



OnMobile Global Limited



Third Quarter FY2013 Investors' Conference Call

February 4th, 2013



Speakers: **Mr. Mouli Raman, Managing Director & CEO**
 Mr. Rajesh Kunnath, CFO

Moderator:

Good morning, ladies and gentlemen. I am Anchal Rastogi, the moderator of this call. Thank you for standing by and welcome to Quarter Third Financial Year 2013 Investors' Conference Call for OnMobile Global Limited. For the duration of presentation, all participants' lines will be in a listen-only mode and we will have a question-and-answer session after the presentation. Joining us today on the call are Mr. Mouli Raman, Managing Director and Mr. Rajesh Kunnath, CFO at OnMobile Global. The presentation will be divided into three sections, business highlights and corporate developments, which will be led by Mr. Mouli. Third section is the operational and financial highlights, which will be presented by Mr. Rajesh.

Now, before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the Q3 earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statements to reflect future, likely events or circumstances. I would like to now hand over the conference to Mr. Mouli Raman. Over to you, sir.

Mouli Raman:

Hi, good morning everyone. Thanks for joining the call this morning. At the outset, we wanted to clarify one thing. By mistake, the balance sheet was not sent out along with the financial results and was sent out this morning. Any inconvenience is regretted.

Okay, now getting on to the business highlights, before getting into the details, I would like to give an overview of the Q3 results and the trends. Overall, we are reasonably satisfied with the results. On the international business, we are seeing good uptake for our services from consumers in Latin America and Africa. In Europe, we are seeing good traction for RBT from the operators. We are also seeing more revenues from the existing RBT customers in Europe. The contribution of our international businesses to overall revenues has gone up to 64% in Q3 FY2013.

Coming to India, as we have been talking about this over the last couple of quarters, the Indian business is under stress. That continues and we expect that to continue for one to two quarters, after which we expect it to move in the positive direction. On the regulatory front, over the last about two months or so there have been intense discussions among various stakeholders i.e. operators, VAS providers and TRAI. Looking at the progress that the operators in the industry have made over the last few quarters, everybody is converging on solutions which we believe are user-friendly and in the long-term interest of the consumers and the industry and which will not be as onerous as the September 2012 directive. So there is positive movement.

On the organisation front, as we have said before, we have been working on a various initiatives to bring in more focus and to make the operations more efficient. While we have seen some minor impact of that in the current quarter, we believe we will start seeing more and more efficiencies in the coming quarters. So with that I will get into more details, which is in slide three of the earnings presentation.

Overall, the international business has contributed about 64% of our revenues in Q3. Latin America continues to be robust and showed about 105% year-on-year growth in revenues and contributes about 25% of the overall revenues this quarter. From the consumer standpoint, we have a penetration of about 8-13% in the countries that we have gone live in. In Africa, we are seeing good growth. It's about 94% year-on-year growth in revenues, and these are predominantly coming from RBT and to a lesser extent, from M-radio. We also launched football service successfully with an operator in many countries, across all channels and across all content types. In Europe, we have secured two major contracts for the provision of RBT services. We have also seen good revenue growth in a large operator that we have gone live with in Spain.

India, as I said, continues to be under pressure. Today India contributes about 36% of overall revenues and the

decline between Q2 and Q3 in India is primarily because of two reasons. One is because of the regulatory changes and also because in one operator, for some of the circles for RBT, we were replaced by another party. We have started to see that impact in Q3. While the operator business is under stress, we have started de-risking it by addressing the enterprise business. We launched a proof of concept with the Karnataka government for launch of various m-governance services. We have also finalised and implemented the transfer pricing policy with retrospective effect and as a result of which the ETR has declined to 35% on a year-to-date basis as compared to 48% in the first half.

Moving to next slide, operational performance; as we discussed earlier, if you compare YTD FY2012 with YTD FY2013, India used to contribute 59%, now it contributes 40%. Emerging markets has gone up to 40% from 26% year before and developed markets are about 20% from 15% a year back. On the products side, we are seeing quite good traction for RBT around the world both in terms of consumer adoptions and new operators coming on board. As a result of which RBT's contributions to our revenues has gone up to 57% from 48%. So with that, I will hand over to Rajesh Kunnath, our CFO, to take us through the financial performance.

Rajesh Kunnath:

Good morning, everybody. Before I get into the financial performance or the highlights, I would like to convey a message on behalf of Tony which pertains to an important organisation announcement. In a move towards strengthening the long-term strategy and defining clear-cut leadership, Mouli Raman, in addition to his current responsibility as the Managing Director of the company, has been unanimously selected by the board as the CEO of the company as well. Mouli, assisted by a senior leadership team will lead the implementation of strategy for OnMobile Global Limited.

Now, getting into the highlights of the financial performance for Q3 - while our revenues declined 2%, Mouli has touched upon the key reasons why the revenue

have declined, we have been able to sustain our basic financial performance by improving on our gross margins and also initiating certain Opex control measures. As we said, while the performance on the revenue front has not been good, we have tried to ensure that we have been able to recover most of the decline in revenue through savings.

