S Mobility Limited

Investor/Analyst Conference Call Transcript (Q4 FY13)
August 30, 2013

Moderator: Ladies and gentlemen, good day and welcome to the S Mobility Limited's Earnings Conference Call for year-ended 30th June 2013. As a reminder, all participants' lines will be in the listen-only mode. There will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. Ravi Sathe from CDR India. Thank you and over to you, Sir.

Ravi Sathe: Thank you. Good afternoon everyone and thank you for joining us on S Mobility results conference call for the period ended June 30th 2013. We have with us on the call the CFO of the company -- Mr. Subramanian Murali and R.S. Desikan, CEO of S Mobility. Before we begin I would like to add that some of the statements to be made in today's discussion may be forward-looking in nature and the statement in this regard is available in the con-call invite, which was e-mailed to you earlier. We will begin the call with opening remarks from the management following which we will have the forum open for an interactive question-and-answer session. I would now like to invite Mr. R.S. Desikan to share with you some perspective in performance and developments in the company.

R.S. Desikan: Thank you, Ravi. A very warm welcome to all present here for attending S Mobility's quarterly conference call. As you know, 30th June is not just the quarter ending it also happens to be year ending for us. On the call in addition to my colleague Murali who is the CFO, we also have Mr. T. Ramakrishnan who is the CEO of the Device business; Mr. Krishna Kumar (K.K) who is the CEO of the Retail business; and Mr. Saket Agarwal, who is the CEO of our Value Added Services, Spice Digital.

Now let me just walk you through some of the things which have happened in the last quarter as well as the last full year. We will discuss all segments separately. To begin with, I would like to give you a brief overview of the Indian Handset business.

We have witnessed a terrific transformation in the Mobile Ecosystem. The entire landscape is changing from Feature phones to Smartphones gradually. The Smartphones again are being driven by the 3G revolution which is taking place in the Telecom sector. In line with how we expected the 3G to become a primary mode of communication, subscribers have already started contributing to the 3G subscribership in volumes as well as in data consumption based on the input received from the telecom operators. Of course, they have invested a lot of money both in terms of the 3G licenses as well as in terms of 3G network rollout. However, the data consumption has not been as fast as it has been in some of the other South East Asian countries like Singapore or Malaysia. However, I think slowly we are almost reaching the point of inflection. By the end of 2012 there are almost 124 million internet connections in India which show a rise of almost 40% year-over-year. So, we believe that the 3G or the Smartphone revolution has just broken out in India. The ecosystem powered by the digital technology, the growth in penetration of broadband and the more sophisticated mobile devices at affordable prices is all actually good news for S Mobility. This is the overall industry scenario. Riding on the 3G Smartphone wave, we believe that we have good prospects ahead of us.

Moving on to our operational performance, several initiatives have aided us in gradually recover from the challenging phase that we faced in the last few quarters. As you know in the last year we did incur some of the products especially in the 2.5 G and the Smartphone like products, which actually did not meet customer expectations. So instead of just simply blindly rushing into 3G, we just took it a little bit slow and were relatively late in introducing 3G devices. Our actual and first Smartphone started appearing only towards the end of December and this also helped us to completely stabilize our Device business where we have done a lot of structural changes to meet with the market requirements when Ramki actually took over the business and started running the same in a much more efficient way. We will share more about the same later.

As far as the 3G products are concerned we introduced the all new Mi-Series. Various new products have been introduced starting from December. We have been having a stream of new product introductions. In terms of the Handset business, many of the price points have started declining. The features which were available earlier at Rs.10,000 are now available at Rs.6,000 or Rs.7,000 which enables us in expanding our reach to a much larger audience. We are extremely glad with the response that we have received for all the Smartphones that we have introduced in the last few months.

