OnMobile Global Limited

Investor Conference Call Q3 10-11

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Moderator: Thank you for standing by and welcome to the On Mobile Investors Conference Call Q2 2010-11 presented by Mr. Arvind Rao, the CEO. At this time all participants are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question please press “0” “1” on your telephone keypad. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Rao. Over to you, sir.

Arvind Rao: Good morning and thank you very much for attending this Earnings Call of OnMobile. I have with me over here in Bangalore Rajesh Moorti, our CFO; Mouli Raman, our CTO and co-founder; and Sanjay Uppal, President and CEO with me. And we would like to walk you through the talking points that we have circulated to all of you and then walk you through the financial numbers and then take questions. So, the first point on the talking points is that when we review the results, I want you to see the context for the result which is today we are roughly at 70% based on India revenue and 30% based on international revenue. On the 70% India domestic business front, there are 3 or 4 sectoral trends which are relevant and important that we should all bear in mind as we look at our results.

The first one is the impact of 3G and 3G services. Now, while these services are still being launched or about to be launched by most Indian operators, the real impact of 3G is still not there today and we don’t expect it to come into large force for at least three or four quarters. But we are very happy that we are talking to all the operators with our new Dilithium technology’s video technologies that are doing extremely well. But once again, nobody should be factoring in large revenue uptakes from 3G for at least a few quarters.

The second thing is the impact of MNP, while it has not had a material impact on most operators, they spend a lot of time both at the management and the marketing level on MNP and MNP initiatives and this has definitely had some impact on their attention to VAS and the promotion value allocated to VAS as opposed to allocated to MNP.

The third thing is the TRAI directive. We have seen that in the past that in particular on telemarketing and telemarketing being defined as both by third party as well as the telcos themselves for their own services like VAS, there has been interventions from TRAI in the past and it continues to be there. However we have been able to counter most of it and be able to implement structures for 'Do Not Disturb' registries, but that still continues. So it has a slight dampening effect on the growth of VAS for all of us including the operators and us.

And finally the last sectoral trend is what we are seeing in terms of the large numbers. You see it announced in the papers that COAI has said we have added 25 million SIMs in a month, many of these are low ARPU, they are low balance and in many cases they are multiple SIMs for the same user. So, again these have to be taken with a pinch of salt when you try to say what is the impact of this on Value Added Services companies like OnMobile. So, those are the sectoral trends in the Indian sector that need to be heeded.

On the International side, the picture is significantly different in that, as we have said before, we see substantial, almost unprecedented customers demand almost anywhere in the world for our product and services. And the real issue over there is execution from our stand point and how fast we can scale and execute and deploy against the market opportunity. We will be talking a little bit about our large Latin American project on this call, but that is a core flagship project for us as we look to increase the percentage contribution from international revenues compared to India.

So, now let's carry on. The second point that we will talk about today is an update on the Telephonica Latin American deployment. And for that I am going to ask Mouli Raman our CTO and co-founder to talk about this as he has been taking the lead responsibility on this.

Mouli Raman: As we have discussed in the last call, we went live in three countries as per the previous quarter and this quarter we have launched in three large countries which are Brazil, Argentina and Venezuela. We went live in these countries towards the end of the quarter and with this, we are live in six countries covering about 80% of our base. So, we are working on the rest of the countries, in Central America and few other countries, and we plan to go live before the end of this quarter on whatever is remaining. But we are live in all the large markets now. That is the second point.

The third point is based on the initial results we are seeing wherever we have gone live, we are seeing about 1% to 2% adoption. We are in the process learning the local consumers and how to market to them and how to target and so on and so forth, and we are in the early stage of it but whatever result that we are seeing is as per expectations as of now. So, the last point is that revenue from Latin America is 80% higher from the last quarter. Again as I said, this is predominantly from the ones that we were live in the previous ones and we have gone live in the new countries only towards the end the quarter. So, with that I will hand it over to Sanjay Uppal to discuss about the Dilithium acquisition.

Sanjay Uppal: Hello everyone. Regarding the Dilithium acquisition, the first thing is that we have gotten a much wider footprint in terms of the number of countries that have been served by OnMobile. So, we have increased our countries footprint by 21. You would notice that in the subsequent talking points we have not really increased the number of subscribers that have been covered. We will be doing that in subsequent quarters. We will advise you on how many additional subscribers we are covering due to that acquisition.

Now, what we did past the Dilithium acquisition, as you know it was an asset purchase. We have been able to incorporate the units together, that is the unit that is in the United States in California, and the units in Noida. So, we have them back on line and delivering products. So, the first product that we have delivered after the acquisition has been a dynamic Content Adaptor that has been delivered again to a large internet provider in the US, and we have also delivered our 3G Video Gateway to a provider in North America.

We are in conversation with most of the providers that were customers of Dilithium including new ones, particularly in India, and in subsequent quarters we will advise you on how that is proceeding. So, the dilithium acquisition, we are pleased to say, is back on track and we are delivering products as we were doing before. And we have also reestablished the units both in Noida as well as in the US.

Moving on to the next point which is the Material New Developments in Customers and Products, one of the things that we had accomplished after the Dilithium acquisition was to look at handset embedding of our video stack. And we have gotten a number of handset OEMs that have embedded our video stack, and we have just recently signed on a new one in China. This is significant because we believe that as video and 3G progress having both sides of the equation, which is on the handset as well as on the services side, gives us a benefit and gives our customers benefit as well. So you get an end to end solution.

Moving on to our vertical that has been quite successful for OnMobile which is music, we have deployed an unlimited music download and click product. This is in the Asia Pacific market, and this product has been launched on the subscription model. This builds out our music offering by offering a new way of getting music through this music burst solution. The last time we had spoken to you about our dynamic Churn Management Solution, and now some of the results that are coming back are actually quite powerful. This has helped add 2% to the top line revenue for a leading telecom operator in Asia, and that has resulted a fairly strong 88% increase in subscriber recharge. Again this Churn Management Solution takes into account what is the business intelligence that we get in running these services for the operator, and then using that both in the core business as well as in the Value Added Services space.

