



Third Quarter FY2015 Earnings Conference Call 6 February 2015

Speakers:

Mr. Rajiv Pancholy, Managing Director & CEO
Mr. Sanjay Bhambri, Chief Commercial Officer
Mr. Praveen Kumar, Chief Financial Officer

Moderator:

Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the 3rd Quarter Financial Year 2015 earnings conference call for OnMobile Global Limited. For the duration of the call, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are Mr. Rajiv Pancholy, Managing Director and CEO, Mr. Sanjay Bhambri, Chief Commercial Officer and Mr. Praveen Kumar, Chief Financial Officer.

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 earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statement to reflect future, likely events or circumstances. Please be advised this conference is being recorded today. I would like to now hand over the proceedings to Mr. Rajiv Pancholy. Thank you and over to your, sir.

Rajiv Pancholy:

Thank you, Sourodip and good morning, ladies and gentlemen. I would like to welcome you to the investor call regarding OnMobile's 3rd Quarter results for fiscal year 2014-15. With me are my colleagues, Praveen Kumar, Chief Financial Officer and Sanjay Bhambri, our Chief Commercial Officer.

On today's call, we will present our perspective on the quarter and explain the results. In the second half, as mentioned, we will open up the call for questions.

Let me start by saying that the 3rd Quarter was a critical quarter for us from the point of view of our ability to deliver our commitments. Some of you may recall that at the Annual General Meeting in September 2014, I had stated that the 2nd Quarter would be our last quarter with a loss. We did better than that and almost got to a breakeven point. In late 2014 (in October) during the investor call to discuss 2nd Quarter results, I had provided some guidance on the forward EBITDA improvement of 3-4% for the 3rd Quarter. As you can see, we have again done better than expected and have achieved an EBITDA margin of 20.5%

in the 3rd Quarter. During the same quarter, the 3rd Quarter, we also commenced the share buy-back process which eventually got completed in January 2015. Our reasons for this should be somewhat obvious. We have a healthy cash position which allowed us to do this and we are confident of creating much more value in the future.

My last few comments by way of introduction are about new initiatives. I am sure this is something that is in the minds of all our shareholders. We have continued to grow our business on a daily, weekly, monthly and quarterly basis and have increased the business within existing customer base as well as added to our customer base. In fact, let me share with you an important milestone. Fairly recently we crossed an important threshold of 60 million paying ring-back tone subscribers worldwide. And I also want to share with you the fact that we actually achieved this important milestone one quarter ahead of our own schedule.

Talking about new initiatives again without going into a lot of detail, let me just say that we will be introducing the first of our new offerings in Europe next month, which is March 2015. This will immediately be a limited scale entry to initially stabilize and fine-tune the product after which we will actively start to offer this to our customers worldwide. Since the activities in March 2015 would be somewhat limited, we will see a tangible impact of this on our financial performance beyond the current quarter which ends on March 31st, 2015. I want to thank you for your attention. And with that, I will ask Praveen to provide a detailed view of our financial performance for the 3rd Quarter. Praveen?

Praveen Kumar:

Thanks, Rajiv. Good morning everybody on the call. Let me summarize the financial results for Quarter 3. For the quarter, we achieved a revenue of 226.9 crores, which is 9.3% growth over the last quarter, and almost flat as compared to Quarter 3 of last financial year. But same as last time, you may remember that last quarter Q3 numbers had Vox mobile revenue which was divested in Q1. So a like-for-like comparison leads us to 11.6% growth over the last year. And also it is important to note the growth factors of revenue as that is what impacts the cost of revenue. In