During the current year that is July'12 to June'13, in the first two quarters, the Devices business was completely re-focused on margins rather than revenue. The previous year in our anxiety to chase the revenue, we lost out on margins. So the first two quarters were consumed in re-focusing our business even if it meant foregoing a little bit of revenue which we did and we started introducing the new products towards the end of Q2 and Q3 and the results are clearly visible in Q4. While our entire focus was on stabilizing the business during Q1 & Q2, in Q3 and Q4 we started the growth phase introducing new products and so on. The Q4 results as Murali will share with you, reflects the excellent work done by the team which you will see in the financial results.

Now coming to the Retail business, our store count is currently at 654 stores spread across 80 cities, out of which 265 stores are present in major metros. Our store count during the year has decreased. Just as we did a certain restructuring in the Device business focusing on the margins and stabilizing the business, we did exactly a similar thing in Retail though with a slight time lag. We did not want to take up all the division refocusing and restructuring at the same time just to impart certain stability in the operation. So first we tackled the Device business, which stabilized by Q2, during Q3 and Q4 we started focusing on the Retail business. Many of the non-profitable and non-viable stores in the long run were identified and we even decided to close them. That is one of the primary reasons why the number of store count has actually come down. Simultaneously, in order to capitalize on the Smartphone or 3G phone wave, many of our stores have been upgraded to offer the Spice experience to the customers refered to as the Spice Version 2 stores, which have actually started doing pretty well. So during Q1 and Q2, our focus was on Devices. In Q3 the focus completely shifted to Retail. All the loss making/ non-viable stores were closed down during Q3 and in Q4 we started seeing the results - after a gap of about 2 or 3 quarters EBITDA turned positive in Q4 as far as the Retail business is concerned, which means the kind of turnaround we achieved in Devices, we also achieved in Retail, however, with a time lag of about a couple of quarters.

Now turning to VAS, I think the VAS environment in India has not been that encouraging. Lot of regulatory restrictions on how we do our business, how we acquire the customer, how we retain the customer are all highly regulated by TRAI and they have been issuing further guidelines and also implementing many of the guidelines in letter and spirit as also tightly monitoring them. So the net result is the domestic telco revenue has actually started declining.

Now in order to arrest the drop in revenue, we did two major things; we expanded our new service offerings in various other areas other than the ones which are controlled by the TRAI. Similarly, we also expanded geographically by expanding our footprint outside India where these regulations are really not applicable. So our international revenue has been improving. For example, as on 30th of June 2013, 42% of our revenue in VAS business is coming from international market. The growth in the market is primarily on account of services like CRBT, USSD and IVRS and so on. That is on the international market.

We also introduced an innovative product during the year which is in collaboration with ICICI Bank for payments. This is also for all the railway customers as we have introduced a new kind of a service jointly with the bank where the customer can easily book tickets using mobile platform. We also introduced some new innovative features like Spice Cloud which is similar to Apple's iCloud. In order to minimize any business risk we undertook the restructuring of the business in Q1/Q2 in the Devices business and in Q3 in Retail.

As far as VAS is concerned, we have innovated and introduced new products right through the year as well as increased the global footprint by increasing the global revenue; which means that the drop in the domestic revenue was compensated, to some extent, by the new service offerings as well as the international revenues. With all these features and the actions initiated in Q4, we achieved an EBITDA of almost Rs. 30 Crore for the quarter which is perhaps the highest amongst all the quarters.

Whatever run rate we wanted to achieve, we set it as a target and achieved it in Q4; though our endeavor was to achieve exactly the same in the earlier quarters. But, better late than never, we have achieved an EBITDA of Rs. 30 Crore which we believe is a sort of a reasonable number to go chasing for the current financial year starting from July. I will now request Mr. Subramanian Murali to take the conference forward to share with you the financial numbers. Over to you Murali.

