



Q1 FY10-11 Investor Conference Call

July 26th, 2010

Operator:

Thank you for standing by and welcome to the OnMobile Investors' Conference Call for quarter one results presented by Mr. Arvind Rao, the CEO. At this time participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session at which time if you wish to ask a question please press "0" "1" on your telephone keypad. Please be advised that this conference is being recorded today.

I would like to hand it over to Mr. Rao. Over to you, sir.

Arvind Rao:

Thank you very much and good morning and welcome to everyone on this call. I'm here in Bombay and with me is Sandhya Gupta, the Head of M&A and Investments. In Bangalore, we have Rajesh Moorti, our CFO; Mouli Raman, CTO, Co-Founder; and Sanjay Uppal, President and Chief Operating Officer; and other senior people who are required on this call. So we'll follow the standard format. I will start off with a brief introduction. Then I'll hand it over to Sanjay Uppal, who will walk you through the material developments in terms of customers and products. And then Rajesh Moorti, our CFO, will walk us through the financials and then we'll do Q&A.

So first of all, to put this whole call and the results in context, I wanted to make a couple of messages to all the investors and the analysts. The first thing is that as we've gone around the world and increasingly saw and met operators in places as far as North America, Latin America, Africa, Europe, just about everywhere in the world, our perspectives on the market potential and the market size of the value-added services space and the mobile internet space, which is what we are in, continues to actually expand and grow.

The advent of smartphones, the advent of 3G in many countries, all these are just serving to do nothing else than to rapidly expand the total pie that we are chasing. So our overall estimate of the market potential in the future has actually not diminished or been impaired in any manner whatsoever, it's actually gone up and will continue to go up. So that's the first point I wanted to make to everyone.

The second point is that last year was really a quite bad year for the Indian VAS market, which represents about 75% of our revenues. And as we all know, we've gone through this thing before, so I won't repeat it but there was a TRAI directive, there was a low ARPU subscribers and there was intense price competition amongst the telecom operators which sort of distracted management from value-added services.

I'm happy to say that we're beginning to see a turnaround in this environment. As you all now, the initial results from all the telecom operators, Vodafone, Airtel et cetera have been very positive this quarter. And their attention to VAS and their thirst and their demand for new VAS products and promotion of the same is swinging back in a very strong fashion. So that's a very positive sign for us. So, overall I'm very optimistic. And now what I'd like to do is get into the details of the developments.

I would like to turn it over to Sanjay Uppal in Bangalore.

Sanjay Uppal:

Thank you, Arvind. The first point on the customer side, we had launched a new service called Reverse RBT in the last quarter. And this service has done quite well in the first customer that we've deployed in India. We're finding out the new segment of subscribers, who will sign up for the service and by new segment I mean in addition to the segment that will sign up for RBT service. And these are the people who want to select and view or hear information of their own. So, this is the music information or infotainment services and that is the crux of our Reverse RBT offering. So this has done quite well in the customer that we have deployed it and we will, of course, be looking at expanding that both in India as well as outside.

Secondly and quite significantly, our deployment in the Latin American region has also continued to grow. And what we had announced last quarter is that we had deployed in the first country, which is Ecuador. We are pleased to say that in the quarter that has just ended that we have completed the deployment in the second country, which is Colombia. Now, Colombia is three times the size of the first country that we had deployed in and again the early results that we're seeing are that there is a very strong demand for the services that we have provided there. Of

course, these are fairly early times, but getting two countries to be deployed on time as well as getting the good strong early results, we think is very positive for our Latin American project.

Now, I want Mouli Raman here to add some more colour into this project in the Latin American region. Mouli?

Mouli Raman:

Thanks, Sanjay. So I'll take it in two stages. One is on the deployment of RBT around Latin America and the second one is the results. On the deployment side, as we had said last time, we are firing on all cylinders, we have gone live in two countries and as we had said last time, we will be live across all countries before the end of the year, if not a bit before. And while there are some delays in some other countries because of local customs and local regulations and so on, but by and large we are on track and in many cases, these are to be ahead of time.

And on the result side, as Sanjay said, these are initial stages, these are initial results. We are very happy with the following. One is we are very happy with the hunger of the marketing folks in these countries to pursue RBT, that is one. And the second one is we've launched in two countries and as of now we have done only below-the-line marketing. Even with below-the-line marketing, the adoption that we are seeing is definitely, I mean as of now at least I mean, higher than what we'd expected. We hope the trend to continue and we will keep you updated on this. Back to you, Sanjay.

Sanjay Uppal:

Thanks, Mouli. So moving closer to India here, we had told you folks a couple of quarters ago that we had lost one of the customers in India and we are very pleased to say that we have won that customer back. And in the last month of the last quarter, we have begun the relaunch of services for that customer. So you do not really see the impact of winning that customer back in the numbers that you have with you but, of course, for the rest of the quarters of this year, we expect that to have a contribution to both our top as well as bottom lines.