In the Personal Data Management space which is taking the user information and then utilizing it to both store and offer Value Added Services by the operator in this PDM space, our focus has been on the Smart Phone area, and in that area we had launched two products that are now coming back with success in two large operators. The first was on the IOS handset. So, as you folks know, Appple IOS has been very popular and My Phone Book application. My Phone Book is the ability for the user to launch communication services from a single portal on their phone, and that is the Phone Book Application. So, this has been judged as a one of the best applications of the year by one of the leading operators in Europe and North American Region. And the second one is on Android. Now, apart from Apple, the Android Smart Phone has been growing quite rapidly. And in fact, even in India it has been growing pretty well. And what we have done here is that, we have taken this more handset-oriented approach and we have applied it in a converged solution. And by converged solution, I mean a three-screen approach between the PC, between the TV and between the handset. And this is one of the first operators that we have had success in this converged offering by taking a synchronization service that runs across all three screens and making it a successful for that particular converged operator. So, with that I turn that back over to Arvind to talk about developments on the organizational side.

Arvind Rao: Thanks Sanjay. So, the point I wanted to make, to all the investors because as we go around the world, one of the questions which we keep being asked is that your legacy products are designed largely only for 2G operators, and what do you have for all the developed countries and for 3G products. Well, I am happy to say that both as a combination of the Dilithium acquisition as well as the increased engagement and contribution from our European and France units, we now have extremely strong product offerings in video 3G, data services and handset-based services including Phone backup, Network Address Book and Social Address Book which are at the core of mobile social networking. And these products are actually being deployed both in Europe as well as in the US with pretty high results. So, it is not like we are a 2G or a legacy company with just RBT and voice portal. We have actually successfully made the transition where we have a balance of both type of products. So, today we can address any market in the world, whether it is an emerging market or whether it is a developed country market, anywhere in the world. So, that’s a big sort of success as we transition from India and emerging markets into a global company.

So, let me now talk about point number five which is on organizational developments. In keeping with our global expansion, we have registered new offices in Uruguay, Egypt, China, and we expect to expand our operations further in these markets. And in terms of awards, OnMobile has been recognized among the top hundred companies at the Annual Inc. India 500 Awards for medium sized enterprises. Now let’s come to item number six which is the non-financial KPIs, and over there, the material ones – I mean, while Sanjay has said that in terms of subscriber reach and unique users we are not really still integrating and counting the contribution from Dilithium. I think it’s pretty substantial that we are now reaching out to almost 1.2 billion mobile users all over the world with full interactivity and the opportunity there is to cross sell more of our products into that installed footprint that we have, and to learn more from the market research because particularly when we talk about Churn Management and Subscriber Profiling, the larger sample size enables us to improve our analytics and analytic algorithms even more, such that we can develop more powerful products. So, the larger our subscriber reach gets, the larger the sample size that we have and the better our analytics and our software algorithms will become. So, that's a very positive trend.

In terms of number of employees, we have stayed roughly the same, and this is sort of symptomatic of the product scaling, which is as we deploy many of our new products and the same products in new markets, that does not require us to substantially increase the team. So, that has a positive impact on our margins.

And finally the number of countries that we are live has been commented. We have gone up to 52 countries today and the real opportunity there is both to reactivate and grow the Dilithium base and more importantly to look at all the other products that we have and to cross sell them into the same installed base where Dilithium is live. So, that opens up a completely new set of countries and telecom operator customers for us.

So, with that let's get into the numbers and the financials. So, I'll do the financial highlights and then I'll pass it over to our CFO, Rajesh, to do the financials. So, the summary of financials is very simple. In revenues we were up 13% sequential quarter-on-quarter. Now, as we have always maintained, sequential quarter-on-quarter is not the right way to look at our business because it is a lumpy business, it's got long sales cycles, and it's got time in terms of building up revenue streams from new customers. So, one of the things we look at is year to date and rolling four quarters, both of which we will discuss in this talking point. So year to date December revenues were up 22% over last year, and more importantly, for many of you who have asked this question, the international revenue contribution has gone up from 23% to 31%, which is a material change in our outlook. And as we continue to deploy more and more internationally, we are really looking forward to that number getting higher and higher. The growth margin has stayed stable at around 73%, and on our core business the growth margin has also remained at roughly the same percent. Now, as many of you who know and we have shared this with you, we separate our business from core and investments and we track our core business margins very religiously because that is the key indicator for us as to the health and the stability of our core business. And one thing that I am happy to say is that on almost all the margins on our core business, in fact in all of them, we have either stayed stable or we have grown. So, that is a very key indicator that we track and we will share with all of you on a quarter-to-quarter basis. So, with that, to walk you through the core versus investment financials as well as the rolling four quarters, I am going to turn over to Rajesh Moorti, our CFO.

Rajesh Moorti: Hi, Good morning everyone. So, as Arvind mentioned that we have been sharing the core business versus the investment part of the business with you for the last seven quarters, and you would notice from the couple of indicators here, if you look at the EBITDA and the operating profit, the EBITDA margin has been maintained at around 32% to 33% and the operating profit margin has improved from around 24% to 25%. The core business really represents anything which is more than one year post launch of a new product or post launch of a new service and a new customer. If you look at the key highlights or what are the key variances between the last quarter core and investments versus this quarter, last quarter we had one-time other income from a stake sale in Ver se. That was the one-time item that has not repeated. So, obviously that has impacted on other income, but we have had some tax benefits coming out of the SEZ. So, you may recollect us telling you about the SEZ and deferred tax accounting impact that SEZ had, and that has reduced our weighted average tax rate from around 28-30% to 12-13% so far, and that's what you will continue to see in the next quarter as well. As we move into the next year we will give you a better guidance as to how this is likely to be in FY12.

