

OnMobile Global Limited
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Investors Conference Call

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SPEAKER: **Arvind Rao – Executive Chairman of the
Board, CEO and Managing Director**

Sanjay Uppal – President and COO

Praveen Kumar – GM-Finance

Amit Rastogi – CFO



Moderator:

A very good evening, ladies and gentlemen. I am Sauradeep Sarkar, the moderator of this call. Thank you for standing by and welcome to the OnMobile Investors Conference Call Q3 2011 and '12 presented by Mr. Arvind Rao, the CEO. For the duration of presentation, all participants' lines will be in the listen-only mode, there will be presentation followed by a Q&A session. Please be advised, this conference is being recorded today. I would like to now hand over the conference to Mr. Rao. Over to you, sir.

Arvind Rao:

Yes, thank you. Good morning and welcome to all shareholders, analysts and investors. I have with me over here starting Sanjay Uppal the President and COO, I have Praveen Kumar, the Finance Manager, I have Rinku Ghosh our controller and Amit Rastogi who is our new CFO who I will be introducing further down the call.

So, very quickly we have circulated the talking points; I would like to go through the highlights. The three emphases on our numbers is a continued traction and momentum that we are seeing on the international business that we have. I am happy to say that international in quarter three has accounted for 48% of our top lines up from 42% in the previous quarter and the exit month of December it has actually reached 50%. So, as I have said in the earlier quarters, the strategy of the company of moving more and more international is firmly on track.

The second point is, the large Telefonica Latin American project that we had initiated two years ago is proceeding completely on track and we are very happy to announce that. In this quarter, we launched three more countries taking our live markets in that continent to 11 countries, so it is almost all of them and we are addressing 98% of the Telefonica subscriber base in that continent. So, the project deployment is almost complete in that large project.

And finally on this large project, it has actually turned cash flow positive within the first one to one-and-a-half years of going live. And on a five-year contract, this is an extremely significant and material development from our standpoint.

The last point I would like to add is on the India situation. India is still around 50% of our revenue and due to TRAI



regulations as well as market developments that we have talked about in the past, namely, that the 3G development is going slowly. In most operators the number of active 3G subscribers is still extremely low and hence the take up of 3G Value Added Services is going to take some time.

So, there is a slowdown in the Indian market for multiple reasons both from a regulatory standpoint as well as a changing dynamic as the market changes from a 2G to a 3G market and that is obviously reflected in our numbers. As you can see, the growth is largely coming from international.

So, point number two is that if I look at the Indian market, year-to-date for quarter three on the previous year, the India part has decreased in terms of contribution but the growth was minus 10% year-on-year.

Now, part of that is obviously also reflected by the change in scope at a very large customer of ours in India. But in spite of that, there has been flat or negative growth in the Indian Market for the reasons I have talked about.

In the emerging markets which for us is Latin America, Africa, Southeast Asia and Asia-Pacific, we have seen spectacular growth, almost 146% year-on-year, year-to-date. So, we are extremely happy about that. And on the developed markets which is largely North America and Europe, we have seen roughly a 30% year-on-year growth, year-to-date. And in a couple of these markets, we have actually got very large customers that have been launched or have been signed in the last one or two quarters. So, I am very optimistic about the momentum increasing in the developed markets in the quarters going forward.

The third point is in terms of organizational changes. In keeping with our strategy, as I said of OnMobile 20/20 and moving to a more market-oriented company, we have had a change in our board with two directors, Mr. Iyengar and Mr. Varma who have served on our board for the last five or six years, cycling off and we have had a new board member Harit Nagpal joining on board.

Harit comes with a whole bunch of experience, in particular in terms of telecom with the Vodafone Group both in India



and at the group level in London, and second thing is he has extreme depth of knowledge in terms of consumer-marketing and brand-building. So, as we look at getting into new markets like direct-to-consumer, he is going to play a very vital role in bringing the business perspective all the way from the board.

And finally in terms of organizational changes, I would like to introduce Amit Rastogi as our new CFO. I will ask him to introduce himself but he joins us from GE and hence has a lot of experience in terms of what it takes from a process standpoint and a systems standpoint to put in place an organization that can scale up and handle operations around the world. Amit, I would like to introduce you and could you please just say a few words about yourself?

Amit Rastogi:

Sure, thanks Arvind. Good morning, everybody. Extremely happy to be here, this is a great company, everything that I am hearing, am learning, our best years are clearly had a best. As I come in, my focus will be to drive growth, profitability, cash, operating efficiencies, compliance transparency. I look forward to working with each of you individually and collectively, getting to know each other better and then explain how we think this company is going to grow from place to place over the next two or three years.

Arvind Rao:

Thanks, Amit. So, with that I would like to turn it over to Praveen Kumar to walk us through the numbers and then we will open it up for Q&A. Praveen?

Praveen Kumar:

Thanks, Arvind. Good morning, everybody. I will take you all through the results for the quarter and the developments impacting these numbers. First let us look at how we have done over the last quarter which is Quarter two, in Quarter three our revenue was 169 crores as against 155 crores in the last quarter which is a growth of about 9%, the gross margin have remained stable at around 78% with a similar growth percentage as revenue which is 9%. And the EBITDA is going at 20% and the EBITDA margin shows an improvement from 21% to 23%.

The operating profit has grown at a healthy pace of about 13% better than revenue growth but lower than EBITDA growth because of the higher depreciation. This higher



depreciation however is in line with our estimation and expectation. This is because of the amortization of the marketing development and deployment fee for LatAm, which increases quarter-on-quarter.