Now, in the Asia-Pacific region we have extended our reach of Music radio. We do mention this on most of the calls because Music radio is an important service for us and in the Asia-Pacific region we are the undisputed leader in

that particular service. So the last quarter, we had won a couple of contracts and we have launched them this quarter.

Lastly in Europe, we have deployed our speech recognition engine in cooperation with our partner, which is Orange Business Services for a retail company. This, we believe, is a new foray for us and it has done fairly well.

Now, just to round up what Arvind had mentioned on the overall conditions that India seems to be coming back, which is very positive news; U.S., Latin America and APAC are also doing well. There is, of course, some softening from a macroeconomic standpoint in Europe, but we expect that overall in the quarters to come from a customer standpoint that we will continue to deploy the products that we just talked about.

Moving onto developments on the product side, on the Reverse RBT that I mentioned, the customer growth has been strong but we've also added to the feature set. In particular, we've added a Pan-India roaming capability and we also added a dynamic content refresh and we believe that puts us in a leading position compared to other vendors who are offering a Reserve RBT kind of service.

Now, you might have also seen that there is a new service that we launched and this was with Vodafone. And this services around taking bollywood movies and condensing them down into a 20 minute-audio clip and making that available for subscribers. This service was called the Mobile Box Office and it was launched last quarter. And the early result has been very, very heartening. There are a number of subscribers out there, who have signed on to this service, so we are actually continuing to put the pedal to the metal for the Mobile Box Office service that brings bollywood movie clips to the phone.

Now for the last quarter, there was the event on a worldwide basis, the FIFA World Cup. And we used the fact that we are in the Latin American region to deploy the service that had both SMS as well as WAP alerts for the customer base and we deployed it in a fairly short order of time across 12 countries. Now again, this particular service does not have a material impact on our numbers, but the reason we wanted to mention it is that it shows that we are able to put out the service over there, a multi-country

deployment in a fairly short order in the Latin American continent.

Mouli Raman:

And also that, this product is not just for the World Cup, this service is going to be promoted to the users on an ongoing basis for all the football leagues around the world.

Sanjay Uppal:

Thank you, Mouli. Couple of other points, one is on our social networking products. Of course, as you can see on the world, social-networking and its connection to the mobile space is growing quite rapidly. And we're adding new connectors to our Social Networking Gateway. And what that allows is customers on the mobile phone to be able to interact with their social networks that are already established out there. For example, like Facebook and Orkut and now we've just added the links into the professional social networking service called LinkedIn from our OnMobile Social Networking Gateway.

And the last piece I wanted to mention was that our Network Address Book that has again been quite successful with the smartphone customers out there. We've added an enterprise capability, so that companies can now get an address book of their employee stored inside the network and be accessed by those employees. So, this, we believe, is going to improve productivity for the enterprise customer base going forward. And with that I'd like to turn it back to Arvind.

Arvind Rao:

Thanks very much. You know, I hope this has given all of you some colour on the fact that the last year was a major investment year for us and we are actually executing against it fairly well. In particular, the Latin American project, which is something the largest project that the company has undertaken in its entire history is completely on track and that sort of is the testament to our ability to execute in a far away land with a lot of complexities, 12 different countries, different cultures, and different languages.

So, I'm extremely happy about that and I'm happy to say that the customer, Telefonica, is extremely pleased with us. In fact, they are so pleased with us that they have signed with us for Spain and they are also talking to us about deploying our technology wherever else they are present worldwide. So that's a very strong testimony to us. So with

that, I'm going to turn it over to Rajesh Moorti to walk you through the financials.

Rajesh Moorti:

Thanks, Arvind, and good morning everyone. Before I just look at the financials, I just wanted to highlight some of the organizational development as well as the non-financial KPIs. As we've been talking about Latin American market, we are now in the process of incorporating the subsidiaries or the branches and setting up offices to meet the regulatory requirements there as well as to have a base for our new employees in those countries.

That is, every month or every other month we have been opening a new office or the other. In terms of the non-financial KPIs, again there is a steady growth in terms of number of subscribers that we are able to reach as we go live in new countries, the number of unique users as well as more critically the active RBT users in all these markets. The number of employees has increased, but this is mainly in the international expansion area rather than the core business.

With that, I will just move on to the financial performance for the year. We have continued to give you the same kind of details, so that you can track our business very well, both in terms of the actual numbers for the quarter, in terms of the split between the core business and the investment business as well as the rolling four quarters.