The gross margin has improved primarily because we had the benefit of one-time reversals post review of the contest provision. We have also had a decline in manpower cost. The full impact of manpower cost savings initiated in earlier quarters will flow through in Q4. We have had a partial affect of it flowing through in Q3. While it appears that our Opex has decreased. If you eliminate the impact of Forex gain, our Opex has actually increased vis-à-vis the previous quarter primarily on account of increased provision for doubtful debts for one sticky outstanding and impact of rates and taxes and increase in travel and conveyance. Otherwise most of our other parameters, as far as our cost or depreciation or other income are concerned, have all been in line with the trends of the last few quarters.

As a result of overall improvement in gross profits and reduced expenses, our net margins, that is our Profit After Tax, has improved from 3.5% in the previous quarter to 11.7%. It has also been supported by reduced ETR. The Effective Tax Rate has come down from 48% for YTD September 2012 to 35% for YTD December 2012. We are now open for questions.

Moderator:

Thank you so much, sir. Participants, we would now start the question-and-answer round. For asking any question, you are requested to press "0" "1" on your telephone keypad and we would announce your name. I am getting the first question from Mr. Raj Mohan and he is a private investor. Sir, please go ahead.

Raj Mohan:

Yeah, thanks for taking my call and congratulations for a decent turnaround to both of you. I just had a couple of questions. First is, could you give further granularity on the

two major operators that you have won in Europe for RBT, something if you could give some further details on subscriber basis and ARPUs, relative to India.

Mouli Raman:

We will not be able to name the customer, Raj Mohan, but one of the operators is in Spain and the other operator is in Turkey. We will be going live over next two to three quarters with these customers. In Turkey, we believe that RBT should be a very successful service based on what we are seeing from the consumer standpoint. So at this point of time it will be too premature for us to give any numbers around that.

Raj Mohan:

Understand. But generally would it be fair to assume ARPUs similarly trending to the LatAm markets or more than that, say 2.5-3 times the existing?

Mouli Raman:

In Spain ARPU is the highest among the three and in Latam and Turkey, it is more or less same.

Raj Mohan:

Okay, next is, are you seeing a steady positive trend in developed markets as reflected by these adoptions by more major operators? And do you see potential for seriously tapping into, say, the US market with your traditional products?

Mouli Raman:

We are in the early stages of exploring the market in the US. We believe that from the RBT service standpoint, it is definitely underpenetrated. From the consumer standpoint, we believe that consumers will like the service. And the reason why there has not been uptake is the lack of focus from the operators and because we believe our product which is better than the competition and our managed services model will make a difference. So we are in discussions in the US and over the next few quarters, we will keep you updated on the progress.

Raj Mohan:

Okay, with this kind of increased traction seen from developed markets, can we anticipate the developed markets to contribute materially and significantly higher than the 20% that you are currently seeing?

- Mouli Raman:** Yeah, as I said, in Europe we are starting to see good level of traction for RBT already, and that should start flowing into results. That has already started flowing into results this year with one large operator in Spain. Three more operators are coming live over the course of this year. There was one contract that we had won in the previous quarter and two contracts won this year. And we are fairly aggressive on our sales efforts in RBT around Europe. So that way, directionally, yes, we will start seeing more revenues from RBT from the western markets.
- Raj Mohan:** Okay, one final question is Africa share of our total revenues. Would you be in a position to give that figure?
- Rajesh Kunnath:** Our Africa revenue for the quarter is Rs. 13.2 crores. It's about 8% of the total revenues.
- Raj Mohan:** Okay, thank you so much and all the very best.
- Moderator:** Thank you so much, sir. Now the next person in line we have is Mr. Ashi Anand from Kotak India. Please go ahead.
- Ashi Anand:** Good morning, Mouli. Good morning Mr. Kunnath. Congrats on a good set of numbers. The first question was with relation to these cost control measures you have spoken of. So you mentioned the benefits of employee cost reductions that should come through in the next quarter. Is it possible to quantify what kind of reductions we are looking at? And secondly also, has the transfer pricing policy now settled down and what kind of tax rates should we look at going into this quarter. I think post this, Prakash has another question.
- Mouli Raman:** On the first question, Ashi, as we said, we have been working on bringing in more focus and making it more efficient. On an annualised basis that reduction would be Rs.15-20 crores. And we are seeing a small benefit of it this quarter, and starting from Q4 to Q1 of next year we will see the full impact of it.
- Rajesh Kunnath:** Just adding to what Mouli said, our headcount numbers as of December 2012 is at 1,697 as against 1,744 as of

September 2012. The effective tax rate, as I mentioned, is at 35% YTD December 2012. It would be fair to assume that our effective tax rates will be in the zone of 35-37% as we close out the year.

Ashi Anand:

And should that be the number we are also looking at over the next couple of years?

Rajesh Kunnath:

No, this number is based on the way we are currently structured. We would obviously be looking at improving on this in the coming year. But improvements will not be in excess of 2-3%.

Ashi Anand:

I think it's lovely that it is settled down pretty quickly. Prakash, you had a question.