And we have been highlighting this in our earlier quarterly calls as well. The other income is lower because we had a stake sale of VerSe Innovation in the last quarter to the tune of about 46 crores, and that is not there in the current quarter. So, it is down quarter-on-quarter. Tax expense is slightly lower; we have an effective tax rate of 17% in this quarter, but you should really look at this number from an year-to-date perspective, and our year-to-date effective tax rate is around 23.5% which is broadly in line with the initial range that we had given out.

Now, on a year-to-date basis, our revenue has grown from about 404 crores to 461 crores which is about 14% growth, and our EBITDA has grown at 10% while our operating profit is down by 15%. The operating profit is down because of three reasons already explained, which is the amortization. And the reason why our EBITDA growth is lower than revenue growth is because of our investments in terms of manpower and other operational expenses on our new units which is the video products unit and the North America region which was not there in the last year of y-t-d results but which is absolutely essential for the India dependency de-risking. And again similar to our LatAm experience, as these new units ramp up in their revenues, we would see an uptick in our margins as well.

So, net-net what we have seen in the last quarter is a profitable growth. As we had seen it in the last quarter. Some of the other key data points that investors look for, one is the cash balance, we have about 120 crores of free cash with us and CapEx, so CapEx during the quarter was about 17 crores, and the year-to-date CapEx numbers is about 42 crores. And with that I turn it over to the moderator to start the question-and-answer session.

Moderator:

Thank you so much, sir. Participants, so we are going to start with the Q&A interactive session. So, I would request all the participants, if they wish to ask a question, please press "0" "1" on their telephone keypad and wait for your name to get announced. I repeat, participants who wish to



ask a question, please press "0" "1" on their telephone keypad and wait for your name to get announced. Thank you.

Our first question comes from Mr. Raj Mohan, he is an individual investor. Mr. Mohan, your line has been unmuted, you can go ahead and ask your question.

Raj Mohan:

Yes, thanks for having me and congratulations to the management on a good set of numbers. I have a few questions, first is are you on track to do 20% top-line growth that you had projected two quarters back; for that essentially you have to do a top-line of about 185 crores in the last quarter.

Arvind Rao:

So, you know, we are trying, but again, I cannot guarantee that and I have always said before, we give out estimates, we do not give out really guidance. So, it depends entirely on the business around the strategy. As usual in some cases like in our European business, the fourth calendar year is backend loaded. For us, in some cases the North America and stuff, there are still large projects which are being finalized. So, we are trying but I have not steady confidence on that. I cannot really give you a yes or a no.

Raj Mohan:

Okay. Second is, on the LatAm thing, what sort of range would adoptions be in the Telefonica LatAm deal and how is the pricing?

Arvind Rao:

So, the adoption is right now... we had forecast that we would get to our estimate of around 15% to 20% adoption over the course of the contract. And today we are roughly at about the 5% or 6% adoption rate, which is, A, it is materially higher than the 1% or so which was the case when we took over the project about a year and a half ago. So, we have made extremely good traction. However, as you can tell we also have a lot of upside left before we can say that that market is saturated. So, we are very positive that that is good result and more revenues and momentum going forward. That is one.

The second thing is in the Latin American project, our contract requires us to deploy about 15 to 20 products. As of today, we have actually deployed only about two or three. So, both from a product standpoint and our adoption



standpoint, there is still a long way to go in the Latin American market. And your second part of the question you had asked?

Raj Mohan:

About the pricing, whether it is still holding on at the two [indiscernible] [0:12:16].

Arvind Rao:

Pricing is holding, there has been no change or any drop or anything in the pricing in that market from the date we started services. And like we have said, one of the advantages of operating in many of these overseas markets is that the ARPU to OnMobile is significantly higher than India. So, in Latin America, the actual ARPU that we are realizing and booking is almost three to three-and-a-half times higher than in India.

Raj Mohan:

Okay. Though it may be a bit early, based on the momentum you are generating on the international front, could one expect better growth than the 20% that you are projecting for this year?

Arvind Rao:

You know, these things are difficult to tell. You know, here is the reality; reality is that because we are white labeled, to some extent, we are at the mercy of market developments and what the local operators do. The one thing good about it we have noticed is that whenever we have shown operators good revenue growth, they have actually started jumping in with even larger promotion money, marketing expenses and that drives the service and the revenues to even greater heights.

So, it depends on the markets individually. Obviously we are trying as fast as we can. And as I have said before, I look at it as a real estate game all over the world. So, we are going as hard as we can.

Raj Mohan:

Okay, one final question on the margins; having turned operating profit positive and with a large flow through to the bottom line in ensuing quarters obviously having turned operating profit positive, could one expect profit growth to be better than the top-line growth in the coming fiscals?

Arvind Rao:

That depends, assuming we do not take any large new project investments, that should be the case. The reality is that we will be investing in large projects both in markets



like North America and Africa in particular, but the good thing about it is the nature of those investments is significantly different than the Telefonica Latin American projects in terms of up front expenses and the cash or the capital required to get to a cash flow breakeven state, it is going to be far, far lower.

Raj Mohan:

Okay. Thank you and all the very best.

Arvind Rao:

Thank you.

Moderator:

Thank you so much Mr. Mohan. The next question comes from Mr. Rohan Gala from Subhkam Capital. Mr Gala, you can go ahead and ask your question, your line has been unmuted.

Rohan Gala:

Good morning, sir. So, congrats on a good set of numbers. Could you guys throw some light on your dilithium set which you have purchased? Any update on that for the 3G part?