The numbers for the quarter are pretty good. We have revenue of around 124 crores with EBITDA of 23% and operating profit of 12%. Both sequentially as well as year-on-year our revenue has shown a healthy increase but most notably, I think the operating profit of the company has increased, whether you look at Q1 last year or Q4 of last year, it has increased between 35 to 40%. And there are no one-time items impacting this. So this is really a stable kind of business environment where one can compare with the previous quarters.

I have highlighted one of the few observations related to quarter one in our talking point. But one thing that I want to mention here is that our effective tax rate for this year will be lower, because our SEZ for the international business has become operational and there are certain deferred tax liabilities that we need not recognize as a result of SEZ.

That would reduce our effective tax rates for the year to between 13 and 15%.

How it will pan out in the coming years will be a combination of number of things as to how our international business grows, how profitable our international business would be. But on an ongoing basis, I can certainly expect this rate to be at least 20% lower than the marginal tax rate. The other point that I want to highlight here is really the split between the core business and the investment part.

If you look at quarter four core business versus quarter one, our EBITDA margins have improved from around 26% to 32%. And as I said that is because of our marginal revenue growth but as well as pretty good tightening of our cost or cost controls. And there are no one-time items in this. And if you look at the investment side, we have continued to invest in our international businesses and that impact on our overall P&L is to the tune of 12 crores. So with that, Arvind, I hand it over back to you and we can also start the Q&A.

Arvind Rao:

I think at this point, let's jump straight into the Q&A. I guess people have questions about what's recovering, what's one-time. We can clarify all these things. So with this, I'd like to open the floor to Q&A.

Operator:

At this time, if you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press "02". Gaurav Malhotra would like to ask a question. He is from Citigroup. Gaurav Malhotra, please go ahead.

Gaurav Malhotra:

Hi, Arvind, congratulations on a good set of numbers. Just wanted to understand a couple of issues. First is that I remember Rajesh had mentioned that there was a Rs.50 million worth of one-time revenue item in the fourth quarter. So was the increase in the content royalty fee a result of this one-time revenue item? That will be the first question.

Arvind Rao:

Let me turn that over to Rajesh to answer that.

Rajesh Moorti:

Hi, Gaurav. Gaurav, we had this one-time revenue recognition in Q4 last year, that's the reason the quarter

four to quarter one is not strictly comparable. If you look at the reported numbers, the revenue has gone up only by 1%, but the real revenue growth is more like 5%.

Gaurav Malhotra: No, my question was that the one-time revenue item had also resulted in the artificial increase in the content fee and royalty?

Rajesh Moorti: Yeah, that's right. So you had revenue more or less flat, but those costs have gone away, and therefore you can see a higher profitability out there.

Gaurav Malhotra: Sure. And the other question is that, why is this international segment suddenly started stagnating? If you see in the last two quarters, the proportion has been falling; it's not growing as much as we had assumed it to grow. So what's the reason for that?

Rajesh Moorti: Gaurav, again, see international projects have a much longer gestation period. As we have mentioned earlier, Telefonica projects, we have been in the execution mode for six to eight months. The full-year revenue impact was not really felt even this year because the different countries are going live in each quarter. Then we are in the deployment phase in Egypt. As Arvind mentioned, we are also launching in Spain. So the second half of this year is when you will start seeing a much higher international revenue number, but yes, currently it is still around, the last quarter was around 23%.

Gaurav Malhotra: Just one more question. You know, you mentioned setting up of offices across the LATAM region from the purpose of regulatory issues. Just wanted to understand what would be the impact on the EBITDA margin and the capex because of this?

Rajesh Moorti: Again, see, our business model is quite different. We set up offices in different countries to more comply with the local tax matters. We do not really have huge number of people based out. Even in a country like Indonesia, which is like where we have contracts with four-five customers, we have only 10 employees. So we don't really require so much of cost on the infrastructure side. So it's a real more of either virtual office or a business centre kind of office.

Gaurav Malhotra: Sure. Thank you so much.

- Arvind Rao:** Gaurav, I wanted to just add one thing to your questions. On the international front, the reason why the proportion of international did not grow as fast was because last year was we were in a major investment mode internationally. So as a result of that, very large deployments, whether it's Latin America or Telefonica Spain or Vodafone Egypt, these are very large projects, which we have closed last year, they are under deployment. So they are going to start kicking in revenues starting from this year, but the real impact will be next year. So I think the proportion of international revenue as a percentage of overall revenue is going to go up, but last year it is flat because it was mostly an investment period.
- Gaurav Malhotra:** Sure.
- Arvind Rao:** Your second question about opening offices. You know, our strategy is that we have very light, because most of the time we operate onsite from the customer premises. Only in the case of Latin America, where it is very large and logistics are very difficult, we have set up sort of a Latin American office in Miami, so over there we are collocating with Telefonica, they have a large datacenter there, so they are making investments, we are making investments. In the rest of the countries, the real investments are onsite in the customer network or all are hardware and software. The people part of the investment there are actually quite light.
- Gaurav Malhotra:** Okay. Thank you so much.
- Arvind Rao:** Sure.
- Operator:** There's another question from Naveen Kulkarni, MF Global. Naveen, Please go ahead.
- Naveen Kulkarni:** Yes. Thanks for taking my questions. I have one question on the customer that you had lost last year. What is the revenue contribution of this customer in FY09? And what do we expect as in whether the products that are going to be launched are similar to what they were in FY09?
- Rajesh Moorti:** Naveen, we'd not really give the customer contribution to revenues because that's customer confidential information. We have always given details about the top five customers. So again we will not be able to disclose that information to