Prakash:

Thank you for taking my question. Congratulations on a decent set of numbers in the turnaround. It's a follow-up question from the last quarterly call. I think through all of our discussions, we have seen the company build up a certain level of cash. You are close to about 200-odd crores this quarter; maybe you can confirm the exact number. Just trying to get a sense of the utilisation of the cash. I think some of us had made some suggestions around possible buyback which will benefit the company's long-term shareholders, I guess the other applications are dividend, et cetera but just trying to get a sense on any decisions taken there.

Rajesh Kunnath:

Prakash, the Net Cash as of 31st December 2012 is 162 crore.

Prakash:

Okay, sir.

Rajesh Kunnath:

In line with the response given in the last quarters of today, the board is of the view that we should have a better sense on the free cash that is available for disposal in Q4. And today, as you may know, we do have issues in repatriating some of this cash from pockets like Bangladesh and Latin America where we are looking at various options and we expect cash to come in from these geographies by the end of the year. So the Board is of the

view that they would be able to take a call on decisions relating to buyback and dividend only after we close out the year and not at this point of time.

Prakash: Fair enough, sir. So most likely any decisions taken if it all would be taken in the next quarter?

Rajesh Kunnath: Yeah.

Prakash: Very well, sir. Thank you very much and all the very best.

Moderator: Thank you so much sir. Now, we have Mr. Srinu Rao from Deutsche Bank. Sir, please go ahead.

Srinu Rao: Yeah, thanks, thank you very much. Mouli congratulations on becoming the CEO. I have two questions, one on your LatAm operations. We had indicated in a couple of conference calls in the past that because of the upfront payment, the effective value to the company is very low than what I think a lot of us had anticipated. So if you could throw more light, now that the business has stabilised, what kind of returns or IRR we can expect from the LatAm business. That would be the first question.

And second, you already mentioned on the India business and Idea also came and commented. Would it be fair to say that sustainability in India, business now will be at a lower revenue level and at that revenue level what kind of annualized growth rates you can expect for the next two-three years?

Mouli Raman: So on the second one, we expect a drop in revenues over next one to two quarters and after that, it should start growing. The factors that will be driving the growth in India:, one is that from the consumer standpoint, with the implementation of all these policies, there will be more trust and they will start experimenting more. Number two is that the services will have to be more consumer-friendly and consumer-driven, much more than what has happened in the market until now and hence we will start seeing more and more services in the market.

Number three is that the operators have realised that we need to have a more open ecosystem going forward for us to really bring in more services. That will start playing out over the next one-two years. And the fourth one is that it will not be just the operators who will be the taking mobile service out to the market and we are already seeing signs of other people starting to provide mobile services; like, for example, the government project that we talked about, over next two to three years, , while I am not able to quantify the exact number but starting Q2 of next year it will be on an upswing. When all this comes in India may see a growth of about 15-20% over the next two years.

Srini Rao:

Fair enough.

Rajesh Kunnath:

Coming to your question on LatAm, I think we have mentioned in the past that the effective IRR on the LatAm project over a four-to-five-year horizon is in the region of 17-18%.

Srini Rao:

Okay.

Rajesh Kunnath:

Let me be a little more specific on the way it has played out thus far. Operations have convincingly stabilised across various countries where deployment has been completed. The operations, have more than broken-even and are actually contributing cash to the company.

Srini Rao:

Fair enough, that's helpful. Just one more question; a lot of operators have talked about -- actually are holding out this SDP where the provisioning now goes increasingly in the hands of consumer, provisioning or de-provisioning of various services. Does that have an impact on the range of services OnMobile provides with the operators, particularly in India, hence an impact on revenues?

Mouli Raman:

Actually if you look at all the policies that are being implemented, they are on two fronts - Activation and deactivation. On the activation front, it is to ensure that across all the channels, which are Voice, SMS, WAP, USSD and so on, there are consistent policies across operators on giving all the information that is needed for the user to

decide and getting a double confirmation before the the customer is charged for the service.

And on the deactivation front, again, when the user calls in, deactivation has to be done within a certain period of time there has to be common number across operators and so on. So that way, these policies have been implemented over the last few quarters by various operators and they are in different stages of implementation. We expect most of this to close out across operators by end February. So did that answer your question, Srimi?

Srimi Rao:

Yeah, it does. Thank you so much, Mouli, thank you.

Mouli Raman:

Thank you, sir, bye-bye.

Moderator:

Thank you so much, sir. Now we have Mr. Gaurav Malhotra from Citi Group. Sir, please go ahead.

Gaurav Malhotra:

Yeah, hi. Thanks for the opportunity and congratulations on the cost controls. I just had a couple of questions. Firstly, you know, you mentioned that the gross margins have improved because it also includes some one-off reversals. And if we can just get a sense of what is the quantum of the one-time reversals. And also I heard something that there is some reversal of provision of doubtful debts as well, I am not sure if I heard that correctly; if you could just help us quantify that as well? Those are the two questions.