line with the trends we have seen in the last couple of quarters, the revenue growth has almost entirely come from Europe region which has a higher component of content cost. And that's the reason why our cost has increased significantly this quarter. Coming to operating cost, our manpower cost, keeping in line with the reduction in Quarter 2, has further reduced by almost 15% from the last quarter, and other operating expenses has reduced significantly by 26% from the last quarter. As you know, this is a result of all the rationalization that we have been mentioning in the last two quarters. Our headcount number has further reduced to around 1180 at the end of December. Now, what has happened is we expected all these savings to flow over to both the quarters, Quarter 3 and Quarter 4, but we have been able to achieve this earlier than expected. So the operating expenses will stabilize at more or less this level in Quarter 4. With this, our EBIDTA has seen a very healthy growth of 67% over Quarter 2 and also a very healthy margin expansion from 13.4% to over 20% in Quarter 3. And with depreciation remaining flat or actually coming down a bit from the last quarter, the operating loss in Quarter 2 has turned into a 5% operating margin in Quarter 3. Now, this is a significant achievement for us as we have turned green at the operating profit level after five quarters. So this in turn results in a net profit of 7.4 crores for this quarter.

Now moving to the balance sheet, our gross cash has reduced from 290 crores to 274.6 crores, and so has the debt, which has reduced from 71.4 crores to 53.7 crores. So the net cash has improved marginally from 218 crores to 221 crores, but this is after spending about 11 odd crores on share buy-back in Q3. Now the full cash outflow of buy-back happened only in the January.

And coming to CapEx, CapEx has been again low at 1.6 crores this quarter as we continue to redeploy our existing capacity and hardware post the rationalization. With that, we open it up for the questions.

Moderator:

Thank you very much, sir. With this, we are going to start the Q&A interactive session. So participants, should you have any question, you may please press "0" and "1" on your telephone keypad and wait for your name to be

announced. I repeat, it's "0" and "1" on your telephone keypad to ask questions. We have the first question from Pritesh Chehra from MK Global. Your line is unmuted. You may go ahead and ask your question.

Pritesh Chehra:

Yes. Thank you and congratulations for a good set of numbers. On the headcount side, you gave the number, it has been cut down to 1180. What is the headcount cut and in which area did the headcount cut happen? And also on the expenditure side, which were the areas where the costs have been brought down, and should one believe that in absolute numbers, you know, these are sustainable? Your opinion on that side?

Praveen Kumar:

Pritesh, we got your first question on the headcount. Can you repeat the second part of the question?

Pritesh Chehra:

Second, on the other expenditure side, which areas have the cost, you know, been controlled in nature, and your outlook on both these cost sides, how do you see it in the forthcoming quarters, let's say, from a four-quarter perspective or a year's perspective?

Praveen Kumar:

Okay. So on the headcount, last quarter we said we were at 1270, we have reduced that to 1180, but that's not the significant decrease that we are talking about, we are talking about the last 2-3 quarters where we almost touched 1600 and now we are down to 1180. And the cut has been across all the functions.

Pritesh Chehra:

So basically, it is more to do with a... 'we have been aligning with the process...as a global organisation which is bringing us the benefits'.

Praveen Kumar:

Yes. And on the other operating expenses side, again it's the same. Expenditure reduction has been across the board, in line with the rationalization of our different line items that we have been doing. So whether it is travel, examining the facilities in different geographies, bringing down the facilities cost, some of the indirect tax expenses in other geographies, communication cost, all the contracts have been revised, revisited and reduced. So a simple answer to your question, the reduction is across the board. And in terms of the outlook, as I mentioned in quarter 4, we may

stabilise at the Quarter 3 levels, but I think next rolling four quarters is a bit too early for us to provide at this point in time.

Pritesh Chehra: But is there a case for any substantial increase in the cost from here, or if you could give margin guidance, just like you had given some indications earlier?

Rajiv Pancholy: Let me answer your question in two parts. First of all, no, we do not see any substantial trigger for any change in our cost base going forward. As Praveen said, this probably is pretty close to the baseline. As far as the next four quarters are concerned, we are currently working on our plan for the next four quarters. And once that is finished, we will provide guidance for the next four quarters in the next financial year.

Pritesh Chehra: Sorry. I missed that last part.

Rajiv Pancholy: What I said was that we are currently working on the operating plan for the next financial year, and only when that is complete will we provide guidance for the next four quarters.