What you also see in our investments part of the Quarter 3 numbers is that some of the investments that we made recently have already started paying off, and paying off very well. We talked about significant revenue increase in one of our customers in Egypt and this quarter we also have had revenue contribution coming from the newly acquired 3G business of Dilithium. Sanjay mentioned about delivering the video gateway to a leading Telco in North

America last quarter, and that has been accounted as a part of our investment business. If you look at the last point which is the rolling four quarters, again to give you a better understanding of our numbers, instead of looking at our numbers on quarter-on-quarter, we always give you the four rolling quarter numbers and that also has been showing a pretty healthy growth. So, revenue has increased 18%. Our EBITDA has increased 13%, but because of the impact of say, amortization of telefonica-related cost and amortization of Dilithium IP, our operating profit growth has not yet been to the same level of numbers as the revenue growth and the EBITDA growth. But as we go into the next one or two quarters, you will see that line also increasing significantly. So, with that I would like to open up this session for any questions.

Moderator: Thank you, sir. Participants, at this time if you wish to ask a question, please press "0" "1*" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press "0" "2". I repeat if you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for name to be announced. Thank you. The first question is from Sameer Naringrekar. Your line is unmuted. Please ask your question.

Sameer Naringrekar: Good morning Arvind. Just one question on the investment related revenues. The Rs. 119 million of revenue that we have seen from the international market, does it have any component of Dilithium revenue? And the second one is, we have seen on the core business front on the international revenues, there is about 338 million. Typically we had seen seasonality from Voxmobili. So is there a lumpiness because of Voxmobile in this core international revenues?

Arvind Rao: Okay, Sameer, hi. So, as I mentioned a little while earlier there is a revenue contribution from a newly acquired 3G gateway business. So that is there in the investment part of our results. Obviously, I can't really give you a specific split of that. Coming to the second question, yes, Voxmobili has historically had some lumpiness in quarter 3 of the fiscal year. So, there is some amount of lumpiness but it is not as large as it used to be in the past. So, we would not see a sudden decline in the next quarter.

Sameer Naringrekar: Okay, just a follow up to that, since you can't quantify the numbers, I think the number that is given for Telefonica is that 1-2% penetration level. So, if I really look at about 150 million subscribers in the Latam market, take about 80% which is your addressable market and apply a 1-2% penetration. So, roughly you are looking at about 1-2 million existing RBT subscribers in Latam. Just want to get a sense from you, I think we have discussed this in the past that RBT penetration needs to reach a critical tipping point. What is that tipping point? What is your experience in terms of looking at other markets when you would really see acceleration in adoption of RBT in these markets, is it 3% or 4%, or any benchmark based on prior deployments?

Arvind Rao: First of all, I don't think the thinking is correct that some critical mass like a nuclear fission, it sort of goes in to a runaway mode and just explodes. I don't think that is the situation. What is required is steady promotion, steady analysis, steady cross promotions, analysis of who is subscribing, who is not subscribing, who is churning off, what offer should we make at a personalized level. So, usually we find that the momentum really picks up once we achieve like a 4% or 5% penetration mark. That is when by that time we have got everything in order in terms of the analytics, the profiling, and the promotional campaigns, all that is well in place and then it is a matter of just rolling it out more and more. So, we anticipate in our forecast, we have said that over a long period of time, we have been conservative in terms of estimating that in Latin America. We would target a 10% RBT penetration over a period of time. Now, clearly, in markets where other emerging markets where at present, in particular whether it is Egypt, whether it is India or Indonesia, we have seen penetrations which are way above 10%. While we say 10%, because the product has never been proven over there, so we'd rather be conservative and take the upside rather than be a bit aggressive on our forecast. But what we are saying right now is that given our initial instincts that Latin America is a music hungry, music-loving continent, and given that the prior deployments of RBT by Telefonica were woefully inadequate in terms of technology and in terms of the management attention and the marketing campaigns. All of which are being rectified by us. We feel really confident that the early results would lead us to believe that we should be able to exceed or surpass the 10% number over the period of time. So, on that standpoint, it is too early to tell. Like I said before, I think, the first time when we can actually give you guys a very, very good guidance or very,

very good estimation of future results in Latin America will be after the April-May-June quarter because that will be the first quarter in which we will see the revenue impact from full deployment in Latin America even though it's an early stage.

Sameer Naringrekar: Alright. Thank you so much, Arvind. Good luck.

Arvind Rao: There is one other point that I would like to make on the Latin American thing which is, the early results have actually had an unexpected what I would call is a windfall or something for us. In that Telefonica as the No. 3 largest operator in the world, they are so happy with our deployment in terms of our technical capability to roll out services in so many countries nearly simultaneously, and the early results, that they have actually opened up several discussions with them for up-selling new products into the same base. So, while initially we had said that we had developed our business case and forecast based on around 20-25% products, they are already in discussion with us for several other products including 3G video and stuff which our early results will position us even better to capture. So, next question.

Moderator: Thank you, Sameer. The next question from Ankur Jain. Ankur, your line is unmuted. Please ask your question.

Ankur Jain: Sir, could you please give us a sense of revenues from applications in the Latam market and if you could share your experience of product adoption even in Europe, say is RBT contributing the majority of revenues in Europe or is it primarily applications?

Arvind Rao: So, like we have said before, we cannot give out revenues in Latin America either at the country level or an in aggregate. The reason is very clear. Latin America is more or less a duopoly market between Telefonica and America Movil, and while we are right now involved and embedded into Telefonica, both from a competitive standpoint as well as a customer confidentiality standpoint, we can't release absolute numbers. I can't do that. We can release as an aggregate at the international level, but that is just not possible to do. The second question which is the revenue contribution by product in Europe, today the bulk of the European revenue contribution is actually from non-legacy products. So, in terms of RBT, Voice Portal Messaging which are more of our legacy products coming out of emerging markets, those revenues in Europe today are practically nonexistent. Now, while they are nonexistent, we are in active deployment in at least three countries over there for RBT and Voice Portal, and we are looking to ramp up these services in Europe over a period of the next two years. So, it is an upside opportunity that we are working on, but as of today it is largely coming out of our data products units which is a Voxmobili acquisition that we did a few years ago.