Arvind Rao:

Dilithium, the platforms and the infrastructure products in the IP that we procured through Dilithium, we continue to deploy it all over the world. So for example, there are markets where they are being deployed and they are beginning to saw revenue and traction, particularly the overseas markets. And then there are markets where it is more of a real estate game. So, for example in India, we have deployed the platforms in several of the large telcos, but, like I said, because many of them are on a revenue-share basis and stuff, unless we get traction on this 3G front in terms of active subscribers and 3G Value Added Services, you are not going to see revenue from that showing for a while. But in the outside market they are doing pretty well. Uppal, you want to add?

Sanjay Uppal:

It is exactly right, we have got four deployments and our revenue-share basis in India and in the outside markets, particularly North America followed by Northern Africa, we are seeing good traction for the dilithium product line.

Rohan Gala:

So, when do you see good numbers coming from the 3G part going ahead, like from India basically?



Arvind Rao:

Let me tell you, I have said this before and I will say it again, I do not expect the material contribution from 3G VAS in India for at least three to four years. I have said it before, I will say it again. These things take a while to develop, there is a lot of hype about it; and while I believe that the 3G market and the 3G VAS market, eventually, in India will be very large, it is going to take time to develop; it is not going to happen in the next one, two, three years.

Rohan Gala:

Sir, the last thing, can you just tell me your CapEx plan for next year.

Arvind Rao:

This year our y-t-d CapEx has been at about 42 crores, probably we will add another 10 crores to 15 crores in Quarter four and next year the CapEx will grow probably in line with our revenue.

Rohan Gala:

Okay, in line with the revenue?

Arvind Rao:

Yes.

Rohan Gala:

Okay. That is it, sir. Thank you.

Arvind Rao:

Thank you.

Moderator:

Thank you so much, Mr. Gala. Now we have Miss Sonam Golathi from VC Circles for the next question. Miss Gulathi, you can go ahead and ask your question, please.

Sonam Golathi:

Hello. Yes, hi. I just want to ask what is the strategy of moving for OnMobile from being a VAS company to a mobile internet company, what will be your strategy?

Arvind Rao:

In reality, you know, mobile internet is nothing more than really VAS services that are accessed through the data channel as opposed to being accessed through the voice or the text and messaging channels. So, by that extent, in our overseas markets, in particular in Europe and in North America where we have deployed a lot of our intellectual properties from our France R&D unit, we are already a mobile internet company. So, anywhere from 10% to 15% of our revenue today are actually coming from network address books, social address books, phone back up, mobile internet products and intellectual properties that we have deployed with large telcos like Orange, like T-Mobile, like



AT&T, Rogers in Canada, now that percentage is going to increase over a period of time. The question is how fast does the revenue from that segment grow relative to the revenue from our legacy products as we continue to roll out legacy into new markets overseas?

So, from a product standpoint, are we going to become more and more of a mobile internet company? Absolutely yes. But from a revenue standpoint the transition may not be as dramatic as the products may show.

Sonam Golathi:

What about India, what about the scene in India, how are you progressing in India from VAS to internet?

Arvind Rao:

Like I said, you have to remember one thing. Before we can even do VAS on the internet in India, first of all there have to be 3G active users, there has to be enough network and spectrum for the services to be good quality, high quality. And the second thing is that then people have to start using some of these advanced services [indiscernible] [0:19:03] behavioural change. Even in India, there are lots of people with smart phones but not many of them really use the data access channel. Most of them still use it as an ordinary cell phone. So, I believe it is going to happen, but it is going to take time.

Sonam Golathi:

Is it more because of the connectivity issues, and because of the connectivity we are not able to use many of the services available on line from our phones?

Arvind Rao:

I agree with you, one is definitely connectivity. And the connectivity issue is related to whether the telcos have enough spectrum, whether it is only 5 megahertz, they can do inter-circle roaming. So, there are structural industry issues which will affect the take rate of 3G and mobile internet use even before OnMobile can participate in that market.

Sonam Golathi:

True, true. So for this time we can say OnMobile will just wait for internet and 3G to take off in India?

Arvind Rao:

Yes, what I am saying is we have deployed our platforms, our products are ready, so as soon as we begin to see an uptake in the core usage, we can really participate in the Indian story, but so far the main emphasis today and on a



quarterly basis is largely overseas, largely in the north American and Europe market.

Sonam Golathi:

Okay. Thanks a lot.

Moderator:

Thank you, Miss Golathi. The next question comes from Mr. Vinay Jaising from Morgan Stanley. Mr. Jaising, you can go ahead and ask your question, please.

Vinay Jaising:

Thank you so much. Firstly congratulations to the management for a good set of results. I have a couple of questions, you know, Arvind, you have comment on the India business the last couple of quarters seems to have come true. There is a lot of stress out here. If I were to look in the next twelve months on the India business, do we think this is the bottom, give or take change 5% down or do we think there is a lot more bottom to coming down? If you could address this along with what kind of new 3G products you plan to come out in India, quantity, volumes or something which you have on your way which could kind of getting you much better business on the India traction? That is my first question.

Arvind Rao:

Okay, so has the Indian market sort of bottomed out for us? In reality if somebody asked me the Indian VAS market, five years out, how would that be relative to the Indian VAS market today, I would say it would be at least two to three X the size of the Indian market today. That being said, is it going to be a linear growth from where we are today to that two to three X, the answer is no.