Subramanian Murali: Thank you Mr. Desikan. Let me take you through a general overview of the key developments for S Mobility as a company and for the industry in the last quarter and also maybe even in the last 2-months starting from July. The industry as you are aware has been very dynamic in nature, and it has been facing a lot of challenges and recent currency fluctuations added to it. Earlier we had technology challenges, consumer trends, etc., now in the last 2-months from May, June onwards we have seen a new challenge which is the currency depreciation fluctuations, so much that you are all aware that the rupee has been going through a yo-yo in the last 3-4-months where in the calendar year it has depreciated by more than 20%. However, what is good is that the strategic initiatives which we have undertaken in the last few quarters, the results are evident today. I am happy to report that we made a profit after tax of Rs. 9.9 Crore for the quarter after adjusting minority interest for the quarter-ended June 2013 compared to loss of Rs. 5.1 Crore in the corresponding quarter last financial year which is April to June 2012. This is an encouraging performance during the period, clearly reflecting our endeavor in streamlining operations and focusing on profitable growth.

Let me take you through the performance of each of our business segments. As you are aware, and as Desikan mentioned, we have three lines of business; Mobile Devices under Spice brand, let me first start with that. For the Handsets business, volume increased 17% year-on-year and 4% quarter-on-quarter with 1.37 million Spice branded Handsets sold during the quarter ended June 2013. We are witnessing a significant growth in the North and East region. You are aware Spice is traditionally very strong in North and East. For instance, Delhi and Jaipur grew 34% year-on-year and Calcutta grew 141%. We continue to witness demand for Spice branded smartphones which we introduced as late as December 2012. We now offer a complete range of feature-rich, affordable Android based handsets which are gaining acceptance across the country. For example, during the quarter-ended June ’13, we introduced models like Mi-515 and the Mi-496 Spice Coolpad, Mi-502 Spice Smart Flo Pace, etc. which has received quite a good response with us not only with the consumer but also received a lot of good user reviews and technical reviews in the blogs.

Our overall ASP because of the Smartphone series has gone up to Rs. 1,361, up 5% compared to quarter-ended March 2013. Our Smartphone ASP stood at Rs. 5,635 during the quarter. It is again up 17% as compared to the quarter-ended March 2013.

Overall revenue for the quarter for the Device business stood at Rs. 180 Crore reflecting a year-on-year as well as a quarter-on-quarter growth of 13%. The positive impact of our focus on Smartphones has started yielding results. This is still in its early days because we have just crossed two quarters after launching Smartphones. With regards to profitability, gross margins have improved significantly quarter-on-quarter and year-on-year, and EBITDA margins stood at around 10% which are also significantly higher. PAT for the quarter was Rs. 12 Crore vs loss of Rs. 1.5 Crore in June 2012 and vs loss of 17 Crore for the quarter ended March 2013.

For the fiscal year ended June 2013 for the Handset business during the whole year, the total Handset volume stood at 5.7 million Devices, an annualized growth of 6% year-on-year. This is not very high. I would imagine that 6% year-on-year growth is not high, but considering the fact that we have focused on profitable growth and profit was one of the important factors, this is a growth which we witnessed.

Revenue for the year under review with respect to the Device business stood Rs. 718 Crore, which is actually an annualized decline of 13% year-on-year. Like I mentioned, we focused extensively in enhancing profitability and the gross margins for the whole year stood at 22-23% and an EBITDA margin of 9% during the year, again significantly higher than last year.

While the demand for the Spice branded devices is expected to remain steady, the recent depreciation of the rupee vs dollar is expected to have its share of damages on the industry as a whole. It is too early to comment on what is going to happen going forward but for the quarter ended June 2013 there was only a limited impact of foreign exchange fluctuations in our results because we had hedged our exposure almost 100% for the quarter-ended June 2013. Looking at the current economic scenario, I would say we have challenging times ahead of us. We have had price increase as you would have noticed other brands have also done. There has been a price increase of more than 5% in the last 15 days for all the brands. But we really need to see what is the impact on consumer uptake as well revenues in the coming quarters.