Ankur Jain: And in international markets which particular region contributes majority of the revenues as of now?

Arvind Rao: Today, in terms of international, the bulk of it is Asia Pacific because just so you know, in international today, we have sort of, if I were to divide international into matured territories which is where we have been active for a period of time, the bulk of it is Asia Pacific and Europe out of the acquisitions. The two new areas that we have just started deploying in a major manner is Africa and Latin America. So, those deployments are underway and beginning to contribute, although it is a very small percentage. The third leg of the international expansion is really what we do in the United States where we have started with T-mobile and our Data Products Unit, but there is still more upside; and the second thing is in large far eastern markets including China as to what we do over there to capitalize on our early presence. So, today the bulk of the revenue on international is coming from Asia Pacific and Europe. The contribution from Africa and Latin America is a trickle, but the trickle has already started which means it is going to have significant momentum going forward. And the third leg of it is both in terms of United States, Canada, China, and far east which is what we expect to sign up and get going probably in the next 6 to 12 months.

Moderator: Thank you, Ankur. The next question from Vinay Jaising from Morgan Stanley. Your line is unmuted. Please ask your question.

Vinay Jaising: This is Vinay Jaising from Morgan Stanley. I have three questions from my side. When I look at your results, obviously very impressive, the question here is why is the jump of 29% in the core international business as well as a good growth shown in your new investments. What I mean to ask is, is Telefonica business which would have been launched or Vodafone business which had been launched a couple of quarters ago have been added to your core business now and hence we are seeing a good growth out there in the international stuff. So that is my first question.

Rajest Moorti: So, Vinay, as we have consistently applied the same definition that we are given in the talking points any business is shown as part of our investment results only till 12 months after launch. So, the Vodafone countries that we went live recently and Telefonica continues to be part of our investment bucket. It is not part of core. To answer your question, on the core side, which I mentioned to Sameer just a while ago is that, the data products business in Europe has historically had some lumpiness in quarter 3 which is the last quarter of this calendar year for most of the customers and that is one of the reasons why there has been an increase, but we do not see a significant change in that in the coming quarters. So, that is on the core side. On the international side again, it is not like for like in the sense the first time this quarter we have accounted revenue from the newly acquired Dilitithium business. So, that is why you also see quite a big jump in the investments part of our business.

Vinay Jaising: Two quick questions again, you know, one on the depreciation, you did mention, probably the same reason why depreciation has gone up for the quarter. Is there a one of your or is this now based on incremental CAPEX, you will have an incremental depreciation coming up from the current base?

Rajesh Moorti: We mentioned around three months ago that we acquired Dilithium assets. So, depreciation of Dilithium assets started only in this quarter. So, to that extent, there is an increase which will stay on, but there are also new deployments which have gone live in the last quarter and that is Latin America related. So, we have started depreciating those assets as well. So, to a great extent, this will be an increase that will remain on our books.

Vinay Jaising: Thank you. One last question if I may. The total OPEX in the new business or the new investments has gone up. Obviously, the revenues have gone up a lot more as well. Any thoughts out there, which is just in a matter of time, the top line in the new business will do well and the margin should come through.

Rajesh Moorti: Yeah. Again if you look at over the years and especially if you compare our numbers to last year, we have exercised a tight control on the operating expenses. Obviously, we have focused a lot on spending money on the new investments that we are making, that is Latin America, Africa, Dilithium. So, as those costs come in they are ahead of the revenue increase and that is clearly seen where the increase in opex is coming from. The increase in opex is mainly in the investment part of the business and we will continue to fund. Those are growth opportunities.

Arvind Rao: So, just to put in perspective, for example, if you were to look at the Latin American project which is probably the largest international project that we have taken on. So today, roughly we have about maybe about 30 people working on it onsite in various countries in Latin America and we are backing that up with roughly 20 people who are in Bangalore supporting them. So, roughly the size is, let us say, 50. Let us say we are having this conversation one year from when the deployments are fully rolled out. That team from 50 would go to maybe about 80 or 90. Right? If you are sitting over here, say, 3 years from now, that team from 90 would go to 100. So, that's the effect of product scaling. So, our cost to some extent in particular on manpower which is the core bulk of our cost, which is material cost, is largely front-end loaded, and that is an investment that we do but we know we are fairly confident that it results in long-term effects. Like I told you the cross selling and enhanced customer satisfaction that we get from early deployments that pace off in spread on a long term basis.

Vinay Jaising: Arvind, thanks a lot. Actually, the reason I asked this is obviously your incremental cost and your incremental revenues coming and shows a high EBITDA margin in the investments. So, I was kind of convinced the employee cost would go up. But here you know the cost of goods sold has gone up. The other OPEX has also gone up. Your other opex is probably closer to what you were in the second quarter of 2010 where there was a FOREX loss of about 34-35 million. Hence the question, but I am assuming what you are saying is that all the costs will go up when it is in a start-up stage for these new businesses.

Arvind Rao: So, it's between you know. The bulk of the increase really is between the investment we are making in large projects like Telefonica and the acquisition of Dilithium. Those are two primary sources.

Vinay Jaising: Right. Thank you so much.

Moderator: Thank you. The next question is from Arshad Singhal from JP Capital. Your line is unmuted. Please ask your question.

Arshad Singhal: Thanks for the opportunity. I have two questions. One is relating to the domestic revenues. If I see, it increased by 1.1% this quarter as compared to 6.8% last quarter despite we are seeing an increase in the RBT users. So, what was the reason for this, a low increase in the domestic revenues?