So, there is going to be a little bit of a downturn, there is going to be a little bit of flat growth for a while because there are issues. Like I said, the TRAI issue is not going away, the issue of 3G being rolled out with half spectrum, quality of network, that is really not happening. The adoption of actual 3G by people, and in particular core 3G services like simple video calling and stuff are going to take some time to happen. So, I view that... and this is one of the reasons why we had been derisking and going international as fast as we can starting from about two years ago when we sort of saw the writing on the wall that there is going to be a slowdown in the Indian market for a period of three to four years; we are well into that period right



now, but I do not see it turning for another one or two years. So, that is on this side.

On which products are we planning to roll out or get ready to capitalize on the mobile internet, obviously the biggest one is in the area of video. And over there in the space of video clearly we have got a whole bunch of both infrastructure products and platforms all the way from... we have for example from Dilithium, we have network compression technology that can compress the network requirement or bandwidth requirement by almost 30%/40%.

So, a video call between people or somebody trying to download a movie clip or a music video on a 3G network, the bandwidth required for that is 30% to 40% less than using traditional technology. That is one of the things that dilithium brings to OnMobile and we have deployed this with many Indian operators today.

The second thing is the whole bunch of content services in terms of IVVR, in terms of video portals, which are content-oriented, which we are rolling out as well; and then the third thing is a whole bunch of person-to-person communication including richer alerts and including things like, like I said, video calling, video conference calling, which will substantially increase our take from the 3G space. And, Sanjay, you want to add to that?

Sanjay Uppal:

Just one more item to the ones that Arvind already mentioned which is the management of your personal data. So, people call it the 'personal cloud' where whether you take a picture or video or you want to exchange information between yourself and your friend, a lot of that is going to move into the cloud over the mobile internet. And so we are clearly gearing up for that change and that shift. We are already deploying this in the advanced market and we believe that as 2.5 and 3G, GPRS penetration takes off here, then those products will also roll out in the Indian context.

Vinay Jaising:

Arvind and Sanjay, thanks a lot for this answer. The reason I am going partly probe more on this is, you know last quarter, the quarter which went by not the one which just got over now, was a cyclical painful quarter every year.



Should that we could kind of understand what happened? In this quarter we have had only one company reporting results, so too early to say. But what we have seen is the trend is back of growth coming in in the data space especially for the sector in India, which is why I made that comment that you are still seeing some pain is there, anything which has happened in this quarter especially because of which OnMobile numbers would be different from that of, let us say, the overall wireless data industry revenue growth? You think there is anything special happened in October, November, December here?

Arvind Rao:

You are talking about the Indian market right?

Vinay Jaising:

That is right, that is right.

Arvind Rao:

No, I mean so far what we are seeing is the increase in data revenues that telcos are seeing is largely for access. So, it is not really for any value added services on 3G or anything, it is just for things like dongles or things like fixed wireless where phones are being used with 3G connectivity for accessing the internet. That is really the first stage of the mobile internet that the operators are seeing and booking revenues for. And if you look at the dongle space, there is a very little role for a company like OnMobile to play in.

So, typically what happens is the people who actually benefit the first place in 3G is typically the infrastructure players and the telcos. So, to that extent, we will participate in a small manner due to dilithium and the video platforms, but the bulk of it in terms of 3G Value Added Services is probably going to happen in a year or three years.

Vinay Jaising:

Sure, sir. Not taking more time here, moving to my second question and I will come back for my other questions later, the emerging market... If I look at developed markets and see the growth there on a year-on-year basis, that has been pretty impressive. As well as if I look at page 3 of your disclosures, the other services have grown pretty well as well. So, what is this and is this growth sustainable? And that will be my second question.

Arvind Rao:

You mean the growth in the other services or the growth in the emerging markets or the developed markets?



Vinay Jaising:

I do not know... emerging markets, let us forget because you have commented on that earlier, I am bothered about the growth in the developed markets and the growth in the other services. I do not know if they are the same or whatever.

Arvind Rao:

So, the characteristics of the developed markets like Europe and North America is structurally different from the emerging markets, in that if you look at the telcos, they are much larger, they are much more concentrated but they are also more difficult to crack. Okay, going in terms of the sales and BD effort in those areas is typically slower than in the emerging markets.

However, that being said, because of the price differentials, so, for example in North America, it is all in euros, in the US it is all in dollars, the ARPU of subscribers in these two markets is extremely high. So, when we do break in into a customer that goes on stream, the impact on OnMobile is huge. So, just to give you an example, you know, after a lot of effort and all that we find... we went live with Telefonica Spain, which was largely a fall out of our Telefonica Latin American success, but if I look at the European market where we have been present for five years, literally within a year of going live, Telefonica Spain has become our largest revenue generating account in Europe and accounts for almost one third of our European revenues.

So, while it takes a while to break into and get some of these large developed market telcos to sign up for our services, when one or two of them come on stream, the revenue impact is huge, it is huge. It is equivalent to about three, four, five, emerging market telcos. Now the good thing I can say is that we have been working on both these North American and European markets for a long period of time. So, we can expect to see the results of all that effort coming into play every quarter or every second quarter as we get more and more success with new customers coming on stream.

Vinay Jaising:

You know, Arvind, are there any new customers you have got in developed markets, emerging market is pretty clear in my eyes, but in developed markets, are there any new customers you have got in the last twelve or fifteen months,



or is it just the existing customer base of Vodafone, etcetera, which you have done much better in?

Arvind Rao:

So, the honest answer of that is we have, and they are very large, the question is we cannot announce it until we go live. And that is just the nature of the customer because they do not want to sensitize their competition. So, I can tell you that in North America as well as in Europe we have signed customers but we will be able to announce them only when we go live with them.