Pritesh Chehra: Okay. And secondly, just have one more question, you know, on the growth side we have expanded into many geographies and we are present in multiple countries, what is your outlook on the growth side and the capital needed to generate that growth?

Rajiv Pancholy: Growth continues, I mean each one of our regions is continuously looking for growth, there is no particular trend. I mean right now in the last few quarters, we have seen a very healthy growth in Europe after a couple of quarters of stagnation in that market. By the same token, we have seen some reduction in Africa. We discussed some of those reasons in the last call. So these are just some market specific fluctuations that happen from time to time. In terms of the capital we require to do this. I don't think we require that much capital from the point of view of our existing product portfolio, but we certainly will require CapEx as we introduce some of our newer products, and we will provide quantification as and when we get to that point.

- Pritesh Chehra:** Okay. Thank you, and all the best. Thank you.
- Rajiv Pancholy:** Thank you.
- Moderator:** Thank you very much. We have the next question from Mr. Prakash from Kotak Mahindra. Your line is unmuted. You may go ahead and ask your question.
- Prakash:** Good morning, sir. Thank you for taking my question, many congratulations on the great set of numbers. Quickly going towards the EBITDA steady state of between 20 and 20 and just a few specific questions, sir. If you could give us a flavour on the new product which is more than the introductory comments you have made and just give us a flavour of what kind of growth you see maybe over two year/three year period if possible? If you could give us any numbers on the U.S. acquisition in terms of stability of getting to a point of breakeven at least so that the losses are curtailed? We know that a fair amount of cost was spent to buy it and we understand there are some challenges around that, but at least a steady state from here going forward that we are getting to an EBIDTA breakeven and is not a drag on our existing numbers? The third question perhaps is around the growth which I think another gentleman also had asked. If you could break it up into RBT and non-RBT, you take us through what you see as growth in RBT and some kind of a flavour of non-RBT? If you could just guide us from that, I will be grateful, sir.
- Rajiv Pancholy:** Okay. Let me just quickly go through it. On the product descriptions, please appreciate the fact that there are two issues that prevent us from going into detail. One is that we have our customers who have competitors and they are very sensitive to us revealing the nature of the products before they are ready to go to the market. So this is all about to being very, I would say, holding some of the details close to our chest till all that marketing program is in place. So please bear with us, we will not provide lot of details, but look, the release date is not that far away and you will get to see all the information about that very shortly in a matter of few weeks.
- Prakash:** Very well, sir.

Rajiv Pancholy: The second issue I think you asked about is the growth in RBT versus non-RBT, both sectors are growing. I mean for us RBT is a growth engine, and so is non-RBT. In the recent quarter, I think you will see that the non-RBT side of the business has grown a lot faster than the RBT sector.

Prakash: Yes, sir.

Rajiv Pancholy: And this is primarily coming from Europe, which is great because prior to this, as you know, we went through a period of, I would say, somewhat lacklustre growth in Europe. And it has finally picked up and is coming up quite fast. So both legs will continue to basically provide growth for us going down the road. The third question you asked was about...

Prakash: The U.S. business.

Rajiv Pancholy: U.S. acquisition. In the U.S. acquisition, there are two aspects we can share with you. One is that after some quarters of being in the doldrums, in the 3rd Quarter, we were seeing growth again in the U.S. business. So, quarter by quarter we are seeing almost double digit growth, which is good news for us. And from a breakeven perspective, we should respectively breakeven within the current quarter which is the 4th Quarter.

Prakash: Thank you so much for that guidance, sir. All the very best for the future. Thank you, sir.

Rajiv Pancholy: Thank you, Prakash.

Moderator: Thank you very much. We have the next question from Mr. Raj Mohan. He is a professional investor. Your line is unmuted. You may go ahead and ask your question, sir.

Raj Mohan: Yes. Thanks for taking my call, and hearty congratulations on the exciting business growth and on the tough but strong fiscal improvement. You have clearly explained in the past on the higher element of content cost in your converged VAS engagement. Could you give us more granularity on the margins currently at the gross and operating levels for this segment and the roadmap over the next few quarters as

you see improved volumes and probably thereby improved margins?