you. But in terms of the products that we're going to deploy, I think they are similar to what we were before we lost that account.

Naveen Kulkarni: Okay. And secondly whether the deployment is going to be on both the platform CDMA and GSM, if you could give some colour on that?

Rajesh Moorti: It's predominantly on the CDMA side.

Naveen Kulkarni: Predominantly on the CDMA side. Okay. Thanks a lot. That answers my questions.

Operator: There is another question from Ankur Rudra from Executive Noble. Mr. Rudra, you can go ahead.

Ankur Rudra: Moderator?

Operator: Mr. Ankur Rudra, you can go ahead with your question. Please.

Ankur Rudra: Hi, this is Ankur Rudra from Executive Noble. I think probably the name got confused. My first question is on the LATAM contract. Can you give us, Arvind, maybe a sense of the penetration rates in Ecuador and what we should expect by the end of this year?

Arvind Rao: It is not the penetration at the end of the year. Let me tell you in the first two countries, the initial penetration in the first two three months, actually the first two months is in the range of 1 to 3%. Now, while that may appear low in absolute terms, it's almost 10 times the penetrations that they were having with their existing services before we came in. So it's a rapid jump. They haven't seen such numbers. Now, in most of the cases where we launched, our expectation is that over a period of three years, we believe that the Latin American market has the potential to achieve roughly the same penetration as the Indian market. So we're targeting somewhere in the range of 15% penetration or so by the end of the year three. That's our estimate, 10 to 15% by the end of year three. We hope to outdo that and our initial results are actually showing us that we may achieve that well before our internal targets.

Ankur Rudra: Fair enough. So 1 to 3%, should we assume is the current rates in Romania Vodacom and Egypt?

Arvind Rao: No, Egypt has not yet gone live. We are still at the deployment phase. Vodafone Romania, the range actually is more in the range of 5 to 10%. So it's actually quite high and we hope to take it even higher. And Vodacom South Africa is also in the initial stages, so it's too early to tell those results.

Ankur Rudra: And the initial rates at which these services are launched, should we expect these to be more of a try and buy kind of rates which might have a potential of going up later on as the service becomes a bit more mature?

Arvind Rao: Actually, what happens is, see that's why we are a bit cautious in trying to release early results because sometimes we do a combination, we do a straight launch with a fully priced service. In some cases, we do it with entirely try and buy to just feed the market and in some cases the combination. So we tend to shy away from releasing results based on try and buy because some part of that bid will stay on, some of it will fall off. But in the case of, for example, Romania where we are now live for 6 to 9 months, we are well beyond the try and buy. So the numbers that I've given you, which is 5 to 10% are actual real paying subscribers. So that's a very positive sign for us because it tells us that the service has real paying market potential.

Ankur Rudra: Fair and that's very useful to know. Also in terms of Spain, you have highlighted you won Telefonica Spain. Should we expect that deployment to happen after FY11 given you are busy right now with LATAM deployments?

Arvind Rao: Yes. So on that one, let me just comment on a couple of things. First of all, as you know, Telefonica is the third operator in the world and Spain is their headquarters. So their network in Spain and their market domination in that country is actually extremely high. So their market share in Spain is slightly north of 50% and their network is an extremely advanced network. So we've had to actually upgrade our RBT products such that we can actually interface with their high-end network and be able to deploy it. So that deployment is going to take a little longer for us than all the other deployments that we are targeting. We expect the revenues from this project to really kick in only in the next fiscal year. But when they kick in, it's going to

be a fairly last kick in because the customer is extremely aggressive in marketing and they have seen the results in Latin America, even the early results. So they are absolutely gung-ho and just waiting for the thing to go live.

Ankur Rudra:

Thanks for that. Just one more thing, a common question, you had given relatively high amount of market development deployment, they speed out to both these contracts. Should we assume that the average revenue share on these deals will be higher than what we've seen in India so far?

Arvind Rao:

Yes, you can safely assume that.