Arvind Rao: The reason why the increase in domestic revenues was higher last quarter over the previous quarter, which means in minus two quarters is, if you remember one year ago we were really pulling out of a trough in the Indian market largely due to the TRAI slowdown and the impact of low ARPU users. So, that is sort of pulling out to some extent and that is why we had an increase on 6%. Now if you look at sort of our major customers, our Indian customers, whether it is Airtel, Vodafone, Idea, and BSNL, and we want to strip out all non-VAS component like SMS and roaming, and mobile broadband data which is where the bulk of their VAS growth is. The rest of the VAS for these operators today on a quarter-to-quarter basis in the last 1 or 2 quarters is either flat or it is slightly de-grown. And that is a function of two things because these guys are struggling with a high churn and they are struggling with the symptom of what I told you which is low ARPU, low balance, and multiple SIMs. So, this is going to take a while to sort of walk away out of that. And clearly 3G coming up is a new way of monetizing your installed subscriber base with new services, but that is going to take a bit while. So, we are going to see a little bit of sideways movement with not very high growth in the Indian market. And that is the reason why we are pushing harder and harder to expand our international revenues as fast as we can to deal with the Indian market. In the long run, I believe that the Indian market is still going to be vibrant with the billion subscribers eventually in mobile and is going to have a huge opportunity in terms of additional services that can be given to the subscribers whether it is mobile advertizing, mobile marketing, mobile banking, mobile internet, video on demand, or wide range of new services are going to happen in India. But it is going to take a little of time and in order to make sure that we don't suffer because of that, we are pushing even harder on the international accelerator.

Arshad Singhal: So ideally for the next two, three quarters, we can assume a low growth only for domestic revenues?

Arvind Rao: I suspect that. I mean if somebody asked me, I would suspect that now. Obviously, it is not something that I hope. You think about it that these operators are grappling with. That is why I started the talking points. If you really went and talked to the CEO or CFOs of Indian operators, you know what is attracting their mindset today is things like MNP, like the 3G network investment which is huge for them, given their spectrum investment, and things like the low ARPU, low balance, multiple SIMs impact. These are the sort of things that they are struggling with. So, in that context unless they really feel confident of having tackled these problems, they are not going to change their mindset back to VAS with the same level of extent that they had, let us say, three years ago or four years ago. That being said, in all our discussions with the CFOs in all Indian operators, I have heard it unequivocally said that 3G and Value Added Services is going to be critical for their success in the long term future, both in terms of revenue growth and in terms of margin growth.

Arshad Singhal: My second question is relating to the 3G video gateway. Are there revenues coming from it on a fixed basis or you are having a revenue sharing basis for the same?

Arvind Rao: It really depends on the geography and the customer. The one that you think so far typically come on a fixed as well as recurring revenue that is based more on AMC with maintenance and support. But there are geographies where we will be deploying it on a revenue sharing basis. So, both models are applicable. So far, it is predominantly the first.

Arshad Singhal: I mean if you take revenue sharing basis, then, ideally what will be the revenue share for the same?

Rajesh Moorti: No we don't disclose specific revenue shares. Revenue shares, as you know, in the Indian market range anywhere from 10-40% depending on the services as well as the content included or not included. And so depending on what the parameters are, the revenue share will fall somewhere in these parameters, but we don't disclose specific revenue shares for specific products, sorry.

Arvind Rao: Just to answer that question, I think, operators also understand that the cost structure for video and video gateways and optimizers is significantly higher than the cost structure for players like us for legacy products whether it is RBT or voice portal. So, to that extent they are quite reasonable. In all our negotiations we are looking at a higher range compared to our conventional revenue shares where we are at today. That is point number one. Point number two is they are also fairly reasonable in that they understand the effect of scale. So, for example, where we are today on RBT and voice portal revenue shares is the result of extremely high scale. And in many of our discussions, the operators have been quite amenable to having a similar sliding scale, let us say you started a higher web share and then based on actual usage and the number of 3G video users, you write the scale curve down which is completely fair and acceptable to us.

Arshad Singhal: Great. Thanks a lot.

Moderator: Thank you, Arshad. The next question is from Deepti Chauhan from Asit C Mehta Investments. Deepti, your line is unmuted. Please ask your question.

Deepti Chauhan: Sir, I just have two questions. One, if you can just give us an update on the Vodafone Agreement which you had signed as to what has been the development so far as far as that deal is concerned?

Arvind Rao: The Vodafone Agreement was signed I think almost two and a half years ago. So, it is of global deployment and under that we have launched in South Africa, we have launched in Middle East, we are about to launch in another African country, and we have launched in Egypt with them, we have launched in Romania with them, and we continue to have discussions in about 5 to 6 other countries with them. So it is country by country deployment.

Deepti Chauhan: Sir, is it possible for you to share with us as to what is the contribution of the Vodafone Agreement in the total international revenues, how much does this particular deal contribute?

Arvind Rao: Like I said before, I think we have to follow some sacrosanct principles and we cannot release some data. By confidentiality, I cannot release any customer specific revenue data, whether it is Telefonica or Vodafone. That is one, the second thing is you know you must understand one thing that we actively ensure that no single customer is large enough than we haven't dealt with that customer. For example, there are listed entities in Value Added Services, let us say in the United States where AT&T and Verizon contribute 90% of that entities revenue. We are not like that. We never intend to be and we actively have strategies in place to deal with it. So, I don't think that is very relevant question. The real relevant question is, for example if you look at large projects like Telefonica, the key question over there is, is it tracking as per our expectation and as per the business case and the plan that we had going in? And the answer to that is unequivocal yes.

Deepti Chauhan: Okay. That is it from my side. Thank you, sir.

Moderator: Thank you, Deepti. The next question is from Surabhi from Morgan Stanley. Your line is unmuted. Please ask your questions.