Moving on to the Retail front, we continue to streamline operations and shut non-profitable and non-viable stores like Mr. Desikan mentioned, to focus on better profitability. As on June 2013 our Retail Outlets stood at Rs. 654 across 80 cities vs 785 across 135 cities in the sequential quarter earlier. It clearly shows that we are kind of exiting few cities where it is not possible for us to gain market share. At the end of the day, retail is a city leadership position business. The Version 2 stores which provide a better customer experience and aid in driving higher ASPs, currently stand at 27 outlets across all major cities in India. We are also in the process of converting some of our existing Hot Spot stores to Version 2 stores. Smartphone sales continue to rise within our Retail Outlets, contributing 83% of our retail sales by value and 45% by volume. This increase in proportion of sale has positively impacted Retail ASPs which currently stand at Rs.7,668 indicating a growth of 16% Quarter-on-Quarter and 53% year-on-year.

The revenue for the Retail business stood at Rs. 223 crore for the quarter, up 18% quarter-on-quarter and down 29% year-on-year. Again, this reduction we discussed in the last conference call also that we exited certain non-retail businesses in the first two quarters and that has reflected in lower growth in Q3 FY13 compared to the corresponding quarter last year. But I am happy to report that we are positive at the EBITDA level in the Retail business during the quarter as against in the first three quarters where we were losing money at the EBITDA level, but in the last quarter because of the restructuring we did by closing stores and also by reduction of cost we are EBITDA-positive. We want to continue our focus on sale of Smartphones, which also enjoys higher margin and has contributed to profitability. Beyond EBITDA, the loss has contracted substantially during the quarter under review while EBITDA is positive, there is a loss at the PBT level which has also reduced substantially compared to the earlier quarters. The same-store sales growth stood at 14% Q-o-Q which is also a good sign.

For the fiscal ended June 2013 the Retail revenue declined 21% year-on-year on an annualized basis, again this is due to closure of non-profitable stores and focus on profitable revenues. Whatever rationalization measures we have undertaken during the fiscal year, impacted the profitability of the year in the first two quarters but in the fourth quarter we are at an EBITDA-positive level.

With regard to S Mobility's Value Added Services business which is Spice Digital, revenue stood at Rs. 64 Crore for the quarter; it is up 4% quarter-on-quarter; and it is 6% up year-on-year. This I am sure you will agree is a pleasant change compared to what we have been seeing in the last few quarters where there has been a decline in the revenue. This means that we have been able to arrest the slide in the domestic VAS revenues and our international VAS revenues are growing. I want to highlight that 42% of our total VAS revenues comes from international markets today. Revenue from new products stood at 68% of total revenue for the quarter ended June 2013 versus 36% last year same quarter.

The recent product introductions that Desikan talked about, Spice Cloud, SMS ticketing, mobile ticketing, Voice Tube, etc. are getting traction. We will continue to focus on launching innovative services to grow the market in our existing market as well as in new geographies.

EBITDA margin in this VAS business stood at 19% in the quarter ended June 2013 versus 20% June 2012 vs 16% in the quarter ended March 2013. This is a significant improvement in margins quarter-on-quarter, and has happened because of the reduction in content cost, no minimum guarantees and better revenue improvement. PAT however declined 12% quarter-on-quarter and 22% year-on-year. The primary reason is that we have made a provision of Rs. 10.5 Crore during the quarter towards impairing the goodwill created in a subsidiary company outside India. So this is kind of a one-off event and non-recurring in nature.

I also want to highlight that if you remember in our earlier conference call we discussed about exceptional item provision we created in the quarter ended December 2012 and I am happy to announce that we have been able to recover that money and we have written back the provision of Rs. 9.1 Crore during the quarter which has been shown again in the results as an exceptional item.

At a consolidated level, S Mobility's revenue for the quarter ended June 2013 stood at Rs. 445 Crore vs Rs. 512 Crore in June 2012 and Rs. 394 Crore for the quarter ended March 2013 quarter-on-quarter indicating a growth of 13%. EBITDA for the quarter stood at Rs. 30 Crore, substantially higher than that in March 2013 as well as June 2012 quarter. PAT after minority interest stood at Rs. 9.9 crore during the quarter ended 2013 versus Rs. 2.2 crore in March 2013 and a loss of Rs. 5.1 Crore in June 2012. So there is a significant improvement in the quarter results compared to earlier quarter as well as the last year same quarter. PAT during the quarter under review could have been higher if it was not for the impact of provision of Rs. 10.5 crore we have made which I talked about which is an impairment of a goodwill of a subsidiary company in the VAS business.

