

iStreet Network Limited

CIN L51900MH1986PLC040232

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From : The Managing Director's desk
To : The Shareholders of the Company

Dear Shareholders,

I wish to inform you that, the BSE Exchange has introduced an additional surveillance measure called the Graded Surveillance Measure (GSM). As per the BSE Notice, GSM has been introduced so as to enhance market integrity and safeguard interest of investors. Abnormal price rise not commensurate with the financial health and fundamentals like Book Value, Fixed Assets, P/E multiple etc. along with 'certain objective criteria' were the basis for classifying a company into the GSM list and further classifying it into different stages

Recently, your company has been classified in **Stage 2** of the GSM list, wherein a shareholder who wants to buy the shares of your Company has to deposit 100% of the trade value as surveillance deposit. The notice says –

“Trade for trade with price band of 5% or lower as applicable and Additional Surveillance Deposit (ASD) of 100% of trade value to be collected from Buyer”

I thought of conveying to you all my co-shareholders as to what steps we are taking to deal with the present situation of GSM classification and if the same continues, the impact it would have on the company's business. I also have received concerns from various investors regarding their investments in the Company.

Due to GSM, 'free tradability' has become 'restricted tradability' for the shares of the company listed on BSE. This surveillance measure has brought forth a scenario wherein there is a restriction on buying the shares of your company on BSE and thus the existing shareholders do not have an exit route.

The team here at the company is working very hard in expanding the business and in raising the resources for funding the expansion. However, due to the GSM Notice of BSE and the subsequent classification of the company in Stage II, it would be extremely difficult for the company to raise the resources/funds for continuity and expansion of its business and shall certainly impact adversely the interest of the Shareholders/Investors. This classification of the company in GSM list is the biggest business risk the company has ever faced in recent times as it is detrimental to the interest of the Investors

The company has made a representation to the Exchange to convey that the company should not be part of GSM list. Extract from the representation is as under:




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We refer to your General Notice No. 20170303-29 dated March 3, 2017 in the captioned matter and also the telecom with our Managing Director Mr. Pradeep Malu on Friday April 28, 2017. Upon reading of the circular we understand our company's (iStreet Network Ltd.) name is included in the list as per the below mentioned captioned criteria:

“... abnormal price rise not commensurate with financial health and fundamentals like earnings, Book Value, Fixed assets , Net Worth, P/E multiple, etc...”

At the outset, we believe that our company has an excellent track record in general. The criteria for classifying companies into the said GSM list may not apply as such to us as we are in a NEW AGE business, we don't create fixed assets or book value and P/E multiple criteria don't apply to us at this stage of the project as we don't earn profits in the initial years. However, we create huge value of intangible assets – NETWORK of third party assets and building system and technology to orchestrate the same, which keep our OPEX and CAPEX negligible to low level.

We request you all to know about us more in detail, examine all the information provided by us from time to time to the shareholders through our website and look at our business model. The objective criteria analysis is not sufficient to understand our company and its value. We are providing you the following information and the facts about our project and the company and request you to remove our name from the said GSM list, as it does not fulfill the criteria.

1. New Age Business Valuation Trends – Research Document:

Barry Libert, Yoram (Jerry) Wind, Megan Beck examined 40 years of financial data for the S&P 500 companies to see how valuations trends have evolved along with business models and emerging technologies in collaboration with Deloitte. Their research findings published in Harvard Business Review in November, 2014 (<https://hbr.org/2014/11/what-airbnb-uber-and-alibaba-have-in-common>), and an extract from the report is here below which is highly relevant in this regard:

“When Facebook acquired the messaging service WhatsApp for \$19 billion in the spring of 2014, the question on everyone's mind was, does the service really merit a valuation of almost 20 times projected revenues?

WhatsApp's valuation may be extreme, but huge gaps between revenues and valuation are increasingly common. Cloud-based sharing service Dropbox received venture capital funding at a valuation of \$10 billion, or 40 times revenues. Airbnb.com raised funding at a valuation of \$10 billion, which would make it worth nearly 20 times its revenues — and worth more than Hyatt Hotels or Wyndham Worldwide. Taxi-replacement service Uber is currently raising funding and is expected to see a valuation of \$30 billion, estimated to be more than 15 times revenues. Most recently, Alibaba's IPO raised funds at a value approximately 10 times revenues.

*These companies represent a new trend in the types of business that investors prefer. Leaders of more traditional companies are left wondering why these upstarts merit such high valuations. **Are they more profitable? Do they see faster growth? Do they have higher return on assets and lower marginal costs?***

Our answer is yes — to all of the above.”