Surabhi: Thanks for the opportunity. I just wanted to recap a few things. Rajesh just recently spoke and he said that you have some revenues which are one-off lumpy because of the Voxmobili thing. I assume that is part of the core business international. So, I just wanted to check is this like –do they reward back from the 300 levels down to 200 odd million or 250 odd million like they did last year or are you saying that is a base? On the second bit, I wanted to check about what is happening in the software services and the other services. They have again grown significantly. I would like to understand if this is to do with the Voxmobili front or is it some other deal?

Rajesh Moorti: Okay. What I have mentioned earlier is that, yeah, we did have some one-off but that would become part of the base. So, it is not that the revenues are going to slip in the next one or two quarters. That is number one. Number two, again if you look at our revenue, I think you should look at our total revenue. The line-by-line description which is given in the press release is more for technical accounting & reporting purpose. It is part and parcel of the overall deal that we have with the customer. So it could be typically for a data product kind of business where you would have a license sale, you would have a professional services and annual maintenance. So, you should look at our total revenue.

Surabhi: Also one question on the tax bit. You said that effective tax rate should be in the 12% to 13% range. Is that correct for the next quarter?

Rajesh Moorti: Yeah. So if you look at YTD, our tax rate is something at 11 or 11 plus. So, it would be around 12% to 13% for the full year.

Surabhi: And in FY12 guidance, I presume, you will be giving in the next quarter or so.

Rajesh Moorti: Yeah.

Surabhi: Okay. Thank you.

Moderator: Thank you, Surabhi. The next question is from Raj Mohan. Raj your line is unmuted. Please ask your questions.

Raj Mohan: Thanks for taking my call. Again coming to the Vodafone deployment, you have in your earlier calls indicated Vodafone Egypt to be a turning point in sort of accentuating an option by other countries in that group. Are you seeing that happening on the ground and could you also throw a perspective on the larger country deployment expected in the next fiscal in Vodafone?

Arvind Rao: I didn’t get the first part of the question. Vodafone Egypt was an important deployment for us. The results, I think, we released a press release on that have been pretty damn good, if is not spectacular, I would say. And we are very happy with that and the customer is also extremely happy because Vodafone is a tight knit community and whenever we achieved such outstanding results, those results are spread within the Vodafone network themselves which leads to many new calls to us and new meeting request and stuff. So to that extent we are extremely happy as we speak, actually, we are closely monitoring the situation in Egypt on a daily basis. We make sure that we have taken all the precautions and measures that our team members over there both local hires and Indians are safe. So, I think those are the main points. I don't know if that answered your question or do you have something else.

Raj Mohan: No, actually what I was indicating was, you did mention, you did explain that in your answer that Vodafone to be a turning point in garnering new and larger customers from the Vodafone fold. So, are you seeing that actually happening in terms of larger countries on the verge of adopting your products in the Vodafone fold in the next fiscal and if you could specifically name some larger countries which are on the anvil for a deployment in the next fiscal?

Arvind Rao: Okay. Here is what it is. First of all, we can't give out the names of customer countries that we are in active discussions with because that is not right. That is one. The second thing is that given that these are large operators - just like any other larger operator - when I look at the Telefonica project as an example, we were in negotiation with Telefonica for almost one year before we actually signed it. So, the sales cycles on these are long, but good thing about it is that many of these operators and stuff, we have been in discussions with them for 1 to 2 years. So, now that they see more and more results from more and more countries, we are hoping that those results will actually skip over their uncertainty or they don't feel confident our services would work in Europe or the core markets. But we are seeing more and more interest from them to actually do business with us. But I have no basis for saying that if Vodafone Spain or Vodafone SFR France - are they going to sign with us in the next quarter or 2 quarters out or even within the year. We are just working as hard as we can but we don't run it on any probability basis, I can't give you assurances.

Raj Mohan: Again coming back to your adoptions in Latin America. You did mention 5% as some kind of a tipping point for adoptions in your earlier remarks. When we see easily reaching that tipping point and you also mentioned 8% to 10% adoption the medium term conservatively in the LATAM market, would you be able to give us in how many years that you are internally targeting that?

Arvind Rao: So, here is what it is. The business case that we have done for Latin America, in that we have assumed 10% penetration over 5 years, post-launch. That is sort of our conservative low end case which is the case that we are building all our businesses cases on. The second thing is in terms of 5% - you know, to be honest with you, these are things that are market specific that we don't really have an answer to. Ideally, I would like it to happen in year one or year two. Is it is going to happen? I don't know. Usually, our conservative approach is that the take rate in an operator really is not really linear. So, it wobbles for a period of time until we nearly get all the things out and the market is conditioned, and then it really starts taking off. So, I don't know when the penetrations are going to be, is it going to be like 1%, 2%, and then 3%, 5%, and 10%, or whether it is going to be 1, 2, 5, 10 – a linear process? We don't really know that. It is too early to tell. The earliest that we could even guess on which trajectories we are going to go is somewhere after the April-May-June quarter when we actually see some stable results.

Raj Mohan: Okay. You did mention cross sale prospects from your Dilithium acquisition, could you give us some perspectives specifically attributable to China for some of your matured projects and products like RBT in terms of deployment you see happening over the next one or two years?

Arvind Rao: Again, in some of the markets and, in particular, in terms of China… I mean China Mobile, China Unicom, all of them have RBT today. So, it is not like they don't have these products. The question is are their results really as good as our results that we can get and is there an opportunity there? It is too early to tell, we don't know. What we do know is that there are opportunities for several of our other products, in particular, in terms of our phone backup, phone network address book, social address book - all the advanced handset and data products that are coming out of our Europe operations are very large opportunities that we see as is video, both on the handset side and server side. So we are focusing on those product lines into the far-east market first and then later on keeping on tab on legacy product.

Raj Mohan: Okay. One final question, what is the current contribution of RBT to your total revenues in percentage terms?

Rajesh Moorti: RBT, around 42% to 45%.