Ankur Rudra:

Okay. Just one more question. We have heard a few reports of falling revenue share in some of the Indian contracts. Is there any change in the nature of these contracts, maybe in terms of the responsibilities for market development or Capex and what can we expect for the year ahead for OnMobile impact of that?

Arvind Rao:

The only change in scope that we are seeing in the Indian context and it's going both ways, which is why it is difficult to actually make a call on it where the content both close to OnMobile or whether the operator enters into direct contracts for sourcing and paying for content qualities on their own. In the past, we've had a mixture of customers who either the content goes through us for some of the services and in some cases, it does not. Now one or two customers as they've got larger and larger, they feel that they can negotiate better deals, they can extract better terms from the content providers and they are more than happy for them to do that because in reality we don't want content to flow through us, because it affects our margins adversely.

On the other hand, if you look at it from a customer standpoint, it's an additional headache for them to manage the content, to manage the invoicing, the reporting, the payments, it is a hassle and they're not geared up to do it. So there may be a change in scope and if there is a change in scope, obviously there is going to be a commensurate change in the revenue share because the content part is not included. Other than that on our core business, we are seeing the standard pressure which results mostly from scale economy. So as the scale goes up, there has been a

scale curve. In most cases we are seeing it flattening out. In one or two cases there have been some requests and some pressure. But by and large I don't see any major reason to worry about that because they're already operating at extremely low revenue shares. And there is no way that we can have a lower revenue share because what's going to happen to all the other VAS companies because they don't have the scale that we have and you have to have the same revenue share whether it's us or a smaller provider providing the service. So I really feel that we have approached sort of the low end of the revenue share that we can expect to see. So even if there is a small decrease here or there, I don't believe it's going to be material across the board for us.

Ankur Rudra: That's usual. So in terms of the content comments you made a bit earlier, we should expect, suppose that gets outsourced and it's not through OnMobile, your gross margins should definitely go up then because your content cost will not be there for those revenues, even if your revenues are hit?

Arvind Rao: Yeah, on the portion of those revenues yes, now the question is how material is the customer or the customers who change the scope, you know how material are they. And in one or two cases they are material, so let's see how it goes. We'll have more clarity on that within the next two or three quarters.

Ankur Rudra: Fair enough. Just one final question. Was there any one-time item from the World Cup in this quarter in terms of revenues or profit contribution?

Sanjay Uppal: Not significant.

Ankur Rudra: Sanjay alluded to that. It was actually very minor because it was basically we launched the football-soccer portal in Latin America, but it was relatively minor. We were not ready to deploy it yet, so we just did as a test case.

Rajesh Moorti: Sanjay, Mouli, you want to expand on that?

Mouli Raman: Yes, sure. I mean, the impact has been fairly minimal in the first quarter. As I said, this product was not only for the World Cup, but we're going to be using this for football on

an ongoing basis for all the leagues, I mean, throughout the year. So that has been significant.

Ankur Rudra: Thanks. And just in the India as well any sort of ringtone download related one-time revenues, which you may not expect in the following quarters?

Sanjay Uppal: No, there have been no such one-time revenues for ring back tone or ringtone.

Ankur Rudra: Okay, thanks a lot. And best of luck for the remaining quarters.

Sanjay Uppal: Thank you.

Operator: Another question from Sameer Naringrekar from BNP Paribas. Sameer, please go ahead.

Sameer Naringrekar: Good morning, Arvind. Just one question on the contract that you have won back in the current quarter. I think you had mentioned in the fourth quarter that the contribution from this particular customer was about 10% of your FY09 revenues. So looking at the numbers, it would typically be about 40 crores assuming that the CDMA subscriber base is not growing. Is it safe to assume that the contribution would be an incremental 20 to 25 crores in FY11, because I think you lost the contract sometime in the middle of last year?

Arvind Rao: Yeah, first of all, what we said last year was that, it was the material customer and it was in the range of 5 to 10%, not 10%. That is the first point I wanted to make. The second thing is you have to remember that the revenues at the time of cut off were after three years of service operation. So clearly when you start up the operation all over again, it takes a while for it to ramp up, even if it's got a stagnant or whatever base, right? So it's going to take time, the scope today is roughly the same, but we're looking to add several more services on to that, because we've also expanded our services, the Reverse RBT is a classic one that we've talked about. So, we're looking to expand the scope and therefore, if you come back within two years, we hope that the revenue from this customer will actually be quite a bit higher, that even with the base as it is, than what it was at the time of disengagement last year.

Sameer Naringrekar:

Okay, thank you, Arvind. Just one quick followup on the general trends in the MVAS industry. Do you see a potential for RBT to increase beyond the 15 to 20% kind of a subscriber base level that we've been seeing and also in terms of the revenue share, should we pretty much start adjusting our expectation to levels below 15% since the volumes are growing in the market?

