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## CRISIL Equities assigns IPO grade 2/5 to YOU Broadband & Cable India Limited

CRISIL Equities has assigned a CRISIL IPO grade of "2/5" (pronounced "two on five") to the proposed initial public offer (IPO) of YOU Broadband & Cable India Limited (YOU Broadband). This grade indicates that the fundamentals of the IPO are below 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 YOU Broadband reflects the company's presence in two growing sectors – broadband and cable television distribution (YOU Broadband is present in the cable television distribution business through its associate company – Digital Outsourcing Private Ltd, where it has 36.24% stake). The company has been able to sustain its market share of internet subscribers in the past four years. CRISIL Research expects the number of households with internet access to log a healthy growth rate of 22% over FY10E-FY13, which would support YOU Broadband's growth. The company has also grown in the cable television business through the acquisition of various multi-service operators (MSOs). The company stands to benefit from the synergies of bundling broadband and television to its subscribers, resulting in higher revenues and economies of scale.

The grading is tempered by the high degree of competition in the broadband industry which has led to a fall in average revenue per subscriber (ARPU), resulting in low margins for players. YOU Broadband has a relatively weaker competitive positioning in the broadband industry which is dominated by the telecom behemoths that have a market share of 80-85%. The future growth of YOU Broadband, to a large extent, depends on the company's ability to successfully acquire local cable operators (LCOs) and to cross-sell its internet offering. However, the strategy to acquire and integrate LCOs faces execution challenges. The grading is also constrained by the high degree of competition in cable television from direct-to-home (DTH) operators, many of whom have strong parentage and financial muscle. The company is also highly dependent on the IPO proceeds to fund its growth plans and any delay in fund raising would adversely affect these plans.

### About the company and the issue

YOU Broadband & Cable India Limited was originally incorporated as NetShastr Facilities India Private Limited in November 2000. The company was originally promoted by BG India Telecom (Mauritius) Limited (BGITML), which in turn was controlled by British Gas Asia Pacific Holdings Pte Limited. In June 2006, the entire shareholding of British Gas Asia Pacific Holding in the issued share capital of BGITML was transferred to Citigroup Venture Capital International Growth Partnership Mauritius Limited (CVCI). In FY08, YOU Broadband acquired a strategic stake in Digital Outsourcing Private Limited (DOPL), its associate company which is in the business of cable television distribution. As on March 31, 2010, YOU Broadband held a 36.24% stake in DOPL.

YOU Broadband holds a pan-India category "A" ISP licence for the broadband internet services, as well as an infrastructure provider category – I (IP-I) licence, which permits it to lease the passive networking infrastructure to other service providers. As on March 31, 2010, YOU Broadband had operations in 11 cities across India. YOU Broadband's associate company DOPL was incorporated in February 2007 and has since grown substantially in size primarily through acquisition of MSOs and LCOs in various cities across India. As on March 31, 2010, DOPL had cable television operations in 10 cities across India.

YOU Broadband's board comprises five directors of whom one is an executive director, two are non-executive directors and two are independent directors. The board is chaired by Mr Girish Kasthuri Rangan who joined as an independent director in May 2007. The Managing Director and CEO of the company, Mr Eyyuni Venkat Srinivas Chakravarthy, has over 10 years of experience in the cable television and broadband industry. The company also has a strong and experienced second line of management in place. Majority of them are highly experienced in broadband operations.

YOU Broadband is planning to raise Rs 3,600 mn from the IPO. The IPO proceeds will be utilised to incur capital expenditure with respect to the broadband business, to acquire additional shares in DOPL, for further investment in DOPL for incurring capital expenditure with respect to the cable television business, to meet working capital requirements, to pre-pay an outstanding loan and to finance general corporate expenses.

YOU Broadband's revenues grew at a two-year CAGR of 29% to Rs 739 mn in FY09. EBITDA for FY09 turned positive to Rs 99 mn compared to EBITDA loss of Rs 128 mn in FY08 and Rs 84 mn in FY07. Net profit margin for FY09 also improved over FY08 but continued to be in the red at -20.3%, primarily because of high depreciation cost. In FY09, return on net worth was -6.8%, a stark improvement from -15.6% in FY08 and -19.5% in FY07. The debt-equity level was very low at 0.05 times in FY09. For the half-year ended September 2009, the company posted a net loss of Rs 91 mn on a top line of Rs 356 mn.

### About CRISIL IPO Grading

CRISIL IPO (Initial Public Offering) grading is an opinion on the fundamentals of the graded issue that reflects CRISIL's independence and expertise. This opinion is expressed as a relative assessment in relation to other listed equity securities in India. The assessment is based on a grading exercise carried out by industry specialists from CRISIL Research. A CRISIL IPO Grade 5/5 indicates strong fundamentals and a CRISIL IPO Grade 1/5 indicates poor fundamentals. CRISIL IPO Grading reflects its assessment of the graded company's equity fundamentals as distinct from an assessment of debt fundamentals. A CRISIL IPO Grade should not be construed to mean a comment on the price of the graded security nor is it a recommendation to invest or not to invest in the graded security.

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