Raj Mohan: Okay. Thank you so much and all the very best.

Moderator: Thank you Raj. The next question is from Gaurav Tyagi. Gaurav, your line unmuted. Please ask your question.

Gaurav Tyagi: Thanks a lot for the opportunity, sir. Just wanted to understand, will it be possible to comment on the peak operating losses for the operations under the investments mode. Since it is continuously going up and, if at all, we can guess when will we get there?

Rajesh Moorti: I think, you need to look at the investment column because the way we have defined investment is that as we signed up multiple different customers in different continents, every time a new customer is signed up till around 12 months post the launch of service, it remains in investment bucket. So, it is a moving bucket, it is not the same customer or same products fixed there for ever. Even after 12 months of launch, if the service or the product is not successful, we still move that into the core business. As we are in the investment mode working on multiple deployments in the Latin America, Africa and different continents that bucket size has become large and that is the precise reason why we have split our business results into two parts.

Gaurav Tyagi: Right, sir, exactly my point. I mean sitting here over the next two years, can we guess how many more countries and how many more operators we are going to engage ourselves with, because in one single large operator… just an example, Bharti, Airtel and Africa, another 40 to 50 subscribers should tab to and our operating losses will continue over the next year. I am just trying to understand, can we put a number, can we put a whole figure here that these are the countries or these are the numbers of subscribers that we have potential to tap into?

Rajesh Moorti: I think, this is what Arvind mentioned just while ago is that while we are working on new opportunities and new leads, it is very difficult to put to time scale as to whether we will sign that contract in 3 months, 6 months, 3 quarters or one year. There is no point in giving a hypothetical number and keep answering as to why that number was different every quarter. So, it is only when we have signed up, then we can say that what is the rough estimate of cost. Now, some are large opportunities and some are small. It is not possible to give us split by country by customers as to what is getting into investment bucket.

Arvind Rao: See, the other thing I wanted to say, it is a fundamental characteristic of the telecom business that the sales cycle and the decision making process within these large telecom operator almost anywhere in the world, it takes a long time and it is a complex decision making process because many parts of the organization are involved, starting with marketing, starting with technical, starting with the network technical people and involve in the operations and the billing teams. So, these things take time. Now, how does a player like us derisk that? The only way we can derisk it is by having parallel conversations going with 20 to 30 customers, I mean, today our pipeline of active discussions is extremely healthy and robust, and we ensure that anytime we sign up or we are signed up with a customer that it is taken off that list, we try to put on one or two or three customers on to that list to keep pipeline healthy and active, so at any one point while we are farming a bit junk of our products and our customers, we are also in a heavy planting seeds mode both with new customers and new products with the existing customers.

Gaurav Tyagi: Sir, for Telefonica and Vodafone countries where we already have launched operations, I just want to understand how opex will be moving, will it be again… like, right now we have 1-2% penetration and will need to incur more cost till we reach a tipping point, so till that time effectively revenues will keep following the OPEX. I think you were giving some questions related to employee cost also. So, just wanted to understand, will it be after tipping point we will be seeing substantial improvement in the margins or would it be somewhere in between?

Rajesh Moorti: Let me answer that question differently. If I look at what happened in the Asia Pacific region, there we started investing say four or five years ago - initial one or two years is where you have cost and very low revenue, but as we reached the break-even point and any revenue beyond the break-even point goes straight to the bottom line. If you look at the incremental revenue and look at the incremental cost that incremental contribution margin is in the range of 45% to 50%. So, again this is the product scaling that we talked about earlier is that as you launch the services your cost do not grow up subsequently, and that is what helps us to improve the profitability. And when you look at our core business, that's why we have been unable to sustain or grow the contribution margins in those businesses, because beyond a point, it is just incremental profitable business for us.

Gaurav Tyagi: So, my next question is to Arvind. You mentioned in your opening remarks related balancing spectrum utilization between Value Added Services and quality of services for operators point of view. Sir if you can elaborate a little more, more clarity on that thing?

Arvind Rao: Sorry, on which point?

Gaurav Tyagi: In your opening remarks for the second point I think you mentioned regarding Mobile Number Portability, and as of now no material impact but balancing spectrum between Value Added Services, quality of service and voice etc.

Arvind Rao: Yeah, so right now, from what we have been hearing from operators and, I don't know whether it is fully reported in the press or not, our understanding is that none of the larger operators are facing any significant change in market share or number of subscribers due to MNP, that's the risk that we have as of today. That is point number one. Point number two is since we are live with almost all the operators in India today, the MNP shift if at all they happen, don't really affect us. Now, it is very difficult for us to track because from a profiling stand point If a Vodafone user with the number XYZ goes to pick a name Aircel, with a number ABC, we can't really track that it is a same guy. So, it is very difficult for us to track and it is very difficult for the operators to track. We are trying to do that but the point is that irrespective of what the market dynamics change due to MNP, our present cross operator enables us to actually catch the subscribers wherever they go, with the exception of the small operators where we may not be present. So, I don't think MNP is going to have a major impact of on us.

Gaurav Tyagi: Right, okay, there's a last question from my side, so, you mentioned again to taper down the expectations regarding revenues cashing in from the 3G services side. Sir, why exactly so and when should we start building again our expectations, what is the reason for that, is it just a pure eco system building time or anything in particular?

Arvind Rao: Well, you think about what does it take to effectively have high revenues from 3G services, right? The first thing is you have to have many users who are actually using it, which means that they have to be educated, they have to sophisticated enough in terms of how to use it, they have to have handsets which are enabled and activated with data and 3G services, and the price point has to be sufficiently low in terms of mass market. Now all this is not going to happen overnight, the operators have taken up a huge cost in terms of spectrum and in terms of network to deploy this. So, I can anticipate that unless they do some very severe forward pricing which I don't anticipate, they will try to recover and recoup some of the investments before dropping prices. So, therefore I believe that the mass market in terms of number of users is not really going to be seen for maybe one to two years: that's my view. The second thing is there has to be, and that is a major problem, the later problem really is one of building out the 3G ecosystem in terms of content partners, technology suppliers, that today is already in place. Today for example we can go ahead, deploy with our 3G services on IVVR, on voice portal, video blogging, video chatting - we have got a wide range of services ,we can deploy it in any operator and get it live today; that's not an issue for us. We are ready. The real issue is, is the market ready for it?