Praveen Kumar:

Raj Mohan, I don't think we will provide margins at an individual segment level, that will become too minute. But, yes, I agree that the content cost has gone up from Quarter 2 to Quarter 3. And what happened is CVAS, the way we do the business is we take over the CVAS as is and then we start negotiating the content contract. So the margins will improve over a period of time. So in terms of a very high level next quarter, we will see a 3-5% increase in the gross margins, that is what we are targeting for Quarter 4 at the company level which will essentially come from the CVAS segment.

Raj Mohan:

Okay. So does it mean a material increase of 27 crores quarter on quarter, do you have any upfront expense incurred for future revenues?

Praveen Kumar:

No. This doesn't have any upfront expense for future revenues.

Raj Mohan:

So essentially the margin growth will be driven by volume growth?

Praveen Kumar:

Yes. That's right.

Raj Mohan:

Okay. Could you give us some quantitative assessment of the converged VAS opportunities for OnMobile, is it possible to make ourselves an indispensable part of that ecosystem like we have been able to do in RBT? Is the competition intense or is the pie large enough for us not to be worried?

Sanjay Bhambri:

Okay. Raj Mohan, Sanjay here. I think 'indispensable' is a pretty large word, let me put it that way. So I would say that, yes we are a key element as we moved from quarter to quarter, we have become a key player and element in that. The pie is pretty large. Fundamentally as you see all the store fronts get aggregated to a vendor or a partner like us and fundamentally we manage all the content across all store fronts for the operator. So the pie is large. We are rapidly growing in that market and we will be key... we are a key player in that market.

Raj Mohan: When you say the pie is large, will it run into millions or rather there is a potential to run into billions in terms of the market space?

Sanjay Bhambri: I can only say it is millions... it is hundreds of millions. We need few more quarters to figure out where the market is above billions. But, yes, hundreds of millions for the operator, that is. And you obviously have a subset of that ecosystem.

Raj Mohan: Okay. In your effort to sort of install incremental features from a relevance perspective in your existing products like RBT, will you be able to quantify the success in terms of better penetration and higher usage by existing customers? Further, do you feel with this strategy of relevance to find a more relevant product in your existing products? We are looking at an opportunity which has a longer, deeper way to penetrate or is it going to be a short term kind of phenomenon?

Rajiv Pancholy: I think there are many different parts to your question. So, first of all, what we do from the point of view of measuring the impact of everything we do is we have a very sophisticated and a very competent data analytics team here through which we can actually see on daily basis what is happening with each customer, in each country, in each segment and we can also see how many users, how many plays, how many downloads, this is the real-time tool that we have. So when we actually introduce a new feature, a new capability, it is very easy for us to basically see the impact of that in near real time. And that allows us two things, to reinforce that they have done well and also to maybe fine tune and adjust things that have not been very successful. So that is the general approach that we have and we have a very, very important tool set at our disposal to be able to do that.

In terms of the value of the features, we believe that what we have done so far in the RBT space is somewhat staying. And I think as we bring new capabilities, some of the metrics of that will be visible to us in very short order. So to sell this on a global basis is not something you can do in one quarter. This is a roll-out plan, it goes over many, many

quarters, but I think we will start and the ability to predict will come to us fairly early beginning.

Raj Mohan:

Okay. That was fairly helpful. You have also mentioned in the past that you would look at limited products which have scale though you indicated that the product launch is on the verge and you would like to keep it close to your chest. I generally want to understand what kind of market opportunity or what kind of market size you are targeting through your new products? Are these like huge market size opportunities? And if you could quantify in terms of millions or billions?

Rajiv Pancholy:

I will just leave you with one word, which is 'huge'.

Raj Mohan:

Phenomenal. One final question then. Any developments on the renewal engagements in LatAm? Have any negotiations commenced and has it gone to the satisfaction of management in terms of revenue share?

Sanjay Bhambri:

Raj, this is Sanjay, here. Yes. We are in the process. As you know, we have a five year contract, so we are on the fourth year. As prudent sales guys, I would say that we are already in engagement with our partners there and hopefully as you move forward in the next quarter or the next, next quarter, I will come back to you with updates.