Vinay Jaising:

Arvind again, let us forget about the future, but the last twelve months where you are already getting revenues coming in, that is from the existing customers in developed markets, like Vodafone?

Arvind Rao:

Like I said, that is both from existing as well as new customers. I just gave you an example of a new which is Telefonica Spain which went live nine months ago. And today it is almost a big chunk, almost a very big chunk of our... material content which is into our top line revenue.

Vinay Jaising:

So, part of Telefonica comes in developed as well?

Arvind Rao:

Yes. Telefonica, just to be clear, today we are live with Telefonica in Latin America which falls in emerging markets and in Spain which falls in developed markets. We are also in discussion with their other territories, so that should also add on over a period of time. Similarly in the Vodafone case is same.

Vinay Jaising:

Right, sorry, sir, I did not understand that. I thought all of Telefonica is growing and emerging. So, just the third part of that small question of other services, how is that improved significantly in the current quarter.

Arvind Rao:

Vinay, I think, I suggest you should look at the total revenue rather than other services because other services, some part of our sales in our Europe market is technically differentiated from the telecom Value Added Services and that is why it comes as other services. But there is nothing largely impacting bifurcation. So, you should look at the total revenue and not the breakup, really.



Vinay Jaising:

Done, sir. What I am going to do is I am going to go off, I am going to come back if there is more space later on for questions. But thank you so much for your answers.

Moderator:

Thank you, Mr. Jaising. Now we have Mr. G. V. Giri from IIFO for the next question. Mr. Giri, you can go ahead and ask your question, please.

G. V. Giri:

Hi, Arvind. First question is on Telefonica, you said 5% penetration as opposed to a projection of 15%/20%, this 5% is presumably only for Latin America or if you take Spain and Latin America together, what percentage would that sort of equate to?

Arvind Rao:

No, the percentage that I gave you was for the Telefonica Latin American project.

G. V. Giri:

Okay. And in terms of the characteristics of the two markets, would you say that there are specific reasons to expect very different long term upside in LatAm and Spain or are they somewhat similar and regardless of how many years or how long it takes to get to that 15%/20% we can think of both the markets as similar markets.

Arvind Rao:

In the emerging markets which is Latin America, with some degree of confidence based on our other experience, we can say that we expect to get to the same pattern of 15% to 20% penetration, and that will happen faster rather than earlier. In the case of the European market, where we do not have that many deployments, I cannot say with certainty that we can get to that level, although the initial results so far that we are seeing leads us to believe that we could get there. It may take a little longer but the markets are markets, so they are same.

G. V. Giri:

No, Telefonica Spain was a running operation when you took over if I remember correctly, so is your revenues from Spain, which you are saying is a very material contribution, it has scaled up so much beyond that initial level at which it was when you took over?

Arvind Rao:

Yes, absolutely yes.

G. V. Giri:

Okay, that sounds very encouraging. Let me please ask the question which before Vinay Jaising asked a little bit



differently, what I am looking at is the fact that in a quarter where normally would have done about 4%/5% growth in the telco industry, you have done 2.3% Q-o-Q drop and I understand that you are not seeing much new revenues for the telcos and, therefore, for yourself in 3G, but what explains the shrinking of revenue, what exactly is driving it - for example, is it pressure on pricing or is it a reduction in subscription or people using or a voluntary enforcement of the reversal of mis-selling my telcos, what sort of explanation exist for this?

Arvind Rao:

It is a combination of all [indiscernible] [0:33:23]. It starts from TRAI. If I look at the new subscribers that are being added, and I have said this before, the quality of the new subscriber base, whether it is multiple SIMS or whether it is a ARPU that is extremely low, does not make it a very attractive market in terms of growth. That is the second reason. And the third reason, like I said, is that because of this inflection point transition from 2G to 3G, a lot of the promotional bandwidth and the management bandwidth of telcos and operators really has been moved away from 2G and 2.5G services onto 3G. So, obviously, the marketing promotion bandwidth that is put on 3G VAS, whether it results in numbers or not, it takes away from the promotion bandwidth given to 2G and 2.5G. So, it is for all these reasons that we are seeing a drop.

G. V. Giri:

Sure, and just looking at both the markets together, the India market and the LatAm market, would the markets be so different that eventually you would not see some of the weakness in the India market take over there also, are those markets, especially the LatAm, not suffering from this bandwidth transfer problem?

Arvind Rao:

No. That is because the markets there, they, in many cases, already have 3G networks deployed over there, they have already made the trade offs in terms of the allocation of bandwidth to 2G to 3G to 2G VAS, to 3G VAS. All those have been done, that is one. The second thing is, the reason why over there also, in overseas markets, the customer contact policy, in terms of how many SMSs, how many promotions you can do, is extremely, tightly controlled and regulated by the telco. So, the chances of a regulatory intervention, like what TRAI did in India, happening in



some of these overseas markets like Latin America is much, much, much, lower.

G. V. Giri:

Right. I understood. So, then just on your disclosure, a question, that you used to disclose this material new developments on customers and products and also non-financial KPI, so why have you stopped disclosing that when it was pretty useful when you did that?

Arvind Rao:

The non financial KPIs are reported on our website, so that continues to be reported. So, it is just a duplication of effort. That is one. On the customer side, we have had some rumblings from customers who even though we did our best to protect their names and not mention names, in many cases, it is pretty evident and at least people in a local market would know who it is.