For the year ended June 2013 the revenue stood at Rs. 1,870 crore vs Rs. 2,738 crore in the 15-month ended June 2012, which is an annualized decline of 15% year-on-year. This again as I mentioned and Desikan mentioned is because of focus on profitable revenues and focus on improving profitable growth. EBITDA during the year stood at Rs. 54 crore versus Rs. 26 Crore in the 15-months ended June 2012. EBITDA margin stood 2.9% for the fiscal under review as compared to 1% in the corresponding year. Our initiatives in controlling inventory and reducing overheads has enabled improvement in gross margin and EBITDA. Net profit stood at Rs. 4.7 crore during the year ended June 2013 vs loss of Rs. 3.6 crore in the 15-month ended June 2012, a swing of Rs. 8.3 crore. Our PAT after minority interest stood at Rs. 5.5 crore during FY13 vs a loss of Rs. 9.7 crore, again a swing of Rs. 15 Crore.

We continue to remain strong as far as the cash position is concerned with cash on books of close to Rs. 240 crore. I want to highlight that the Company has declared a dividend of 50% for the year ended FY13 which is Rs.1.50 per share for the fourth consecutive year. This I think demonstrates the ability of the Company to not only manage the growth well but also ensure consistent returns to the shareholder year-on-year.

So just to conclude, our business has made strong advances over the past few years; we are trying to establish our position in the market in the Mobile Ecosystem. We are very positive with regards to the growing opportunities in each of our space which is Device, Retail and VAS within India and overseas. There are challenges in this turbulent sector which will continue and will probably make us tougher. I believe our team is well positioned to confront these challenges and leverage the emerging opportunities. With this we conclude our opening remarks and would be happy to take any questions and suggestions you may have. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question-and-answer session. Our first question is from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: The first question actually is on just the financials. If I look at, the continuous improvement particularly this quarter on your profitability, a large part of it, at least on the P&L side, has come from raw material cost being lower as a percentage of sales. I am presuming this is more of because of the Device division, which also from your segmental numbers seem to have turned profitable this quarter. If you can throw some light as to exactly how that has happened? Has it happened via your improving ASPs while keeping the bill of material at check?

Subramanian Murali: You are right, predominantly, there has been an increase in gross margins in the Devices business, but at the same time I would say that there has been quarter-on-quarter increase in gross margins however, not so significantly. But, there is an increase in Retail as well as in the VAS business. In the opening remarks I talked about EBITDA improving in VAS which is also because of improvement in gross margins in VAS. Coming back to the Devices gross margins improvement, it has happened due to a couple of reasons; one is because of the introduction of Smartphones which have higher ASPs and second is due reduction in overall cost of procurement and management of foreign exchange. So these two things have resulted in a lower cost of operations, cost of goods sold and resulted into better gross margins. You would notice that quarter-on-quarter it has improved. While with respect to the feature phones, there has been a steady increase in gross margins across because in the feature phone market, we are not aiming at huge volumes. You would see that there are three or four players in India who are selling over 1 million per month. We are at an average of about 500,000-600,000 per month. When we start aiming at higher volumes, you may find some decline in the gross margin percentage. But as far as the last eight quarters are concerned, our focus was more on higher margins, lower costs and higher EBITDA. So, we need to see if this will sustain because as we grow volumes, there will be some reduction in gross margins, but the answer to your question is yes, this is the reason

Srinivas Rao: When gross margins in your VAS and Retail business improve, which cost head gets impacted the most? Obviously, you divide cost heads into something like five broad cost heads – staff, network, raw materials, sales and others. So if there is an improvement in your Retail business, which cost head actually improves the most on a consolidated basis?