Raj Mohan:

Okay. Thank you so much. And the new management has sort of injected a lot of enthusiasm into the company. Wish you all the best to continue the same win.

Rajiv Pancholy:

Thank you.

Moderator:

Thank you very much. We have the next question from Mr. Chetan Wadia from JHP Securities. Your line is unmuted. You may go ahead and ask your question.

Chetan Wadia:

Hello. Hello, sir?

Praveen Kumar:

Yes. Chetan, please go ahead.

Chetan Wadia:

So, can you give a break up of revenue in terms of Europe, Latin American, North America, Africa and India?

- Praveen Kumar:** You know, while we measure it internally, we do not give a geographical break up of revenue at that level. What we were giving earlier was more in terms of, you know, India and Latin America separately and developed markets and emerging markets. So in terms of that, the India revenue is about 23% of our total revenue, LatAm will be about 20-23%, and other emerging markets would be around 16-17%, developed markets would be around approximately 40% (developed markets include U.S. and Europe, essentially).
- Chetan Wadia:** Okay. I take that. Sir, in terms of the paying subscribers' growth, what has been the trend in the last year to date, in the last nine months across geographies, please?
- Sanjay Bhambri:** So, Sanjay, here. As Rajiv said in the starting, if you look at it, we are focusing more on the paid base at the moment and we have target of around 60 million by the end of this financial year. We have a reach that includes three... and that is December... If you look at the growth, we were targeting to grow by approximately on a paid base by 5 million plus in a year which we did see in this quarter. So more than 5 million we have grown in the last three quarters.
- Chetan Wadia:** Okay. I take that. And, sir, last question. Are you in a position to give some kind of reference as to how is the Q4 in terms of revenue and margins?
- Rajiv Pancholy:** Let me handle that. I think in Q4, I want to make two statements. Number one is that, it is business usual for us. So everything that we were doing in Q3 we continue to do in Q4. So we are on track. The one unknown about Q4 is, as you probably won't know, there's a lot of currency fluctuation that's going on, and we are doing our best to navigate through it, but we won't know the full impact of that until the books are closed.
- Chetan Wadia:** Okay. I take that. And last one, can we assume that in the Q4 Con Call, you will kind of give us a specific guidance in terms of the FY16 revenue and margins?
- Praveen Kumar:** Yes. We will be able to provide a guidance for the next financial year in the Q4 earnings call.

- Chetan Wadia:** Okay. Thank you very much.
- Praveen Kumar:** Thank you.
- Moderator:** Thank you very much. We have the next question from Mr. Kaushal Patel from Indian Nivesh (ph). Your line is unmuted. You may go ahead and ask your question.
- Kaushal Patel:** Congratulations, sir, for the numbers. I have a question. First of all, as you mentioned the revenue level will be from existing products as well as new product lines. So I would like to know what kind of CapEx will be required for that or the same?
- Rajiv Pancholy:** I think we have answered the question, I think it was an earlier question on exactly the same. We do not see large CapEx requirements for our existing business, obviously there has been some geographic expansion. So the most I would say is that the bulk of new CapEx that we require is for the new initiatives.
- Kaushal Patel:** Right. One more question. It's related to your tax rate which was 45% in Q3 FY15. So, what will be the tax rate for next two financial years, like can you give some guidance on it?
- Rajiv Pancholy:** Yes. So, Kaushal, this quarter, as you said, it is around 45%, that is the effective tax rate. Now what happens is we need scale of profit in some of these countries for us to reduce the effective tax rate because: one, it is a corporate tax rate and two, it is also the withholding taxes that have to be offset in India. But in India, what happens is we do not have a large ETR because of the SEZ benefit. So for the next financial year, we are looking at around, to begin with, 45% and then reducing it over a period of three to four quarters.
- Kaushal Patel:** Right. And last question that is related to your EBITDA margin which was at 20% in Q3. So even historically, your EBITDA margin was 24-25%. So are you looking for the same going forward in FY16-FY17, can we achieve the same?