Arvind Rao:

Yes, see you know, our belief on RBT is that at the current price point, which are being used in the market, it's unlikely that the penetration can go to levels that we want, which are north of 50%. So what we've done in order to get to that is if that is the objective, which is getting to a 50% plus penetration, we've launched a whole bunch of what we call as RBT variations. So, clearly there is a reverse RBT, there is social RBT, there is AdRBT, that is going to be RBT lite, which is at a different price point with unbranded content. We're launching a whole bunch of variations of RBT, which we believe if we execute well and if the operators promote it as the same way that they did with RBT, taking together over a period of three years could take the overall penetration to almost double the current levels. That's our strategy.

Now coming to your point on the revenue share, as I said in the earlier comments, there is a little bit of pressure here and there but I think at the scale at which we're operating at, I think they are already as a low end of the revenue share. So I don't really believe, that there will be tremendous pressure from the operators to seek sort of low revenue share because even they understand that if they drive it to this level, the result is going to be slower innovation from our part and therefore a slower growth in the overall top line, which is not going to be very conducive for anyone.

Sameer Naringrekar:

Okay, Arvind, just one quick question on new products. I think with the frenzy of all these mobile application stores, I just wanted to check if any attempts are being made to kind of capitalize onto that revenue stream.

Arvind Rao:

Yes, I'll let Sanjay and Mouli answer that because they have got lot of query in that area.

Sanjay Uppal:

Right so, if you take a look at what's going on with these app stores, you know that there're large number of

applications, ten to thousands of applications, the majority of which are not making any money. So our belief is that if we concentrate on our much narrower class of applications, those applications that require operator, operators network to be in the middle, so, for example for billing relationships, or local relationships, if we concentrate on that class of application, then that is the place where both OnMobile can be set apart. But, also these are the applications that can be monetized. So look to us in the future for talking about that specific class of applications as these app stores as well as the smartphones and superphones proliferate. Mouli, anything to add?

Mouli Raman:

That's it.

Sanjay Uppal:

Okay. Thanks.

Arvind Rao

One thing I'll just add on that is, if you really look at the app stores, and you look at the dynamics underlying the app stores whether it's iTunes or the Android store or any of these stores, a couple of things pop out to you, one is that the disproportionate share of the download are of free apps. So, it really doesn't do anything much for the app developer or for the app store. The second thing is the bulk of the remaining apps that are downloaded are largely one time fee, single user application. So for example people download a game, play with it on the phone and that's it, that's the only revenue stream, is you know \$0.99 or whatever they pay at the time of downloading. What is interesting is the average lifetime of an app download is more in the range of seven to eight days. So, what happens is that in first day's buy, people download a game or an application, use it, but then it sort dies off. That's not the space that we want to be in. We're actually setting up a very large, what we call as a widget factory, geared up at serving largely our largest operators worldwide in particular Vodafone and Telefonica, to give them a stream of widgets, but the widgets are going to be different in that they're going to drive services, which have recurring revenue streams, that's the different tags that we're taking to take advantage of the app store rather than doing the same, which is what has been done by the other application developers today.

Sameer Naringrekar:

Thank you very much, Arvind, and good luck.

- Operator:** There is another question from Deepti Chauhan from Asit C Mehta. Please go ahead, Deepti.
- Deepti Chauhan:** Thank you, sir. Sir, just had a few questions. In the last conference call, you mentioned that most of your deployment with respect to Telefonica would be completed by the December 2010. Are we still maintaining that guideline of December 2010?
- Arvind Rao:** Yes, that guideline was not December 2010. Basically, what we said is that we expect to finish the deployment in almost all of the Telefonica Latin American countries by March 31, 2011.
- Deepti Chauhan:** Okay.
- Arvind Rao:** That was what we had said and that we are on track to sort of deliver that.
- Deepti Chauhan:** Okay.
- Arvind Rao:** If there is a slight slippage of a month or so, you know that's okay because you know we've seen that in a couple of countries, for example simple things like importing hardware or getting clearance to set up an office is taking slightly longer than what we had anticipated even with Telefonica's participation and support. But even then, we are doing enough derisking and that we should be able to meet this target at the end of the fiscal year to have the whole continent life.
- Deepti Chauhan:** Okay. Secondly, sir with Vodafone, you already rolled out RBT in Romania as well as in Egypt. Is it possible for you to share with us any sort of revenue contribution from Vodafone?
- Arvind Rao:** Okay. So here is what it is. First of all, we have not gone live in Egypt. We've gone live in Romania and in South Africa, Egypt is being deployed as we speak.
- Deepti Chauhan:** Correct.
- Arvind Rao:** Second thing is that we are not going to share customer specific revenues or adoption because if nothing else, you have to understand that these are competitive situations and that we are bound by our confidentiality contract. And I

don't think it's fair to them either, to reveal the numbers. So, I can't do it.