Subramanian Murali: If you are looking at the Clause 41 results that we declared, basically it is the first four heads which is your purchase of finished goods and freight, consumption of raw materials and components. As far as VAS is concerned, it is the connectivity in content cost, because in Retail and Devices business, the gross margin is nothing but the cost of procurement of material. In Devices, it is our procurement cost that is the cost of procurement in China, bringing into India and distributing within India. As far as Retail is concerned it is all we buy from vendors. So, vendors' gross margins is directly related to our increase in revenues and also our negotiating power with the vendors.

Srinivas Rao: Given the government's strenuous efforts to reduce our current account deficit and the No.3 import item for us after oil and gold is electronics, and mobile phones must be a very large proportion of that. Are you seeing any government directives/regulations which are likely to impair your ability to import from China?

Subramanian Murali: It is possible, because the government is now currently focusing on passing food subsidy bill and also increasing duties on television. But, yes, it is possible that they will focus on increasing duty on Mobile Handsets. Whether they do it or not, Mobile Handset prices will definitely increase because no manufacturer or importer will be able to absorb these kind of dollar-rupee fluctuations. In the month of August, there has been 14% depreciation in the value of rupee. So, I think eventually it will go up, but if you ask me whether it will result in contraction of demand I am not sure, because Mobile Devices are today like a fashion statement, especially the smartphone segment. Whether the demand will contract significantly, I do not think so.

R.S. Desikan: The other aspect is whether the duty increase will be uniform across the board or could it be based on a price point. Government may possibly increase the duty on Handsets above Rs.10,000 also.

Subramanian Murali: Last year, the government introduced duty on all phones whose selling price is more than Rs.2,000. It went up from 1% to 6%. Maybe they will do something similar and maybe for more than 10,000, they may increase. We do not know yet. I think the government has to first focus on stabilizing the rupee. So depends on where it stops, I think next set of actions may follow.

Srinivas Rao: You mentioned that the share of S-branded Handsets in Retail sales has a volume share of 19% and a value share of 6%. What I am asking is, is that something which is likely to convert, that is your value share moving up to catch up with your volume share?

Subramanian Murali: If you look at the domestic brands, Smartphone ASPs are significantly lower than the multinational brands. Domestic brands are actually growing their market share in Smartphones. Domestic brands have now taken almost 50% market share in the Smartphone segment. And Spice, like I mentioned, we just started two quarters before. So our value share and as well as volume share is not very significant within our Retail, but our objective is to increase this. Whether value share and volume share will be same, I do not think so, it will probably follow the same trend.

Srinivas Rao: Given what we have heard particularly in urban India and as you have a fairly strong footprint in the Delhi NCR region, are you seeing the weak consumer sentiment which we are witnessing across some other consumption categories – automotives, consumer goods. Are you seeing similar trends of probably footfalls coming off in your stores?

Krishna Kumar: With the trends in the last two months, we have not witnessed any significant drop in the Mobile category; footfalls have been pretty consistent and in August with many launches from the brands and aggressive marketing footfalls have been consistent. With the festival season coming in, I think we will continue to see good demand for Smartphones and it is also going to be coupled with a couple of new launches from Samsung and Apple which is also expected to launch new products in September-October. The demand would remain strong for Mobiles is what I am expecting.

Moderator: Thank you. The next question is from Paras Mehta of Goldman Sachs. Please go ahead.

Paras Mehta: I had a question on the ASPs of Smartphones. What is the average selling price that you are seeing in Smartphones category right now? And how do you look at that number in 12 months from now?

Subramanian Murali: I presume you are talking about Spice-branded Handsets, right?

Paras Mehta: Yes, that is right.

T. Ramakrishnan: Currently, our Smartphone ASP is at Rs.5,500, but going forward, I see this coming down, whereas the volumes are doubling. That is mainly because the acceptance of Android phone on 2G is scaling up, doubling month-on-month, and the ASP of those products will come to as low as Rs.3,700. I see the overall ASP coming down for Smartphones. 3G ASP if you ask me, will remain constant at Rs.5,500; 2G Android phones will pull down the overall Smartphone ASP.