Rajesh Kunnath:

The one-off reversal in the COGS line that I spoke of is an impact of about Rs.5 crores on account of us revising the contest provisions. Hitherto, the company used to provide for contests on a three-year rolling basis. Post a review of the actual utilisation of provisions thus far, we have decided that it is good enough for us to provide for contests only on a one-year rolling basis. So the excess provision that we had accumulated has been reversed. As you would know, most of the contests that we operate, run only for a duration of six months, so it was felt that it was a bit of an overkill of keeping provisions in excess of

one-year. So that was the reason why we revised the contest provisions and the impact of that was 5 crores. As far as provision for doubtful debt is concerned, it is not a reversal, but what I meant is vis-à-vis the previous quarter, we have had to take in additional provisions to the extent of 3.2 crores on account of one sticky outstanding.

Gaurav Malhotra:

Okay, alright, thank you.

Moderator:

Thank you so much, sir. The next question in line is from Mr. Miten from HDFC Mutual Fund. Sir, please go ahead.

Miten:

Good morning, sir. Just to repeat what you just said, you said, there was a Rs.5 crore write-back and a 3.2 crore provision. So that sort of largely neutralizes the bad debts activity that we did in this quarter. Is that what you said?

Rajesh Kunnath:

Yeah.

Miten:

Okay. Sir, you mentioned that India could grow at 15-20% over the next two years, you know, essentially that would require our legacy business to have largely stabilised at current levels. Do we have a sense that our legacy business has now become stable and there is no further decline that we can expect in that going forward?

Mouli Raman:

No, no. We are going to see a decline in Q4. In Q1 we will stabilise, we will start growing from then on. So that's the trend that we see now.

Miten:

Okay. And I am sorry I missed your opening comments on the implementation of the TRAI regulations -- double confirmation. What exactly is the latest status on that?

Mouli Raman:

The latest status is that, over the last couple of months there have been intense discussions between operators, regulator and VAS providers. And looking at the progress that has happened over the last few quarters, where it is heading now is that the directive will not be as onerous as the September 2012 directive from the Consumer and industry standpoint but will be user-friendly and will be in the long-term interest of the consumers and the industry.

In the September 2012 directive, if you remember, the second confirmation had to be necessarily via SMS, Fax or Email, irrespective of which channel the user comes in from. Where it is heading now is that, even though it will be possible for the services to be provisioned after two confirmations on the same channel, this confirmation has to be done from the operator's systems.

Miten: So you are saying if the, for example, the user has activated this service using USSD, again the double confirmation can also happen via USSD?

Mouli Raman: USSD and the second confirmation has to happen from the operator systems so that everybody does it and there is a concrete proof that it has been done.

Miten: Operator system, meaning the operator has to independently verify whether the subscriber wanted to activate the system or not?

Mouli Raman: Let's take WAP, you can have a site from which you buy the service but when you say buy, it will take you to an operator site which be handled by the operator. It will take you to the operators' site where information about the service will be given and the confirmation will be obtained on the page from the operator's site, similarly across all the channels.

Miten: Sir, the deadline for implementing this has already set in. So has there been some relief on the deadline?

Mouli Raman: What has been implemented already is on the de-activation front. All the operators have come out with common deactivation guidelines that have been implemented. There is a common number across all operators which has been publicised now. And the second one on activation, the discussions are going on and should be ending in the next few days

Miten: In spite of the TDSAT order?

Mouli Raman: Yes,

- Miten:** Okay. Sir, last one from me, the 15 to 20 crore annualised saving is only on account of employee cost or is there are multiple components to that?
- Mouli Raman:** Its annualised, employee cost.
- Miten:** And the benefits should start flowing from Q4 itself because the headcount reduction in terms of number is not very large?
- Mouli Raman:** We have seen some small benefit in this quarter. And we will start seeing more benefits in Q4 and it will done by Q1.
- Miten:** Okay. And to this effect, does this quarter's employee cost have any cost have any VRS link or that sort of expense?
- Mouli Raman:** No, most of the people have been serving notice period and hence we are not having any major one-time expenses as such. Was it clear, Miten?
- Miten:** Sorry, you are saying that whatever headcount reduction you have achieved so far that itself is an annualised saving of 15 to 20 crores. Is that reading correct or you are planning to do more?
- Rajesh Kunnath:** Miten, what we are saying is the rationalisation efforts were done in Q3 and only a part of that phasing has flown through into the Q3 numbers. The total savings of the Q3 rationalisation efforts, almost 70-75% of it will flow through in Q4 and a 100% impact of that rationalisation effort will flow through to Q1 of next year. What you have seen in the current quarter is hardly 15-20% of the savings impact.
- Mouli Raman:** So, Miten, to add to it, we have already taken the action. The end of the notice period for many people will be in this quarter and for some of them will be the following quarter.