Deepti Chauhan: Fair enough. Sir, as far as content cost is concerned, can we assume the same kind of run rate for the quarters going ahead?

Arvind Rao: You said, run rate, what do you mean?

Deepti Chauhan: If you are saying as a percentage to sales is basically right now at somewhere around 20-odd percent. So, can we assume that your content cost would be more or so in the range because in the past it has been in 22% on?

Arvind Rao: What I said and Rajesh and Sanjay and Mouli can expand on this but what I said is that, that is largely driven by the scope of our contract. So, if one or two material or largest customers, choose to do content on their own and they are more than happy for them to do so. Then, obviously, the content as a percentage of our top line will decrease, but that's because of our change in scope. At this point, it's very difficult for us to sort of say anything, but we really don't know how that's going to go.

Deepti Chauhan: Right. And lastly, sir, just one question. Any sort of Capex guidance, if you can give us for FY 11?

Arvind Rao: We've said before that we are against giving guidance because the issue is as I said we are doing what is right for the business really and you know this place is very dynamic in terms of how rapidly it's growing and changing.

Deepti Chauhan: True.

Arvind Rao: I don't know, Rajesh, whether you want to expand on that, but see what the indications are.

Rajesh Moorti: Yes, if you really look at the actual Capex for the last two, three years, what Arvind said is clearly borne out in the numbers but this year is a year of significant international expansion in LATAM and Africa and Europe. So, this year the Capex will certainly much higher than last year. Last year, we had spent close to 40 crores, this year it could be double of that.

Deepti Chauhan: Okay, thanks a lot, sir.

Operator: Next question from Vineet from Kotak Securities. Please go ahead, Vineet.

Vineet: Thanks for the opportunity. Arvind, I just have one question. You have significant amount of market development and deployment rights on your balance sheet. Can you please explain that in a bit detail?

Arvind Rao: Yes. Here is what it is. I mean it's what this market development right, so I think I mean if you look at the Telefonica contract and this is all largely stemming from the discussions that we've had with Telefonica, both in Spain as well as in Latin America. As we've said in the past, the contract requires us to make a commitment for a whole bunch of things including infrastructure, including hardware, software things that are capitalized and intangible assets including exclusive rights, including market development rights, including the rights to deploy the certain number of products. So for example, depending on the scope of what we think to take on, but we've negotiated a very broad contract, which involves more than 25,30 products. So, depending on how many of those products we deploy and when, you know we have to end up paying the commensurate fees for that. But again, this is all over the period of five to seven years, which is the eligibility for that contract. We can't get the breakdown by specific line item, because again as I said, that would be violating our competitive and our contract on these guys.

Vineet: Sir, if I understand it correctly, it could basically be paying this to get the exclusive rights and including your commitments to put Capex into that contract, Right?

Arvind Rao: So, it's a combination of that, it's a combination of access to their offices, access to their datacentre, sharing up space with them, the whole bunch of things apart from the hardware and the software that we would put in.

Vineet: Okay. And Arvind, one more question, what is the Capex arrangement in the international deals and how much upfront investments have you done till now in Telefonica and Vodafone. And how much do you expect going forward in the future?

Arvind Rao

See, it's like this. The difference is where the two large contracts are similar, is that on a country-by-country deployment basis, you know clearly once we have signed the contract, we go and we install our hardware. We do all the billing integration, install our software, customize it, integrate it with local content partners, we do back-end customization of the software for local languages, that's the same between the Telefonica and the Vodafone contracts. The difference between the two contracts, Vodafone is more of a country-by-country, case-by-case situation.

And that's why when you see the impact on our P&L and on our balance sheet, it is going to show up on a case-by-case basis and that has been our traditional business model for the last eight years. That contract is what I'd call as business as usual. But Telefonica contract deviated from that in that they were looking for a partner and this is before we came on the scene. So in other words, the terms for this contract were actually not defined so much by us as they were by Telefonica. So to some extent, when you are negotiating with the number three operator in the world, there is competition out there. You know, there is scope and way of doing things that they prefer to do.

So they wanted to have uniformity between their roaming customers. So their point was they have lot of traffic going in between their Latin American countries and they did not want the countries to go live one by one by one with a different vendor, who would give a different user experience, and a different user interface.

So they wanted to do it with one single partner and they wanted to do it in one shot. And they were willing to co-invest and they wanted the partner to co-invest as well. So that's how the deal was structured and that is quite different from the Vodafone case-by-case deal. So, that is why we have a contribution to the intangible assets, which is different and it does not happen in the case of Vodafone.

Vineet:

Okay. Arvind, when you say willing to co-invest, the entire Capex would be borne by you, if I'm correct? Right.