And one or two cases we have had some feedbacks from them saying that they would rather not have their names talked about until the services really ramped up and they are well-established in the market. Largely because, if you think about it, in most of the markets where the operator would be telcos, particularly in the overseas markets, I would not say it is duopoly but there are two or three large gorillas in each market. And typically it is a fierce competitive market because most of them are saturated, so it is a market share game in those markets as apposed to growth in subscriber base and hence they are extremely paranoid and careful about giving out any changes on new services, new strategies that they are implementing or adopting until they actually go live with it.

So, that is one of the reasons why we have pulled back on that for a while. We are still going to look at what we can divulge and release, but that is why we have pulled back to some extent. On the product side, again, we have a very rich roadmap from our North American and from our French R&D units in terms of mobile internet and data services which we are rolling out with telcos both in North America and Europe. But again, as I said, I would rather not talk too much about that, because for competitive reasons.

G. V. Giri:

Okay. Now, in Latin America, is your revenue pick up happening on a broad-based basis or is it sort of



concentrated in a few countries; can you give some color on that?

Arvind Rao:

It is happening more or less across the board. There are one or two countries which are struggling either for marketing or bandwidth, the adoption is not where we thought it was. But the revenue is coming from more or less the same. If you look at it on our subscriber-adjusted basis, so obviously markets like Brazil, Mexico, Argentina, which are very large are going to contribute disproportionately relative to the smaller countries. So, it is more or less tracking both the subscriber base of Telefonica in those markets.

G. V. Giri:

Okay. I understood Arvind. Thanks a lot.

Moderator:

Thank you, Mr Giri. The next question comes from Nikhil Pahwa from MediaNama.com. Mr Pahwa, you can go on and ask your question. Your line has been un-muted.

Nikhil Pahwa:

Thanks, Arvind. I just want to get a sense of your applications play and whether there is anything planned on the mobile devices partnership side to reduce the dependency on mobile operators.

Arvind Rao:

By this you are talking about are we doing any business with sort of the Nokias or the Apples or the Blackberrys, is that your question?

Nihkil Pahwa:

Yes.

Male Speaker:

So, right now our emphasis continues to be on the telcos to a large extent, and the reason we do that is because in particular when we look at what is coming out of our North American and our European units, a lot of it has to do with this whole social networking and address-book-oriented services, and those largely have to be cross deviced. So, if we are doing it for a very large, let us say, a large operator in the United States, it has to... the product works on iPhone, it works Blackberry it works on Symbian, it will work across the different OSs. But going into market strategy in these developed markets is still right now almost predominantly with the telcos rather than with the handset guys.



Nikhil Pahwa:

Okay. This was also treated as any key developments from the product front because we started getting any product-related VAS from you over the last couple of quarters, I think.

Arvind Rao:

Yes. So, like I said, on the product side, we have made a conscious call that we are going to release the information only after the products have been ramped up significantly rather than giving it out at the time of either development or going live and that is purely for competitive reasons.

Nikhil Pahwa:

Okay. Has your RBT subscriber base in India grown? Has it declined or is it still the same since the TRAI's guidelines around promotion and confirmation came into play?

Arvind Rao:

I will have to check the actual numbers, but the last time I looked it was more or less flat. It has not gone up significantly. We have seen increased intake in some of our other non-RBT services. But RBT by itself I think has been more or less flat in India.

Nikhil Pahwa:

Okay. Any key developments related to the language piece that you had, the voice recognition business that you required?

Arvind Rao:

Sorry, I did not get you, Nikhil. This language development for languages in India or outside India?

Nikhil Pahwa:

In India and outside.

Arvind Rao:

In India, I think right now our language models are covering almost 80 or 85% of the speaking population the last time I looked. We continue to develop new models for markets overseas based on our entry strategy. So, there are large markets where we talking to telcos to enter and the language models for those countries are under development as we speak with the timeline to be coincided with going live in those countries. So, for example, just to give you an example, in Africa, for example, where we are rolling out several countries with Airtel, obviously over there our language unit is also working with our Airtel CFU to develop models for each of these markets so that the service is highly differentiated and unique.



Praveen Kumar:

Just to add to that, in Latin America also, in the local languages, in many other countries we are rolling out our search which is based on speech recognition and these language models.

Nikhil Pahwa:

Do you have anything stand around the mobile payment space?

Arvind Rao:

No, we are not really a player in the mobile payment space.

Nikhil Pahwa:

Great. Thanks and all the best.

Arvind Rao:

Sure, thanks.

Moderator:

Thank you, Mr Pahwa. Once again we have Mr. Jaising from Morgan Stanley for the next question. Mr. Jaising, you can go ahead and ask your question.

Vinay Jaising:

Thank you so much. I have four quick small questions. First, has there been any ForEx impact on the income statement this quarter because a lot of currencies did better than the Rupee last quarter? So, both on the net profit revenues and EBITDA if you can tell us if there has been any material impact. Second, depreciation assumed increase because of Telefonica; assuming that this will be something similar to watch out for in the next couple of years, is this trend right? The third tax rate; it was a bit low this quarter. Is this the right tax rate to use for the next year? And, fourth, you did mention currently the Bharti African input, what do you expect as a first full quarter wherein you launch services across Bharti circles in Africa, when do you think that quarter would be?

Arvind Rao:

Thank you. So, Praveen, why don't you...?

Praveen Kumar:

Yes. Vinay, I will take the ForEx and the tax rate thing and then Arvind will talk about the Telefonica and the Bharti one. So, ForEx impact this quarter we have not had any impact on our P&L because of ForEx while currencies have moved up and down and we have exposure to a few three major currencies; there has been no significant impact, because we have a fairly good hedging strategy in place. So, there has been no impact. And on the tax rate this quarter is lower, and that is why I mentioned that we should look at y-t-d more than from this quarter because the lower



tax rate quarter in this quarter is not the one that we should consider for next year. We will...