Subramanian Murali: Actually, what is happening is that feature phone customers when they migrate to Smartphones, first, they will go to 3.5-inches 2G Smartphones, which has all the features, but it is affordable. The market for that is likey to grow – we have seen it grow in the last few months and it is likely to grow further. That means 3.0 will be in the 3,000-5,000 range for the Smartphones local brands. Of course there will be a premium segment which will be there at Rs 20,000+ or Rs 15,000+. But our focus is going to be more in this range between 3,000-7,000.

Paras Mehta: The reduction in the ASP will be mainly driven by what? Is it mostly just a scale benefit or any particular component that is leading to the decline?

Management: The ASP reduction is coming mainly because the 2G Android category is growing and we are taking advantage of that growth.

Moderator: Thank you. The next question is from Pooja Bandekar of CRISIL. Please go ahead.

Pooja Bandekar: I wanted to know whether it is possible to share the margins of Mobile Devices and Retail segment separately since Mobile Handsets business has been merged with Spice Retail?

Subramanian Murali: I think that will be difficult. You should look at an overall margin for Devices business because actually if you do a little research, you will be able to find out the same. I would not be able to share detailed margins on the Retail and Devices front, sorry about it, it has competitive advantages and disadvantages.

Pooja Bandekar: How many new Smartphones have we launched during this quarter and how many new models are in the pipeline for next few quarters?

T. Ramakrishnan: We have launched 5 Android Phones series that is mainly in 3G Android portfolio during the last quarter. In the 2G category we have launched 3. Going forward, 5 2G Android Phones and 3, 3G phones will be launched in the coming quarter. These are all new handsets. The changes will happen depending on the chipset change that will help us to give better technology and better pricing to the customers. If things go well, we will launch more. Otherwise, it will remain constant, because the life cycle of the product will go up to over six months.

Pooja Bandekar: And my last question is, what is the current unhedged foreign currency exposure? Looking at the significant depreciation of the INR, what are the steps the Company is planning to mitigate the FOREX risk?

Subramanian Murali: There is very little we can do here. Like I mentioned in my opening remarks, for the quarter ended June 2013, when we closed our financial year, we were hedged as on 30th June almost to the extent of 99 or 100% of our liabilities and our policy has been to keep ourselves hedged at least 80% to 90% at the end of every month. We continue to follow that policy. So at the end of every month when we close a month they are hedged to the extent of 80% to 90% of our liability. But that means nothing, because we need to procure for the month of October-November now, so we need to take into account currency rate which is existing now. So, while we can protect our pricing and hedging for any particular month, going forward, when there is so much of fluctuation it is impossible to protect ourselves against it.

Moderator: Thank you. The next question is a follow up from Srinivas Rao of Deutsche Bank. Please go ahead.

Srinivas Rao: First, could you share what is the annual volume of Handset market in India? Assuming you obviously you would be tracking it very closely, just trying to get a sense of that number.

Subramanian Murali: It is almost 240 million handsets p.a. which is the market size. In 2013, various projections by Gartner and IDC indicate close to 240 million handsets which is probably a growth of 15-20% year-on-year.

Srinivas Rao: What would be the share of the Smartphones in that?

Subramanian Murali: As of 2012 if I remember right, it was 30 million units out of 200 million in 2012 which is about 15%. What is happening is that the Smartphone market is almost doubling year-on-year. So from 20 million you can expect it go to 30-40 million in the current calendar year.

R.S. Desikan: In value terms, the share is completely heavily in favor of Smartphones.

Srinivas Rao: And one question, this is in a context of LTE, someone like Reliance are obviously looking at a launch. Is there any chance given that you have been working with the Chinese vendors, couple of them fairly closely? What is your sense of the LTE ecosystem, handset ecosystem for India because the LTE version which you have is fairly different from international markets?