Praveen Kumar: As we said, the guidance for the next financial year will be given in the next earnings call. It's too early to say where the EBITDA margin will be for the next financial year. As I said, we will try our best to retain the current EBITDA margin and to grow on top of it, but what will be that number we will only be able to give it in the next quarter.

Kaushal Patel: Sure. Okay. Thank you so much and all the best.

Praveen Kumar: Yeah. Thanks.

Moderator: Thank you very much. We have the next question from Mr. Gandotra from Dron Capital. Your line is unmuted. You may go ahead and ask your question.

Gandotra: Yes. Congratulations on great set of numbers. It's Nisha Palejar here. I have two questions. First related to buyback which was just completed. And now since, you have very strong cash generation and as per guidelines you can't do a buyback, let's say, for another year, what are your plans, are you likely to give out more dividends? Second, if your CapEx is going to be moderated substantially and when do you expect your depreciation to come off in which year? And new offerings that are likely to be launched in terms of, let's say, a three year perspective, I mean is there any possibility to let us know whether it'll be like 20-30% of the overall top line, just some idea if it is possible? Thanks.

Rajiv Pancholy: I think you are asking the same question about what's going to happen next year and I have to offer you the same which is we'll let you know when our plans for the next year are complete. We'll give good guidance. And in that we'll try and provide as much clarity as possible in terms of old products, new products, the CapEx required. On depreciation, Praveen, you want to...

Praveen Kumar: Yes. On depreciation, today a large part of our depreciation is as we all know from Latin America front fee that is being amortized. A large part of that will get over in the next financial year. In 2016-17, our depreciation should then be down by at least half of it.

Nisha Palejar: And about the cash that you were generating because at the beginning of last quarter you had 220 crores of net cash.

After completing buy back, you are almost at same levels, so just trying to understand, are you planning to give out substantial dividend or something?

Rajiv Pancholy:

Again, this is something we have discussed in the past. Let me answer the question somewhat indirectly. As we introduced the new products, one thing we do expect to do is introduce a lot more traffic on the systems that we have deployed. Now, that will basically reinforce the systems and therefore more CapEx. This is something the build up in traffic in transactions will happen over sometime, and basically therefore it is very difficult for us to forecast precisely at what point of time and how much CapEx will be needed. So I think once we introduce new products, as I told you, we will go to the initial phase by basically looking at the trends, we will be able to forecast much better then. Only at that point we will be able to decide whether we do a special dividend or whatever else we do with the cash. Our first priority is to make sure we have adequate cash to basically fuel the growth that we are looking for.

Pathik Gandotra:

Okay. Hi, this is Pathik Gandotra. I have one question. I heard you saying that, "We expect the gross margins to go up by 3-4% points next quarter." So, if that is the case, will EBITDA margin also improve from here?

Praveen Kumar:

Yes. You know, that will be a combination of multitude of factors. As Rajiv was saying, there is a lot of foreign currency movement in this quarter, if you look at the way the Euro has behaved and all that. So it's too early to put a number as to what will be the net impact of that on the EBITDA margin as of now.

Pathik Gandotra:

Okay. Okay, fine. Thank you. Thanks a lot and great results.

Praveen Kumar:

Thank you.

Moderator:

Thank you very much. We have the next question from Mr. Krishna. He is an individual investor. Your line is unmuted. You may go ahead and ask your question.

Krishna:

Okay. Thank you. First of all, congratulations on the excellent operational numbers that we have received. My

question is related to our content fee and royalty. If you see, this was partially answered in the last question. If you see over quarter to quarter the content fee has been increasing tremendously. And also year on year, it is going on quite a lot. If you see it is almost 30% of our sales. So what is our plan to curtail it and how do we see it going forward?