- Miten:** Okay, sir, great and congratulations on the traction for the international business. Thank you.
- Mouli Raman:** Thank you, Miten.
- Moderator:** Thank you so much, sir. Now, before moving onto the further questions, I would request participants to press "0" "1" on their telephone keypads, if they wish to ask any further questions. The next question is now coming up from Mr. Chetan from Pragya Equities. Sir, please go ahead.
- Chetan:** Hi. Congratulations to the team for a good set of result and special congratulations to Mr. Mouli on becoming the CEO.
- Mouli Raman:** Thanks.
- Chetan:** Other than employee cost, what about the deductions? Overall expenses are quite high compared to revenues.
- Rajesh Kunnath:** Yeah, Chetan, our effort as far as the other operating expenses are concerned is to ensure that they remain within a reasonable zone as a percentage of sales. We have to remember that our international operations are increasing as a result of which we need to set up quite a few legal entities and subsidiaries overseas. We also will have that much more of travel that comes in as result of us having to network between various overseas subsidiaries . So our effort right now is to contain the Opex other than manpower. We contain the Opex increase to a reasonable level and ensure that we don't go overboard in terms of our spending. That's our whole effort. And it's not that we can achieve a reduction in Opex rather than ensuring that it's at an optimum level.
- Chetan:** And just one more small thing, other income component from standalone to consolidated is getting reduced from 41 crore to 8 crore, so how it got reduced in consolidated?
- Rajesh Kunnath:** If you see the notes to the financial statements, you'll see that we have implemented the transfer pricing policies

during the quarter. The changes that you are seeing at the moment between the standalone and consolidated results have to do with the implementation of the transfer pricing policy where the standalone shows other income and it gets eliminated at the consolidated level.

Chetan: Okay, thank you.

Rajesh Kunnath: Thanks, Chetan.

Moderator: Thank you so much, sir. Now, we have Soumitra Chatterjee from Espirito Santo, please go ahead.

Soumitra Chatterjee: Yes, thanks, good morning and thanks for taking my question. I just have couple of questions. One is, just like you gave the break-up of Africa and Latin America revenues this quarter, would it be possible to give the break-up of developed markets between US and continental Europe?

Mouli Raman: So the break up that we will give is along the lines that we have given here which is India, emerging markets and developed markets.

Rajesh Kunnath: Yeah, the emerging markets is 77 crores, India is 63 crores and developed markets is 36 crores.

Soumitra Chatterjee: Like in emerging markets you give 77 crores, of which 30 crores was from Africa and 44 crores came from LatAm, similarly anything in number or any figure as to of the 36 crores that came from developed markets, how much was contributed from US and continental Europe, if possible?

Rajesh Kunnath: Soumitra, we don't give out the numbers to that level of granularity as you would already know. So, I think, it's best that we stick to the current break-up that we have given you.

Soumitra Chatterjee: Okay, fine. And just one more question is that you mentioned that you have signed two new operators, one in Spain and other one in Turkey. Are we the exclusive RBT providers for these operators, like the one that we signed

with Telefonica and LatAm or do we have to compete with other providers there? Just trying to get a sense, have we paid any exclusivity fees or something like that?

Mouli Raman:

No, no, in this case, the operator has selected after an extensive RFP process. And the technical nature of the RBT is that, there can be only one provider in the line of call

Rajesh Kunnath:

There is no upfront fee payment for these contracts.

Soumitra Chatterjee:

Okay, and the one that was pending for Telefonica payment, they have been till now, is that correct?

Rajesh Kunnath:

In the Telefonica Spain contract, there is a phased agreement on how that should be paid. So a part of the payment has been made in Q3 and various payments will go through over the next 18 months.

Mouli Raman:

It will be amortized over the lifetime of the contract.

Soumitra Chatterjee:

Okay, thanks that helps. Thanks a lot.

Moderator:

Thank you so much, sir. Now, we have Mr. Nikhil Pahwa from Media Nama, please go ahead, sir.

Nikhil Pahwa:

Hi Mouli. I was wondering about any information on products because as we have seen the RBT contribution has actually increased. What are you doing in terms of de-risking on the products side?

Mouli Raman:

So, Nikhil, we will be in a better position to answer this question over next three months. We have rationalised some of the product lines and we are in the process of finalising the list of products that we will really be focusing on. It is a bit too premature for me to answer the question, please wait until later.

Nikhil Pahwa:

Okay. I was also curious about OnMobile exiting the joint venture with Madison, Kabuza Marketing, I think. So at a time when mobile advertising seems to be growing and scaling, why are you exiting this space?

- Mouli Raman:** we have taken a call to partner with others and not do it ourselves.
- Nikhil Pahwa:** Okay, what's the status of your Dilithium unit particularly in the US, how are your video services doing?
- Mouli Raman:** So on that front the call that we have taken is that, we had three products lines out of which one has been there for about last 10 years and is at a logical end. And of the other two, we are focusing on one product. And the other one, we have decided to discontinue. And the one that we are focusing on, that is continuing to do well, I mean that is part of the package that is not sold as an independent product, that is given as part of the service that we offer to the customers.
- Nikhil Pahwa:** Okay, so does your reduction in manpower actually have something to do people being laid off from the Dilithium unit?
- Mouli Raman:** No, it is across the board, it is not just this thing, we have taken a call on defocusing on certain product lines. And one of the products happens to be that.
- Nikhil Pahwa:** Okay, just curious about your data services and what you are doing around that in India, in particular, since pretty much every single telecom operator is reporting, exclusive growth around data?
- Mouli Raman:** Actually, for example, in the last quarter, we have launched a service around music in an Indian operator. Data in our products will be one of the critical elements. So, we will keep you updated over the over next few months on it.
- Nikhil Pahwa:** And what about the OnCloud deployment in the US, how is that doing?
- Mouli Raman:** Yeah, it is doing well. We won that contract. We are in the process of servicing it.
- Nikhil Pahwa:** Okay, great Mouli, thanks and all the best. Thank you.