2. Quick History:

Mr. Pradeep Malu founded the Company in 1986; details about him are given in the latter part of this letter. The Company had successfully made an IPO in 1994. In 2013 the Company, after shareholder’s approval, had changed its name and successfully ventured into Internet Retail business. Promoter Mr. Pradeep Malu has over 15 years of experience on Internet based business and worked with large number of companies and brands. The vision of the Company is of Re-Engineering Retail with Innovation and Technology.

3. Our New Age Business:

eCommerce is transforming business world over. However, its India story is a bit different. India is the second most populous country in the world and still eCommerce (non-travel) has touched only approx. TWO percent of the population. India just doesn’t adopt technologies and processes the way technologies operate elsewhere around the world. Few inherent reasons like access, education (know-how), trust etc. keep it away from the last mile. It prompted us to innovate and adapt eCommerce process for India. We have evolved iStreet Bazaar a fusion of Offline-Online.

We launched iStreet Bazaar in January, 2014 and have been registering impressive growth consistently as we can see from the below figures. We have been consistently growing until 2016 September Quarter. Performance of 2016 December Quarter was weak due to demonetization. We are continuously expanding our team, technology, infrastructure and branding efforts to make deeper inroads into this unique project.

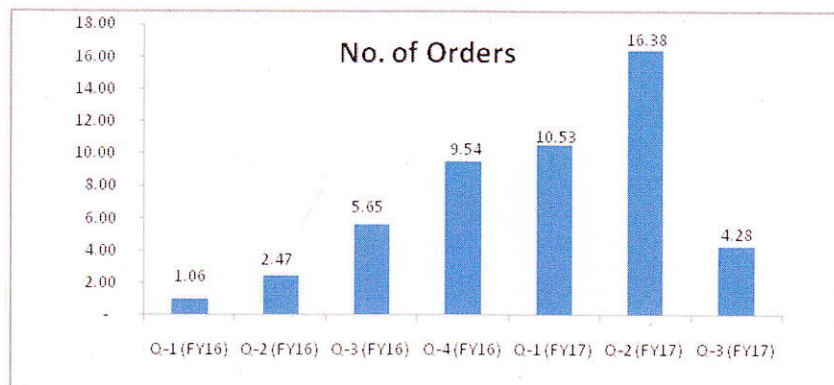


Figure 1: No. of Orders (in lacs)

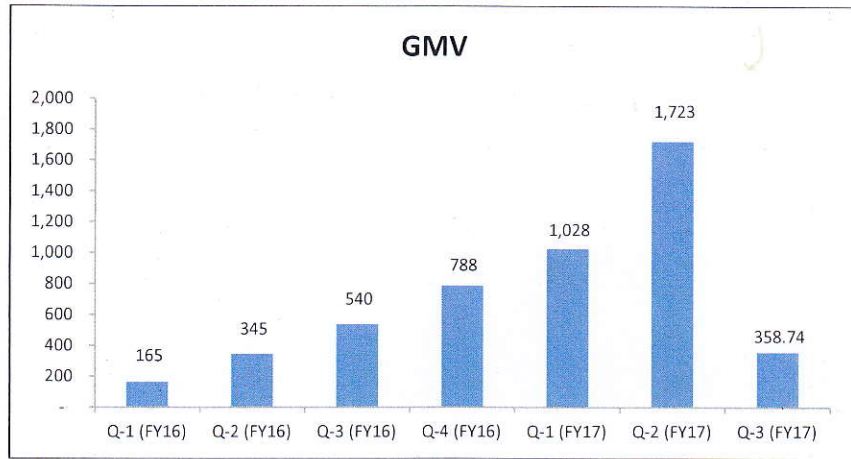


Figure 2: Gross Merchandise Value growth (Rs. in lacs)