Rajiv Pancholy:

Let me try and answer the question in two parts. There are two elements to this. One is, if you look at the RBT product - typically for the RBT product we are not responsible for any content procurement. So the way it works is the operator actually earns the revenue, they pay the content fees, and from the balance a portion is paid to OnMobile. So when it gets represented on our financials, you see extremely high gross margin because there is virtually vital to be coming up in the top line that we earn. So that's one aspect of it. Now, if you look at the CVAS type of products, the model is very different, where from the top line we are responsible for basically paying for the content. So the revenue share ... mix changes from RBT to a mix of RBT and CVAS, you will see the impact of that in the gross margin. So that's one part . It's just a different business model that we are pursuing on CVAS.

The second part of this is that when you look at basically content cost of procurement and even for some of the RBT service that we offer, we have historically been in the situation where we try and negotiate these rights on a local basis. And that's been somewhat, I would say, effective in the past. But increasingly what is happening is there is a need of us to negotiate these rights on a global basis, because we are actually a very significant buyer of these kind of contents, specially music. What we have done in the last four weeks is actually appoint a senior executive on our team whose sole job is to go back and negotiate on global basis of these content rights, and we are making significant progress on that. So this is the reason why when the question was asked about the trend line of our gross margin we said, "You will see it improve despite the shift in the mix between CVAS and RBT."

Krishna: Okay. So actually, the recent growth as you have rightly mentioned in the beginning, it has come from U.K. And is that where we see content rate quite high this time?

Praveen Kumar: No. It is not the U.K., just let me correct. I think we said Europe which actually includes lot more countries than the U.K. And, yes, that is primarily CVAS type growth, so there the content cost is naturally higher.

It is not that the content is higher but that we are responsible for basically acquiring the content. So it shows that it is part of a gross margin calculation.

Krishna: And we are expecting the next improvement in the user base also from the same region. So in the similar line, are we expecting this content fee to go high in the next quarter, sir?

Rajiv Pancholy: No. What I want to do is I just want to leave you with a picture which is that if you look at the last two quarters, our gross margin has actually come down. But we believe that this third quarter is the lowest gross margin. You will actually see an improvement in the gross margin in the quarters to come.

Krishna: Okay. Thank you very much. I'm done.

Moderator: Thank you very much. We have the next question from Mr. Debesh Mehta, SBI Securities. Your line is unmuted. You may go ahead and ask your question.

Debesh Mehta: Yeah. Sir, can you help us understand performance of Livewire OLI?

Rajiv Pancholy: Livewire as I mentioned earlier, we are very, very close to a breakeven situation. In fact, the current quarter is a fourth quarter. We expect to be at a fully breakeven point. Sanjay, maybe, you can add a little bit more about what we are seeing in the US market in particular. But I will add to this that when we acquired Livewire, it wasn't just for the US market, a lot of growth that you are seeing in Europe and CVAS is based on a platform that came to us through the Livewire acquisition. So the only message I would like to

communicate to you is that Livewire is bigger for OnMobile.

Sanjay Bhambri:

And as Rajiv said, if you look at the Livewire, we should be... we are targeting and on track to be EBITDA positive in this quarter itself. And it is not just U.S., but across. There is a lot of new growth which is coming from the same platforms.

Debesh Mehta:

Sir, just to understand on the revenue part, when we used to report it separately, I think last reported revenue was around 16-odd crores in rupee terms. If I do adjustment with what we reported this time segmental numbers, Europe, we suggested 80 crore, LatAm around 49, India 52, other emerging 37. So it gives the indication that U.S. is around 9 or 10 crore. So if you can help us understand whether we are seeing any decline in revenue from OLI?

Praveen Kumar:

No OLI revenue has in fact gone up over Quarter 2.

Debesh Mehta:

So what is the reconciliation, because the numbers wise it looks that there is some kind of decline in U.S.-related revenues?

Praveen Kumar:

No. See, you have to understand that was Rajiv's point. Now, OLI is not a geographical segment. U.S. is a geographical segment. For us OLI will have part of revenues coming out of Europe as well, because we used OLI platform in generating those revenues.

Debesh Mehta:

Okay, because when we acquired I think large part of revenue used to come from U.S. segment at that time.