Mouli Raman: Thank you.

Moderator: Thank you so much, sir. The next question is from Mr. Abhay Moghe from Avendus. Sir, please go ahead.

Abhay Moghe: Good morning, gentlemen. I will pursue on the TRAI regulation. Just want to understand two-three things. One, my friends says the regulation is not yet implemented on double confirmation. So do you think that once it gets implemented in whatever form, maybe a bit diluted form or in the same form, there will be an impact on operators' revenues and/or your revenues? That is first. Second is if there is an impact then will the impact be say much lesser on a segment of operators, I don't want you to name the operators, but will there be a difference in the level of impact on operators? And third, how much it can be, not around the numbers, but a range, how much it can impact your India revenues? That's it from my side.

Mouli Raman: There are two things. One is the directive which has come until now, the September 2012 directive. There have been a lot of discussions between the regulator, operators and the VAS providers and everybody agrees that it is not in the long-term interest of the consumers and the industry to implement it as it is. And, a lot of consultation has happened on how to move forward on that and regulations are coming in on the activation and deactivation front. On the deactivation front, it has already been implemented. On the activation front, even before the directives, a lot of policies have been implemented over the last few quarters by the operators and different operators are in different stages of implementation. We believe that by February or so most of the operators will be on the same page. So, that way, as I said in Q4 there is going to be a reduction in our revenues. It will stabilize in Q1 and we expect to see growth after that. So, did I answer your question?

Abhay Moghe: Yes, one part. But, another, like, if it's going to impact on your revenues similar or maybe lesser on more impact would be on the operators' revenues as well, right? Now,

suppose, whatever range it is, but if the quantum of impact would be similar across the industry or it would be the range of the impact of the operators would be significantly wide for the operators? What's your sense?

Mouli Raman:

So, one is as far as we are concerned, we have been implementing a lot of policies over the last few quarters ourselves and hence as far as our revenues are concerned, with two operators where the status of implementation in the operators' side has progressed a fair bit than other operators we will see some de-growth. Okay? But, what we are seeing is that in absolute amount, the impact on the operator is going to be much higher. That is for sure. And, again it is based on the status of implementation, because many operators have already taken the hit because they have been implementing it over the last few quarters. And, some operators will see the impact in the next two quarters.

Abhay Moghe:

Thanks a lot.

Mouli Raman:

I cannot give the specific names of the status of implementation by operators.

Abhay Moghe:

No, that's absolutely fine. Thank you.

Moderator:

Thank you so much sir. Now, the next question is from Mr. G.V. Giri from IIFL Capital. Sir please go ahead.

G.V. Giri:

Thanks for the call. It is very encouraging to see your progress. I have a few questions on your numbers. Number one, your net cash was a little higher last quarter than this quarter. So, I can see some changes in the working capital. So, can you give some colour around what's dropping it? Number two, your last two-three quarters if we just take a view on which cost number has changed – the biggest change happened in the cost of sales, where it's almost been about 900 basis points improvement. So, structurally what is changing and should it stabilize at this level? The third question is that what you call is other expenses. That has come down to almost 10%

this quarter. So, I would like to know which of the one of items that you mentioned, if any, are impacting this line?

Rajesh Kunnath:

Okay. The first question was pertaining to cash. Our total net cash as of 31st September 2012 was at 175 crores. That has come down to 163 crores as we closed out December 2012. The reduction of 12 crores is primarily on account of four issues. One is that we have generated 36 crores from operations, that is, from operations as well as movement in working capital. We have had higher tax payout to the extent of 30 crores. I will come to the reason for that. We have also had higher CapEx of 23 crores in the quarter. So, if you take the movement between taxes, CapEx and the cash generated from operations that broadly would explain the decline in cash. Why did the taxes go up in the current quarter? The taxes have gone up because we have had a lesser benefit of withholding tax. We had briefly touched upon this when we had discussed the numbers two quarters back that in the previous year we were getting withholding tax deducted from our payments in India at 1%. This year, we have not been able to get the concessional deduction. And, all the customers in India are deducting taxes at the rate of 10% from the collection. It's nothing to do with losing out on cash as much as it has to do with obtaining refunds from the income tax department later. Then in the last quarter we had the benefit of our VAT refund which we got from the authorities of about 16 crores. In this quarter we had expected to get another 12 crores but that hasn't come in. We expect the Rs. 12 crores to come in Q4. Besides these two, we have also had taxes in LatAm post transfer pricing adjustments that we made. While it will not impact the P&L it will impact the balance sheet because the benefit of all the transfer pricing changes that we have made will flow through from Q4 onwards in terms of balance sheet adjustments. So, what I am trying to say is all the refunds that we will have to make can only be made in the India books as we close out the March 31st. So, that's the reason why you will find the tax effect playing out in a different way in the coming quarter in the balance sheet.