R.S. Desikan: There are two basic versions of LTE. One is operating at 700, one is operating at 2.2. So, today there is a big fight. US and some of the other countries are all operating at 700. Currently, what has been released so far is 2.2. There are multiple lobbying groups to get 700 also released by the government. At the moment, it is a bit politically sensitive. I am not sure whether the government is going to be taking any decision on this given the various other issues with coal and 2G and so on. So, your guess would be as good as our guess.

Srinivas Rao: Given that now we have 2.2 and probably some launches may have to happen, as I said, cannot wait for long, so is there a possibility of actually doing handsets in a 2.2 TD-LTE which is what we have in India, because no other country barring China actually has frankly that spectrum allocated to LTE?

R.S. Desikan: That is right, because they are all on 700 and FDD rather than TD-LTE that is the issue. We are talking to the vendors, but at the moment we really do not know what is going to be the demand for such devices. It all depends on, Reliance and Airtel who have acquired the license. However, they have not put any significant dollar on the table for actual network establishment. Wait-and-watch policy, seems to be the only choice. Unless and otherwise they manage to get Voice on the Data secured, it will seem to be their play.

T. Ramakrishnan: We are closely in touch with all the chipset manufacturers like Qualcomm, MTK, Marvel and Spreadtrum. They are actually doing enough research and then trying to get the network and other things under control. They have also suggested us vendors. So once the chipset starts working properly and the launches happen, we also will be ready for the launches.

Srinivas Rao: Right now, whatever we understand is that the Chipset ecosystem for the TD-LTE is not fully stabilized.

T. Ramakrishnan: Yes, it is still not stabilized. All these vendors are working with Reliance and Airtel. Airtel will be little more slower in launching it. Reliance maybe the first to launch it, but we are just working with all the chipset manufacturers.

Moderator: Thank you. The next question is a follow up from Paras Mehta of Goldman Sachs. Please go ahead.

Paras Mehta: In your opinion, what could be the average selling price of TD-LTE Handset maybe in entry level?

T. Ramakrishnan: We would not be able to tell anything now unless and until the stability and the features that the chipset can support are released. If that is exposed, it again depends on the resolution of the camera, the memory, depends on all these things that the chipset can support. Only the chipset manufacturers will be able to tell us, they have not revealed anything.

R.S. Desikan: Another very important aspect is that the handset is going to be used only for Data or for Data plus Voice. At the moment, Reliance license does not allow them to use Voice on that. Whether the regulations will change, no one knows. So depending on whether the regulation change we will bring in with Voice capability.

Paras Mehta: I think unified licensing allows you to interconnect with the IP telephony with the normal exchange based or PBX-based telephony and I think they have already applied for the same. Assuming that they would go ahead, do you think that the technology per se is ready as of now to allow the voice over TD-LTE.

R.S. Desikan: The basic issue is that the regulatory framework has to fall in place. After all, Airtel and Vodafone and Idea is not going to remain silent for a back door entry of Voice on the Data network. Now, till the time there is clarity on that, it is going to be very difficult for us to guess the cost with such a handset. Because after all, if it is going to be only Data, there will be one cost point. If it is going to be Data plus Voice then obviously, it will be different and higher.

Paras Mehta: But does the technology allow you to do that, leaving regulation apart for a while?

R.S. Desikan: Today, many people are using Skype on data networks**.** So it is possible.

Moderator: Thank you. As there are no further questions from the participants I would now like to hand the floor back to the management for closing comments.

R.S. Desikan: Just to conclude, we have just entered the year with a fairly reasonably successful note. We hope that we will be able to sustain this, subject to one caveat which Murali earlier mentioned which is about the foreign exchange and what is going to be the impact of that. That is something which is completely a new animal because kind of depreciation that we have seen in the last two months we have never seen this level of extreme violent fluctuation/depreciation in the last several years. So, subject to that we believe that as a company we are fully prepared and geared up to meet the challenges and take it forward.

Moderator: Thank you very much sir. Ladies and gentlemen, on behalf of S Mobility Limited that concludes this conference.