

Idea Cellular

COMPANY BACKGROUND

Idea Cellular Limited (Idea) is the fastest growing telecom service provider in India. The company's origins extend back to 1995, and it started its commercial operations in 1997 in Maharashtra and Gujarat states. Idea expanded into other service areas through a combination of organic growth and acquisitions.

In late 2006, the Aditya Birla Group consolidated majority ownership over Idea and assumed management control. In February 2007, Idea

engaged in an initial public offering to raise the capital necessary to support a network expansion. The Aditya Birla Group (Birla) now owns 57% of Idea. Private equity investors Providence Equity Partners, Inc. and Citigroup Global Markets (Mauritius) hold a combined 17.7%. The remaining 24.6% is held by approximately 350,000 individual shareholders.

IDEA CELLULAR'S INCLUSIVE BUSINESS MODEL

When Aditya Birla Group took over, Idea's new management reoriented the company's strategy to focus network expansion mostly in India's remote areas where demand is both high and underserved. The company also built a distribution network of 1,520 branded service centers and more than 700,000 multi-brand retail outlets around the country as of March, 2009. These investments have enabled Idea to serve customers at the base of the economic pyramid by bringing coverage to rural areas and achieving economies of scale that help keep prices low.

Idea's approach has also included a suite of products and services customized to meet the needs of rural and low-income consumers. For example, Idea has launched small recharge sachets in denominations as low as \$0.20. The company provides value-added services such as "music on demand," which has been particularly successful in rural areas where FM radio does not reach. Idea's media and advertisement campaigns are also conducted primarily in local languages to reach out to rural users.

Most recently, Idea has been working to extend its reach specifically to consumers who cannot afford their own phones through a Pocket Public Calling Offices (PPCO) project. PPCO is at once a product of Idea's expansion efforts and a part of its strategy for further growth. The company considers PPCO a commercial project, and as such it was developed via Idea's standard business development process: concept documentation, management approval, product configuration, testing, and full commercial launch.

PPCO is a shared access model in which a mobile phone is used as a public phone operated by a micro-entrepreneur. To develop the model, Idea partnered with IFC to leverage its experience with shared phone

projects around the world. Central to the model is a grassroots-level partnership, originally brokered by IFC, with India's Self-Employed Women's Association (SEWA). With limited financial support from IFC, SEWA fulfills critical project functions, namely:

- Providing access to the information and relationships required to partner with rural micro-entrepreneurs
- Financing micro-entrepreneurs to purchase and operate PPCO equipment
- Training and building the capacity of PPCO operators

While Idea provides overall management for the project and ensures regulatory compliance, SEWA is responsible for identifying and screening PPCO operators and providing them with training in their local languages. SEWA gives PPCO operators the financing to purchase PPCO equipment—including a handset, shared phone software, SIM card, and airtime for about \$35, or just a SIM card for about \$11 for operators who already own their own phones. This financing, in turn, provides the organization with interest income. SEWA also provides PPCO operators with technical support and collects data for monitoring and evaluation purposes.

PPCO operators are responsible for maintaining PPCO equipment, promoting their businesses, and maintaining accurate call records. PPCO operators generate income by selling airtime to their communities, for which Idea pays a 20–47% commission depending on the volume of airtime an operator sells each month. Operators may also have additional revenue streams such as phone recharging and sales of prepaid cards to customers who own their own phones.

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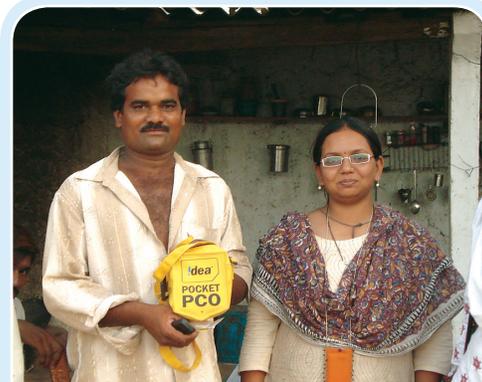
DRIVERS FOR IDEA CELLULAR'S INCLUSIVE BUSINESS MODEL

- To increase the number of Idea customers
- To increase the number of transactions per consumer
- To increase brand awareness, remain competitive, and increase market share
- To maintain Aditya Birla Group's reputation as a socially responsible company by expanding access to telecommunications services and economic opportunities

The primary driver for Idea's inclusive business model was significant pent-up demand throughout India, especially in semi-urban and rural areas where 2008 telephone penetration or "teledensity" averaged approximately 6%. This compares with 40% teledensity for India as a whole, still less than half the average for Asia. The specific objectives of Idea's PPCO project were to extend the company's services

to 50 million new rural customers via 300,000 operators within three years.

An additional driver was the Aditya Birla Group's commitment to commercially sustainable, pro-poor approaches. The company's efforts have been enabled by measures by the Government of India to liberalize the telecommunications sector and introduce pro-competitive policies.



IFC'S ROLE AND VALUE-ADD

For Idea, IFC's value-add has been the combination of large-scale debt financing for network expansion and advisory services to help bring the benefits of network expansion even closer to the base of the pyramid through the PPCO project.

With respect to the PPCO project, IFC brought two distinct benefits. First, IFC offered expertise in the planning and management of shared phone models. Drawing on its experience with such models in multiple African countries, IFC was well-positioned to advise Idea and its implementing partner, SEWA, on appropriate business and operating models. Second, IFC's long-standing relationship with SEWA and its experience linking large corporations with micro, small, and medium enterprises allowed IFC to play a critical role brokering and facilitating the partnerships involved.

RESULTS OF IDEA CELLULAR'S INCLUSIVE BUSINESS MODEL

- 185% increase in subscribers to 60 million since 2007, approximately 40% of these in rural areas
- 2% increase in market share since 2007, from 9 to 11%
- 31% increase in revenues and 8% increase in EBITDA
- Increased access to telephony among rural and other previously underserved populations
- 1,228 PPCO operators in business in the pilot phase, earning 20–47% commissions
- Income and employment generation in the retail sector

Idea's overall inclusive business model, in which network expansion brings coverage to rural areas and economies of scale help keep prices low, has enabled the company to increase subscribers by 185% to 60 million since the network expansion began. Approximately 40% of these are in rural areas. During the same period, the company gained two percentage points of market share, reaching 11% percent. Idea's revenues increased by 31% from 2008 to 2009 to \$2.15 billion.

The PPCO project has helped facilitate customer acquisition in more rural, lower-income segments that previously had little access to mobile

telecommunications. PPCO has also created business opportunities for 1,228 PPCO operators in the pilot phase alone, each of whom earns between 20–47% on sales.

Idea's growth has also contributed to overall growth in the telecommunications sector, where increasing penetration has fueled competition and helped maintain affordability. Studies have shown that increasing penetration is also associated with GDP growth and poverty reduction. It is estimated, for instance, that a 10% increase in mobile phone density leads to a 0.6% increase in per capita GDP.⁴



IFC's Investment:

\$100 million in long-term debt financing

⁴ Waverman et al. 2005.