CapEx has been higher in this quarter while our overall CapEx will still be within the annual number Rs.55 to 60 crores, which is the number that we told you all in the previous quarter. For the quarter the CapEx has been higher because of some deployments in Bangladesh, LatAm and to a small extent in India. So, the broad reason for decline in the 12 crores of cash from the previous year is generation of 36 crores from operations, offset by higher taxes and CapEx. That is as far as the cash flow is concerned, your second point was around why the gross margins have gone up from 78 to 87% roughly. You spoke of a 8 to 9% movement in gross margins and whether that represents a steady state or whether it has one-offs in it. In our view gross margins at the steady state would be about 82 to 83%, not 78, not 87. I had explained why, during the quarter it was 87 and not 83 because of the provision reversal of the content. Your third question was around?

G.V. Giri:

Other expenses.

Rajesh Kunnath:

Other expenses? See, as far as other expenses are concerned we told you about the efforts being put in to reduce manpower which is part of the manpower cost. As far as other expenses during the quarter is concerned if you look at it and do an apple's to apple's comparison you will see it coming down because in Q2 of this year we had a loss of 68 million on account of Forex, which was offset by a gain of 42 million in this quarter. So, in effect, there is a 11-crore swing and you must be seeing that as a trend and thereby noticing a huge reduction in other expenses. But, if you eliminate this our other expenses have actually been inching up more than coming down.

G.V. Giri:

Okay. And, what is the outlook on that? And, what exactly does it consist of other than general overheads? And, will that not go down because of some of your rationalization?

Rajesh Kunnath:

No, the rationalization is primarily focussed around manpower. The biggest chunks of other expenses are our administration cost, travel and conveyance, legal and

professional and most of the other expenses that we incurred

G.V. Giri: Okay, understood. That's, I think, good enough to work out a range for your projection. So, thank you very much for these clarifications.

Mouli Raman: Thanks Giri.

G.V. Giri: All the best.

Mouli Raman: Thank you.

Moderator: Thank you so much sir. Now, we have Mr. Sanjay Parikh from Reliance Mutual Fund. Sir please go ahead.

Sanjay Parikh: Yes, I just want to congratulate Mouli and the team for the great transition over the last three quarters. We have few questions. One is, broadly over the next two-three years, considering the way you guided on the domestic piece which can take off from first quarter of next year and our international piece is looking better. Can we say that the operating leverage would kick in over the next year and then over the next few years? And, linked to that, our margins over a longer term should significantly get better, because we have invested in the international piece in each of countries? And, as the revenues kick-in which is looking very healthy and the pipeline of the funnel also looks very good, operating leverage normally should kick in. So, if you can guide me there? The second question is on country-wise - internationally I am sure some of them would be making money, some of them may not be making money. So, clearly internally you would be looking at country-wise profitability and is there a scope to improve profitability country-wise or region-wise in the international piece? So, I wanted to ask is there any efficiency possible because clearly each of the countries gaining business is one part but making them profitable and repatriating back to us is important – the second piece. So, the third piece is working capital which I had eluded last time also. Well, the working capital intensity needs to get better for a business because if the cycle is so

long it clearly kills our return ratios. So, if you can guide us, over the next one year can we see that getting better? And, the fourth which my colleague also had eluded that clearly the cash is quite high and I would back my colleague that certainly something has to be done in terms of payout or buyback over next two-three quarters. So, thanks once again and a very good set of numbers. Kindly guide me on this business.

Mouli Raman:

Thanks Sanjay. Sanjay, one is on the way forward and what we are seeing is that of the current products, definitely RBT and to a lesser extent on other products we are seeing significant traction. For example, RBT, we are seeing better consumer adoption in the new geographies that we have gone live in. And, number two is that we are also seeing high traction for RBT in Europe. And, we are making our efforts to expand it in the US too. In Europe, it is in the early stages of growth and if we are able to show two or three success stories, which we already have we should be able to get a lot more customers in Europe., This I believe should play out similarly in North America. So, I mean, that's on RBT. And, on the other products front, we have been working on lot of products. We are in the process of rationalizing some of the product lines and so we are going to be focussing on fewer initiatives and we will do a great job in whatever we take up. And with that focus we believe that it is possible for us to roll out more and profitable services – better and profitable services with the operators that we ally with. So, I mean, this is on the revenue side. That is what makes us confident that we can see good growth over the next two to three years.

And, on the profitability side we are working on multiple fronts to increase the profitability as we are seeing one is because of focusing on fewer initiatives. Obviously, that has an impact on the manpower. Manpower was about 40% of the revenues in Q2. And, with more focused approach and increased revenues we want to bring it down to significantly lower levels than where we are today. We are also focusing a lot more on bringing in other efficiencies. For example, on the hardware front, how is it possible for us to make it more efficient as we go on to

smaller operators around the world? How can we make the hardware more efficient, how can we work with lesser number of people and so on and so forth? So, that way even on the efficiency front and both on the people side and on the infrastructure side we are taking a lot of steps to make them more efficient. So, that is what should give us better profitability. And on the working capital I will hand it over to Rajesh.