Praveen Kumar:

Yes. That's not the same anymore. We also have Europe contributing for OLI revenues.

Debesh Mehta:

Okay. So if you can help us on that part, how OLI is actually shaping up, you suggested we are getting some traction on that platform. So whether that mix is changing and why we are not getting similar success in the U.S.?

Rajiv Pancholy:

No. I think it's wrong to say that, you know... see, in our business, how we do in a particular geography is also linked to the culture of that country. Some cultures like one

kind of service, some cultures don't. Certain geographies, they love football, other geographies, they love cricket. So it is very difficult to say that just because we see success with the particular type of content in one geography we should automatically assume that same thing will happen at other geographies. The growth in Europe with CVAS is linked exactly to what we have acquired through Livewire. It's just that at the time of acquisition many of the things were not operational, it has taken us some time to make them operational and take them to other geographies.

Debesh Mehta:

Understood. And just about Livewire, so you expect revenue momentum will now drive future margin expansion or you expect still cost optimization as some lever there?

Rajiv Pancholy:

So, I think again, let's not focus on just the gross margin. I would say focus on the net contribution of that business and very clearly we expect the CVAS business and the OLI business to make a contribution to our bottom line.

Raj Mohan:

Okay. Thank you, sir.

Moderator:

Thank you very much. So we will take one last question for today's session. And we have Mr. Bunkar Roger from SK Research (ph). Your line is unmuted. You may go ahead and ask your answer, sir.

Bunkar Roger:

Hi. Morning, sir and congratulations for the great set of numbers. Couple of data pointers - What was our CapEx for nine-month FY15?

Praveen Kumar:

Nine-month CapEx was less than 10 cores, actually.

Bunkar Roger:

And how much more you plan to do for the last quarter?

Praveen Kumar:

Last quarter will not be... not more than... I mean on higher side, I can say not more than 5 crores.

Bunkar Roger:

Less than 5 crores. And the cash number, you have given the presentation that is excluding the buyback of 11 crores which you have spent, right? So total reports of net... Okay. So effectively today's cash position would be, say, 210 crores around?

- Praveen Kumar:** No, no. So the cash position that we have stated, 220 crores, is after reducing the 11.4 crores which buyback till 31st December. And post that, we have spent additional 33 crores in January which will impact the cash balance.
- Bunkar Roger:** Okay. Sir, I have missed out one point. So, the depreciation you have talked about for FY16 and 17, did you say on absolute basis this is going to come down next financial year and FY17?
- Praveen Kumar:** 2015-16 will not come down, it will go up because of the higher rate of depreciation on the UFF amortization. 2016-17, yes, it will come down in absolute terms by more than 50%.
- Bunkar Roger:** By more than 50%?
- Praveen Kumar:** Yeah.
- Bunkar Roger:** Lastly. So, is it reasonable to assume that we will be... I mean I'm not asking for a guidance, so we will be doing, you know, the EBITDA margin anything above 20%?
- Rajiv Pancholy:** Sorry. I missed the question, what was it?
- Bunkar Roger:** That the EBITDA margin which we have done for Quarter 3 is 20%, so, is it reasonable to assume that we will be doing at least 20% or more than that for Quarter 4?
- Praveen Kumar:** Yes. Our endeavour is to retain the already achieved EBITDA margin and grow on top of it. But as we said, we can't put a number on it right now.
- Bunkar Roger:** All right. Thank you so much, sir, and all the best.
- Praveen Kumar:** Okay. Thank you.
- Moderator:** Thank you very much. So, with this, we are going to end the Q&A session. And I would like to hand it over back to the management for any final approaching comments. Over to you, sir.

Rajiv Pancholy:

Well, thank you very much. I think we have certainly brought OnMobile to a new threshold of performance. And I would like to thank everybody, all the stakeholders for their commitment, and we certainly remain extremely positive about the future. We believe the best is yet to come. So, once again, thank you very much for being on the call.

Moderator:

Thank you very much, sir. I would like to thank all the attendees for joining us. With this, we conclude the session for today. I wish you all a great day ahead. Thank you very much for joining.