.0 | 203.4 | 165.4 | 93.4 |
| Interest | 68.1 | 71.9 | 87.0 | 63.8 |
| Depreciation | 123.5 | 123.9 | 145.8 | 71.0 |
| PBT | -22.5 | 7.6 | -67.4 | -41.3 |
| Tax | 0.0 | 1.8 | 1.3 | 0.5 |
| PAT | -22.5 | 5.8 | -68.7 | -41.8 |

Balance sheet

Rs (cr)

| Particulars | Mar-04 12 mth | Mar-05 12 mth | Mar-06 12 mth | Dec-06 6 mth |
|--------------------|------------------|------------------|------------------|-----------------|
| Equity capital | 551.9 | 551.9 | 551.9 | 551.9 |
| Reserves | -581.2 | -573.8 | -642.5 | -684.4 |
| Misc expenditure | -1.1 | -0.8 | -23.5 | -28.1 |
| Net worth | -30.3 | -22.6 | -114.1 | -160.5 |
| Debt | 1081.6 | 1076.2 | 1107.3 | 1207.9 |
| Capital employed | 1051.2 | 1053.5 | 993.2 | 1047.4 |
| Fixed assets | 892.4 | 872.9 | 908.8 | 993.5 |
| CWIP | 23.9 | 27.2 | 31.9 | 44.1 |
| Net current assets | 134.9 | 153.5 | 52.5 | 9.7 |
| Capital deployed | 1051.2 | 1053.5 | 993.2 | 1047.4 |

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