Rajesh Kunnath:

Sanjay you made a very valid point as far as the working capital cycle is concerned. What we, however, need to remember is what we directly influence from a working capital standpoint or working capital reduction standpoint is content, the content cost that we pay to our content providers and the way in which we can push the trade payable cycles around it and thereby run a more efficient working capital cycle. As far as the end customers are concerned it is a continued effort on our part to improve the collection cycle and get it to a more desirable level. If you just take these two quarters in context, we have really not increased our unbilled revenues. Our unbilled revenues continue to remain at the levels that they were in Q2, despite having grown in the international market. Most of our international customers follow a far more efficient payment cycle. So, it is our view that as we expand our international footprint, the weighted average between the international and domestic revenue cycles should result in us reducing our overall trade receivable levels. The single largest concern we have today is the build-up on trade receivables and we know the pockets in which they are increasing. So, we are in touch with the customers. We are trying to push them to give us payments faster, but that's a continuing effort and something which we expect will bear fruit for us over the next two to three quarters.

As far as buy-back is concerned as I clarified to Prakash when he asked this. The board will take a call on this as we close out Q4 after they have a better sense on how we have been able to repatriate monies that are currently held up in Bangladesh and certain Latam countries.

Sanjay Parikh:

I will just ask one more question which I missed is India, you know, the data opportunity in India and Mouli did speak about it but there are huge opportunities in multiple fronts in m-commerce or on the data piece and over the next two-three years, you have not even scratched the surface in India on data. So, if you can just give your perspective of over the next two-three years, how would we try to capitalize the opportunity as a VAS provider in the space?

Mouli Raman:

The way that we are viewing it is that from the consumers' standpoint what are the services that we should be providing and how do we provide it in the easiest manner for the consumer. And, to that extent data is going to play an important role. And, as I said, Sanjay, over the next few months, we will start sharing what are the areas that we are focusing on.

Sanjay Parikh:

Thank you very much and best wishes for you for future. Thank you.

Mouli Raman:

Thanks a lot. Just one more question please.

Moderator:

Sure sir. And the last question for the day is coming up from Mr. Vinay Jaisingh from Morgan Stanley. Sir please go ahead.

Vinay Jaisingh:

Thank you very much sir. Firstly, congratulations Mouli. Most of my questions have been addressed. If you can just touch upon two small issues, first the tax rate, you know, you have done a great job getting it down now. But, what should be the effective tax rate, let's say, for FY14 or FY15 is it 30-35 or what should that be? And, second question, if you look at your international business, the developed markets seems to have taken off again and the emerging market incremental revenue has been actually the lowest

growth we have seen historically at about 45 million. So, any thoughts there?

Rajesh Kunnath:

I will just take the effective tax rate question and then Mouli will address the developed markets' growth vs the emerging markets growth. As I clarified to Ashi when he asked this, the YTD ETR is 35% down from 48% as of end September basis the current transfer pricing policy that we have rolled out as also a view we have on what else we can do from a structuring front. I don't see the tax rates falling below 32-33% on a sustainable basis for some time to come. So, beyond that it will completely depend on the way our revenues grow further in the international markets and the way we are able to achieve some level of traction there. So, as of today, given the visibility we have I don't see the tax rates falling below the 33-35% range.

Vinay Jaisingh:

Rajesh, put the other way round. At least, 33 to 35 should be the range for the effective tax rate. Is that a fair comment to make?

Rajesh Kunnath:

Yes, that's a fair comment to make. .

Vinay Jaisingh:

Great.

Mouli Raman:

Yes. On the first question Vinay, the increase in revenues in the developed markets is primarily because of two reasons. One is the RBT deployment that we are seeing more revenues from certain customers. So, that is one primary reason. The other reason is that on the data product side we have had some good licensing revenues coming in over the last quarter and these are the two primary reasons why we are seeing more revenues on the developed markets front. On the emerging markets front?

Vinay Jaisingh:

Is there incremental growth on the developed markets front sustainable? So, are you saying this growth being sustained for the next couple of quarters, because it's a great growth?

- Mouli Raman:** Okay. So, of this, the revenues coming in from RBT is sustainable. On the licensing front, it goes up and down. It is not that we will be able to maintain the same growth from licensing on a quarter-on-quarter basis.
- Vinay Jaisingh:** Sure.
- Mouli Raman:** And, on an emerging markets front, overall, Latin America is showing robust growth and, in fact, we had sizeable degree of growth in Egypt and Africa is also showing very decent growth. So, that is on emerging market.
- Vinay Jaisingh:** So, it's not that the peak incremental growth in emerging market is behind us?
- Mouli Raman:** No, no.
- Vinay Jaisingh:** Because, if you look the incremental growth in the last four quarters this is the lowest.
- Mouli Raman:** No, no it is not. It is a combination of penetration in the current customers and the new roll-outs that will start kicking in revenues. So we believe that on emerging markets the growth will continue.
- Vinay Jaisingh:** Thank you sir.
- Moderator:** Thank you so much sir. Yes, sir you can take over the floor for final remarks.
- Mouli Raman:** Okay. Thanks a lot everyone for attending the call and for your support on an ongoing basis. I am looking forward to having you in the call again next quarter. Thanks a lot.
- Moderator:** Thank you so much sir. Thank you so much participants. With this, we conclude the conference call for today. You may all disconnect your lines now. Thank you and have a great day.