Vinay Jaising: Depreciation also if you can touch, please.

Praveen Kumar: Sorry?

Vinay Jaising: The depreciation question as well.

Praveen Kumar: Yes, so the Telefonica depreciation is going to up. As we said the marketing development fee that we had paid out to Telefonica is actually being amortized in a gradual manner depending on the way the revenues are going to ramp up. So, as the revenues increase, there is going to be higher charge by way of depreciation. So, that is going to increase quarter-on-quarter.

Vinay Jaising: Great. Arvin on the Bharti bit?

Arvind Rao: Yes. Vinay. Sorry, what was your question on Bharti?

Vinay Jaising: Basically when did you launch you launch operations in Africa for Bharti? When do you think the first full quarter of seeing a normalized launch across Bharti circles and thereafter, then the question is growth coming in just organically? So, when do you see you are launching the fifteen... or place of Bharti's presence in Africa?

Arvind Rao: So, here is the thing, in reality services, first of all we are doing multiple services for Bharti and in multiple countries. So, Bharti is obviously, the way they operate in India is they they have distributed services in countries across different vendors. So, as far as the scope of contract that has been awarded to us, and we continue to work for them for even more for expanding that, we have already launched certain services in certain countries. So, I think in terms of the current contracts, the full deployment will be ready probably only about one or two quarters down the road. So, if you think about a full impact, where we will be able to give a view on that, it will be probably be about two or three quarters down the road. But the initial results, from the emails that I have seen, have been extremely positive; both the countries are happy - Airtel is happy and we are happy. Hopefully the consumers are happy.



Vinay Jaising:

Arvind, if I can probe the question the other way round, is there a way, because we have some clue of how much Telefonica was and Vodafone was, some quarter, is there a way of knowing what Bharti's African not Indian, just African operations would be on top line for you?

Arvind Rao:

Yes. So, Vinay, you know, you are again... we have had a policy that we do not give out customer-related data. The only reason we have made an exception in Telefonica Latin America case, and that too with their approval, was because there was a huge investment of about 200, 250 crores than we had made in that particular continent-wide project. That is the only reason why we made an exception on Telefonica Latin America; other than that, in reality, we are bound pretty strictly by customer contract. So, we cannot release that information.

Vinay Jaising:

Let me put it the other way round; would it be fair in saying that about a third or a fourth, or whatever number you are comfortable in, of Bharti's VAS business outside India, you would be there, I mean you would be having about a third or fourth base on your contract on Bharti, some number of what percentage of their VAS business are you going to be involved in?

Arvind Rao:

Vinay, I am not going to comment on that.

Vinay Jaising:

Okay. Thank you so much, sir. I totally understand.

Moderator:

Thank you so much. We have Mr. Himanshu Shah from HDFC Securities for the next question. Mr. Shah, you can go ahead and ask your question, please.

Himanshu Shah:

Thanks for the opportunity. I have a couple of questions. One is, we talked about change in scope of some large domestic operators. So, if some more details could be provided, basically what is the change in scope as well as what kind of impact it could have on our numbers?

Arvind Rao:

So, we have said this before, right? I mean in the case of one or two customers, actually in the last three four years, we have been taking a stand that content which flows through our revenue line item, but which we do not mark up, we would actually prefer that to be done directly between the content provider and the operator so that it



does not affect our margins. So, in the case of whenever there is a change in scope, it is basically saying that content a revenue streams that was flowing through us for a particular set of services is now being done directly by the operator so that revenue does not flow through OnMobile. So, it affects our top line but it does not affect anything below our gross margin line.

Himanshu Shah:

Oka, okay, fine. Thanks. Second question is we also talked about change in business model where we are looking for reaching directly to customers, is that reading correct or there is no fundamental change on that part?

Arvind Rao:

So, you know what it is? So, historically this company has been a telecom-operator-focused-white-labelled-managed-services business model. And we continue to see huge upside in that both at the international level and in the India level; obviously more in the international level. So, we are going to continue pressing our accelerator on that as hard as we can. But in addition to that, we also believe, based on our experience, that there are certain market services which consumers want which are inherently cross operator which does not make sense for anyone operator to pursue because of the scale, and hence the market would not be served if somebody like an OnMobile did not offer their service on a direct-to-consumer-cross-operator basis. So, in the next year or so we will be looking at launching a few direct-to-consumer services in various market, whether both with our legacy products as well as our advanced products from our overseas markets.

Himanshu Shah:

Okay. Arvind, if you can help out on the nature or if you can just give some examples for this nature of service beyond our legacy products; and this will be primarily in international market or even in domestic market?

Arvind Rao:

So, you know, I mean, most of these are data services which require fast internet connections and fast data connection. So, like I said, the critical mass for these will most likely not be found in the Indian market for a while, may be one or two years. So, right now the emphasis on getting these services launched and live and ramped up is all happening in the overseas markets, largely in the developed markets of North America and Europe where we



have very large teams that work on both sides of the Atlantic Ocean.

Himanshu Shah: My third question is, is it possible to share the exit run rate for LatAm project, revenue run rate?

Arvind Rao: No. I think, again, like I said, going forward, you have to remember one thing, we have to be very careful in the information that we can give out and that we cannot give out because ultimately we are governed very strictly by our customer contract. So, every time we have to give out something that is unique, we need to go back to them and get an approval. And quite frankly, I will tell you from the conversations that I have had, because we are one of the few listed companies in the world, as the numbers get larger and larger, people are getting a bit nervous about releasing customer-specific information.