Gaurav Tyagi: Right, sir, if I may the final if I may squeeze in a final follow-up question - and sir this based on your personal experience being in the industry for so long, the kind of price points this operators have come out to it in terms of offering 3G services around Rs. 500 to Rs. 600 for a GB data plan, do you see mass acceptance actually kicking in or prices must be further downward devised for actually a substantial amount of 2G guys who are taking the 3G services, just on your personal view on that?

Arvind Rao: The best way to think about this is to look at retroactively at the last four years and you plot the penetration of Indian basic core telecom services versus person to person voice rate. That will tell you the answer, because at the end of the day there is a clear correlation in India particularly between price and adoption rates and penetration. The only difference, I would say, in terms of 3G versus 2G is that 2G is actually serving what I called as a basic need which is one of a person being able to communicate with another person, that is slightly different from a 3G requirement, which is more what I would called as a little bit discretionary. So, for example I wouldn't called it like life threatening or life essential, but today telecom services in terms of a mobile service where you can make calls is no different from a utility like a electricity, like water like cooking gas, it is no different, and that's why the prices have gone to a level where they are because that's where they should be, whereas in the case of 3G it is different, it is not really a core critical must have service today.

Gaurav Tyagi: Sure sir I got your point. Thanks a lot sir.

Moderator: Thank you, Gaurav. The next question is from Priyanka Khanna from Bharti Corporate Office. Your line in unmuted. Please ask your question.

Priyanka Khanna: Hello everyone, thank you for taking my call. Just a small question with respect to the fact that we are seeing a 3G and VAS are going to be the key changes but still the market is not ready and there is not really a market demand for it as of now, and of course probably looking at a long term strategy probably, how do you see your change of domestic and international revenue over the next one or two years?

Arvind Rao: Sorry, how do I see the change in?

Priyanka Khanna: The mix between your domestic and international revenue.

Arvind Rao: Yeah, so what we have said is that clearly in India we are live with almost all the customers, so there is the question of building and maintaining the franchise serving them well with new products and services and scaling up to meet the requirement. On the other hand on the international front it's like sailing into a wide open sea, as I said before we have seen literally almost unprecedented customer demand for our services, and the question is how fast we can move So, given that you can expect and you will expect and you should expect higher international growth from us, and therefore a higher contribution coming from international over the next two three four five years. Now our target are that we have said that roughly three years from now we hope to achieve at least a fifty, fifty balance between international and India, and five years from now I would like to have achieved a balance where international is two third and India is one third. That's where sort of we are… those are sort of goal posts that we trying to stick to.

Sanjay Uppal: I'll add one thing here which is when Arvind was talking about 3G and the market not being ready, those remarks are more specific to what's happening with 3G rollout in India. 3G is quite ready in the international market, and we have been selling after our Dilithium acquisition we have been selling fairly robustly into that space, including our personal data management product. And one thing more I'll add which is because we have been getting a lot of questions about the magnitude of what we have spent for that acquisition, just to put all those questions to rest, it was in a 5 to 6 million USD range. So, this will probably help you in your modeling for how we are going up to 3G and video.

Priyanka Khanna: Alright. Another small question. How do you see the contribution of your legacy products and other products maybe on a YTD basis?

Rajesh Moorti: This year again broadly the revenue from our networks products units which mainly include RBT is around 45% to 45%, our voice total base application is around between 27% to 32% and DPU will be around 15% to 20%.

Arvind Rao: In other words if you think about it the legacy product are roughly in the range of 65% to 75% today.

Priyanka Khanna: Okay. I am sorry. I didn't get the last one. RBT, voice and data product. Alright. That will be all from my side. Thank you so much.

Moderator: Thank you, Priyanka.

Arvind Rao: Are we done or anymore question?

Moderator: No, sir. That was the last question. You can begin with the closing comments.

Arvind Rao: Once again, just to recap the thing. I think we are fairly happy with the uptake in the revenue and in particular the margins as we have consistently maintained in the past. Last year was a major investment year and while we continue to invest in terms of incremental business, as I see it for the next for the short term, I don't foresee any lumpy large investment of the scale of a Telefonica project in the next one year, and therefore we should be seeing a steady increase in our margins as we continue with our revenue momentum without the commensurate increase in our CAPEX and OPEX. So, that is one trend that I am happy to report. While we had mentioned this in the past, I am happy to say that we are actually tracking towards that.

The second thing is we have seen that there is an increased contribution from our international revenues and again this is another trend that we see continuing and we will continue to work on that. The margins on the international business are definitely higher than the margins on our domestic business. And again that should contribute to a margin expansion going forward.

The third thing is that with the addition of Dilithium, we have a cutting edge technology ready for 3G and for the advanced market, developed market in addition to our European products. So our ability to work into very large customers and present something that is very exciting and very technologically advance has gone up dramatically. So our mind share and attention that we getting from large customers all over the world has gone up dramatically. So, while all that is happening we have also been able to keep a tight control on cost and to ensure that our headcount and our productivity is increasing quarter-on-quarter. And that also should result in good margin improvement.

So, overall at least from our standpoint, we are quite happy with the tracking that we have seen in the last quarter to two quarters. And we are looking forward to the trend continuing in the quarters going forward.

With that I want to thank everyone who has been on the call, and if there are any other additional questions, please feel free to contact us either by phone or by email. So, thank you very much.

Moderator: Thank you. participants, that does conclude our conference for today. Thank you for participating. You may all disconnect now. Thank you.