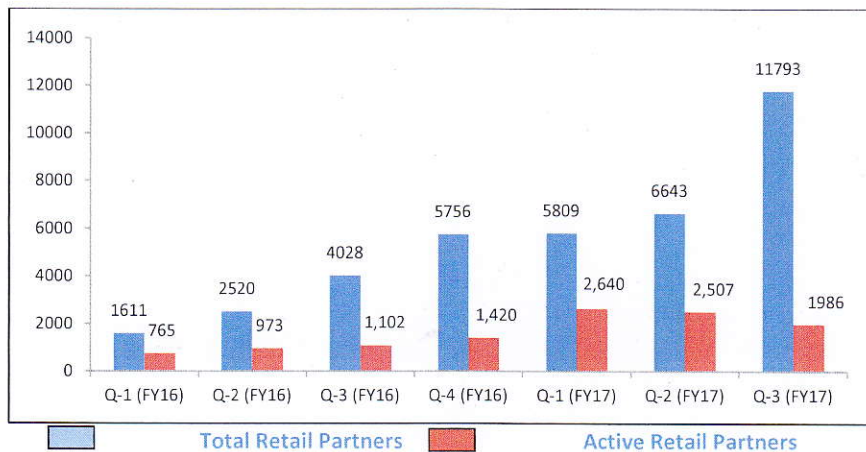


Figure 3: Growth in Network/Retail Partners

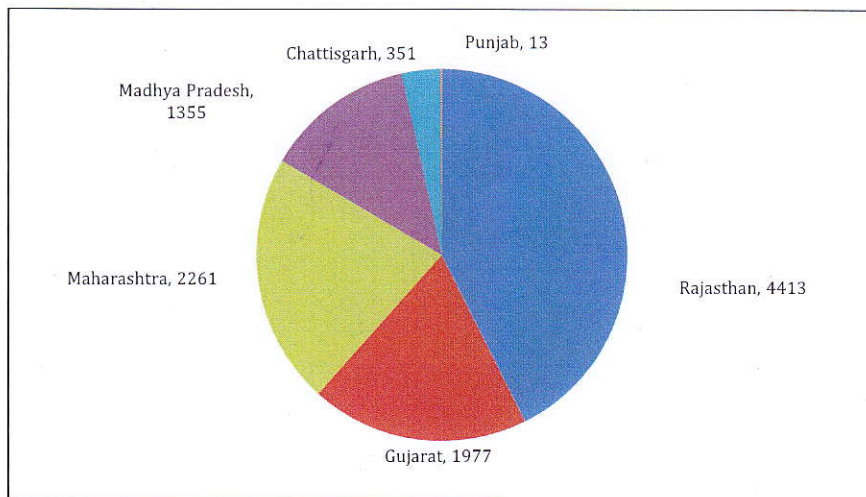


Figure 4: Geographical distribution of our Retailers

Q3 FY 2016-17 Performance: As a major chunk of orders placed on the website, and generally in retail, by the common people is paid through cash, the announcement of demonetization has had temporary adverse effect on the number of orders placed. The Company's business due to this transition has dropped steeply as compared to previous quarter. The company has taken steps and re-defined its strategy to grow faster in the changed environment with focus on incorporating digital wallets along with cash. The Company continues to believe that this effect is a temporary one.

It is a new out of the box concept, that it is empowering the common people of India to transact Online and is a very fast growing concept in eCommerce.

The Company has over a period received various accolades and recognition for being among the fastest growing Companies which are as below:-

- **'Startup project of the year' by Silicon India in November 2014**
- **'10 fastest Companies' by Silicon Review in February 2016.**
- **'10 fastest growing Retail Company' by Insight Success in September 2016.**
- **'Top 30 fastest Companies to watch' by Silicon Review in December 2016**

We have made huge amount of investments in technology, infrastructure, branding and promoting the concept. However, such investments don't create fixed assets like land, building, machineries etc. but create intangible assets like network of retailers, customers, supply chain, technology, last mile delivery infrastructure etc. Standard Accounting Practices or Generally Accepted Accounting Principles (GAAP) ignores assets or value creation of this kind of business like aggregating, orchestrating and managing 3rd party capabilities and assets in conducting and expanding the business, consumer basesentiment, and network altogether. Hence the same is not getting reflected in the financial statements like Balance Sheet or Profit & Loss account of the company.

Value of such enterprise is not based on traditional and conventional methods, as this is an asset light model. Business like ours in their first 10 years don't create fixed assets except operating assets. Book Value, Earnings, Net Worth etc. are not relevant for such enterprises in first 10 years of their project. This kind of enterprise creates huge intangibles like Network, 3rd party assets, customers, technology and so on.

4. Criteria for GSM –“*abnormal price rise not commensurate with financial health and fundamentals like earnings, Book Value, Fixed Assets, Net Worth, P/E multiple, etc.*”

We are in an 'asset light' business model hence we always continue to build our customer base, our partner retail network, technology and infrastructure to reach to tier II, III, IV cities and towns and villages of India. These numbers are huge. Our fundamentals shall be based on these criteria rather than Book Value, Fixed Assets, Net Worth etc. For the first few years, we don't make profits hence P/E multiple criteria is not applicable to us.