Himanshu Shah: Okay. Fine, Arvind, no issues. Just on the LatAm part, when we have seen we have turned operating profit positive, is it after the amortization cost or before that we are saying that we have turned operating profit positive?

Arvind Rao: Yes. So, last quarter in Q2, we turned EBITDA positive and I am happy to say that in this quarter we have turned cash flow positive even after including the amortization and depreciation.

Himanshu Shah: Okay. Thanks, Arvind. Thanks on that. Just the last question, again on the currency part, in our international revenues, because of Rupee depreciation, did we have any benefit on the top line front, purely because of Rupee depreciation? Well we are not having any ForEx loss due to hedging stuff but any positive flow-through because of Rupee depreciation?

Arvind Rao: Yes. We have had some small benefit mainly coming out from our North America region but not significant.

Himanshu Shah: Okay, fine. Thanks.

Arvind Rao: Yes, thanks, Himanshu. We will take one last question, please.

Moderator: Sure. Thank you, Mr. Shah. Well, we have questions from Mr Siddharth Deshmukh from Network Stock Broking



Limited. Mr. Deshmukh, you can go ahead and ask your question please.

Siddharth Deshmukh: Yes. Good morning, sir. Thank you for the opportunity, and my congratulations for good set of numbers. Sir, a few questions I want to ask is, sir, as we check your none-month figures, the employee cost is increased, so can you comment on this, what would be the comfort level for full year basis?

Arvind Rao: So, the employee cost, see in some of these, hardly in a developed markets, both in terms of North America Europe and Africa we are investing very heavily with people to ramp those up. I mean, if you recall we had the same situation with Latin America about a year ago. When we invested in whole bunch of people we have a team of almost seventy, eighty on the ground, and it hit our P&L I think about three or four quarters ago, and everybody asked me the same question, and today I can happily say that the results are there for everybody to see. So, think of these result investments; so if we add on people in North America and Europe, these are just pre-investments with revenues to come within the next year, which will more than cover them.

Siddharth Deshmukh: Okay. And, sir, for other expenditure, would you expect it would increase in future or it will remain the same?

Arvind Rao: No, it is also linked to our geographical expansion. As you are getting to newer regions, one is the manpower cost and second is all the other expenses relating to setting up of offices in these regions, our travel cost and all that. That is also increased depending on the way we ramp up in other geographies.

Siddharth Deshmukh: Okay, fine. Thank you, sir. That is all from my side.

Arvind Rao: Thanks.

Moderator: Thank you, sir. Well, we have two more questions in the queue, sir.

Arvind Rao: So, let us take one. Let us make one more question and then we will close.



Moderator:

Sure. Well, we have Kunal Vora from BNP Paribas for the next question. Mr. Vora, you can go ahead and ask your question, please.

Kunal Vora:

Sure. Thanks for the opportunity and congrats for the good set of numbers. My first question is on Latin America. When do the five years get completed and what happens post that? Like is there a possibility like contract not getting renewed or will there be some other payment, let us say some CapEx or market development fees, anything like... can you just explain the situation, like what happens after five years?

Arvind Rao:

So, after five years, here is the thing first, of all the contract does not expire on one particular day. It expires on the fifth anniversary of the service going live in each country. So, the contract is going to expire over staggered dates across twelve countries; that is point number one. Point number two is like any other contract that we have, by that time we are hoping that we will have at least around fifteen, twenty, thirty million Telefonica subscribers who are actively using the services on a daily and a monthly basis. So, it is like a vice. So, the chances of not renewing that, I would maintain, is extremely low.

Kunal Vora:

Sure. Okay. Will there be any further CapEx required or it will be as usual?

Arvind Rao:

See, we do not know about that, but what we know is that a large chunk of the CapEx in terms of the infrastructure, the data centre, the lease lines, the hardware, a bit chunk of that has already gone in.

Kunal Vora:

Okay, sure. My second question is on the debt number, like the debt number increased further, like you have decent cash balance in the book, so why take further debt, overseas debt?

Arvind Rao:

Yes, we are going for this debt mainly for the reasons of arbitrage. So, while we get the debt benefit of about two to three percentage points so we raise funds in our international locations wherever it is required and the excess cash balance we have in India we deploy it in fixed deposits. So, that gives us an arbitrage. So, we will keep



doing this till we get the arbitrage. And once it exceeds that threshold, we will not do it.

Okay any other questions? Otherwise let us close the call.

Moderator:

Well there is no question in the queue. I would request Mr. Rao for the final comments.

Arvind Rao:

So, once again I wanted to thank everyone for joining us on this call. As I have said, I am very happy with the international growth. And while India continues to go through a little bit of turbulence, I am confident that at some point it is going to pick up because the end game is pretty clear in the Indian market. But it is just a matter of time as to when it really picks up and we get over all these hurdles. And in the mean time our strategy is very clear, is to go international as fast as we can and to rely on those overseas markets to make up for any weakness in the domestic Indian market. And that strategy seems to be entirely on track. So, I am happy with that. And once I thank all of you for participating and I look forward to joining you guys for the next earnings call about three month from now. Thank you.

Moderator:

Thank you, sir. Thank you, Mr. Rao, thank you Mr. Praveen, and thank you all the panelists. Well, that concludes the conference for today. Have a pleasant day ahead. You all can disconnect your line. Have a great day. Good bye.