Now let us look at the criteria – ***abnormal price rise***. We would like to present someanalysis of the last 6 months trading data (from BSE website) of the script of our Company:

- Total number of trading session in last 6months: 125
- Total No. of trades: 14,911
- Average number of trades per day: 119
- Total No. of shares traded: 79,46,426
- Total No. of shares delivered: 64,06,315
- **Percentage of Delivery based Trades: 81% shows non-speculative trend**
- High/Low Price: Rs 22.90/Rs 13.00



- **Six months Weighted Average Price: Rs 17.75 – HIGH and LOW prices during this period are just in the range of +/- 30% of weighted average, which is not abnormal HIGH or LOW.**

We believe that our shareholders are well informed about the Company and its business. The top 250 shareholders of the Company as on March 31, 2017 out of the total 10,000 plus shareholders which hold around 78% of the total capital of the Company and they have been participating actively in the company's business through various IR / PR activities.

5. Compliance and Shareholders Value:

The Company has at all times maintained and upheld the highest governance practices and procedures by way of timely disclosures of applicable laws and regulations.

Shareholders interests are always treated as top priority. The response time to any complaint or query raised by shareholder is less than 48 hours in all cases. The Company in the last 3 years has received only 2 shareholders complaint on SEBI SCORES portal which were successfully resolved within the set timeframes

The Company emphasizes on building trust and integrity through transparent and accountable communication with the internal and external stakeholders which involves keeping the stakeholders of the Company informed via Press Releases on a timely basis about the development, the plans and the performance of the Company with a view to establish long term affiliation.

6. About Mr. Pradeep Malu, Promoter and Managing Director

He is founder and Managing Director of the Company since 1986. He is an entrepreneur. He has successfully set up and run a Pharmaceutical Manufacturing unit till 2012. Keeping the shareholders' interest at its highest level and with his hard and dedicated work, the company has successfully launched this highly innovative business concept in India. He is an eCommerce professional since 1999 and has completed large number of eCommerce projects in B2C, B2B and C2C space. His vision has led to the emergence of- iStreet Bazaar – India's first chain of Internet Retail Stores, which is about simplifying eCommerce and taking its reach to common people of India. It blends the look, feel and trust of the local Indian store with aspects of modern eCommerce like choice, convenience and quality. He advocates extension of benefit of digitalization to 'common man' as the core value driving the organization and building India towards 'Digital India'.

He is a recipient of '**Business Leader of the Year - 2015**' award from the Institute of Chartered Accountants of India.

He also acts as a teacher/volunteer in Teach India, which is a Times Group initiative to teach spoken English to the youth belonging to underprivileged sections of the urban society. He previously was the General Secretary of Bharat Vikas Parishad and worked under the Chairmanship of none other than Mr. S.S. Thakur, the founder chairman of HDFC Bank and former chairman of CDSL.

In fact, to fund the project, Mr. Malu sold off his shares in the company and funded the company's operations because he believes that the company is on a great project and creating huge value for the shareholders.



With this background and information, you would observe that the Company belongs to NEW AGE business, driven by technology and have only intangible assets which cannot be reflected in its financial data due to the Accounting Standards and thus the Company may not fall into GSM list.

We therefore, request you to kindly consider our request to remove us from GSM list.

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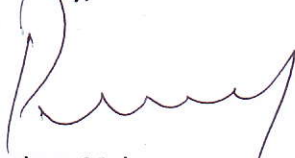
Taking the lead from this event, the company has taken certain steps in order to communicate and deal with such criteria which may classify the investments in the company as 'HIGH risk investments'. **The company is going to add a section in its website's 'Investors section' called "Risk Factor"**. This section shall contain Risk Factors as identified by the company and shall continue to be updated by providing relevant information from time to time.

I request all my shareholders to contact us in case they have any doubt about the business of the company . In case of queries and clarifications in this matter, you can write to Mr. Dipankar Basu, Company Secretary at dipankar@istreetnetwork.com. We will also continue to keep you informed through regular disclosure at the BSE and our websites – www.istreetnetwork.com

Thank you for your encouraging e-mails and phone calls, your inputs are extremely valuable to us in every step of our journey.

Thanking you,

Sincerely,



Pradeep Malu
Founder & Managing Director
DIN : 00001959



Date: May 8,2017