Arvind Rao:

So the Capex, the hardware Capex is going to be borne by us, for our part. Whereas the hardware Capex that they bear, in terms of both the datacentre expansion and EIs and all the rest of it and the backbone to join all our systems.

Some of it is borne by them, some of it could be borne by us.

Vineet: Thanks a lot, Arvind. That's helpful.

Operator: Another question from Nikhil Pahwa. He is from MediaNama. Nikhil, please go ahead.

Nikhil Pahwa: Thanks. Hi, Arvind, just wanted to get status update on the deal that you did it with BIG FM. Has that been deployed yet, if not how soon will that happen and what is perhaps holding it up if it hasn't been deployed yet? Thanks.

Arvind Rao: Sanjay, you and Mouli want to take that on?

Sanjay Uppal: The deal with BIG FM, we expect that it will be deployed in this quarter and in terms of anything holding it up, well, we have to make sure that the product programming, because the programming is coming from BIG FM, the technology and the music, we are integrating here. We need to make certain that works with scale and to make sure that the rights and all of that were in place. So we expect that we will roll it out this quarter.

Nikhil Pahwa: Okay. Also what's the status of the OnMobile Developer Network and the product pipeline over the next quarter? What's the trend that you're seeing in terms of people wanting to come on board?

Arvind Rao: Mouli, you want to talk about that. I mean basically we're seeing a lot of interest from a lot of small companies and innovations. The real challenge for us is really to roll out. ODN is not an easy platform to roll out across all operators. So the real, what shall I say, the real onus is really in our court to actually get it deployed to a point when a new customer comes on board, they get 100% of the market reach. We have had these few people on board and the initial results have been pretty damn good. Mouli, you want to talk about it?

Mouli Raman: Yes. So the interest of the developers is definitely there and there are a few applications like Mobile Antakshari and the business is doing very well in the market. However, on the operator side, that is, to get the buying from the operator and to roll out the infrastructure from the operator is taking a bit longer than expected. So, we're in that stage. I mean,

we're in discussions with the operators throughout infrastructure to enable ODN. So, definitely I mean over this quarter and next quarter, there will be more developers and more operators coming on board. Yes, I mean overall there is a lot of interest and there are opportunities but I think it's getting a bit delayed because of setting up the ecosystem.

Nikhil Pahwa:

Just wondering, what sort of revenue impact the ODN has for you. Is there any sort of a guideline that you can give that?

Arvind Rao:

Nikhil, the revenue contribution from ODN is not going to be material. Okay. Maybe, we're doing it not so much from a revenue standpoint, because really to think about the momentum and the scale at which we're operating, you know the revenues – key revenues that could be generated from ODN, are not going to be material unless we had literally about, you know, 100 to 200 partners live on ODN. It's not going to be material unless we get to that point. So, the revenue contribution is not really the rationale or the reason behind our driving it.

The reason is because we believe that if VAS is to realize its full potential of growing to 50,000 crores by 2015 or whatever we believe in, it's not going to happen with innovation coming out of OnMobile on its own. So this is going to have to involve a whole bunch of small companies innovating with a whole bunch of small products whether it is a local product that works very well only in a particular region of India or whether it's a vertical product in a specific area and banking or telemedicine where somebody can bring innovation that the OnMobile R&D team, which is working on so many different things just can't get to. So our unique position in the market, given our cross operator presence, is to actually create a platform to allow these small companies to take a jumpstart and get that product live, that's the reason why we're doing it.

Nikhil Pahwa:

So, in that sense what, how do you see the impact of one of your competitors launching a \$100 million fund in partnership with the VC fund. How are you looking to perhaps attack developers whether they are also in offering funding along with it?

Arvind Rao: Yes, but a couple of things, so what sets up apart from One-Nine-Seven handset, which is what you are talking about?

Nikhil Pahwa: Yes.

Arvind Rao: Okay. One of the unique things is first of all, we have presence in a wider range of product. So, we have expertise ranging all the way from SMS, USSD, IVR, voice to WAP and to 3G. So, that's the first differentiator that we offer. So we can handle products across all channels. The second thing is we have larger presence across the board, across all operators than any other company in India. So, we can offer that too to our partners who come on board, which is again something that other people can't. And finally, the biggest one that I can say and we've proven this with growth rate, is that, we have these large global contracts with Vodafone and Telefonica, which many of these partners who develop some really cutting edge products can pick it up onto and that's something that's unique to that nobody else can offer them.

Nikhil Pahwa: Okay. My last question is around the potential regulation of VAS which TRAI has suggested. What's your take on that? Does it have a positive impact on you or does it have a negative impact on you and how do you see the impact in the market?

Arvind Rao: Yes, I have said this before, I mean, we see a positive impact and here is the reason why. There is a misperception in the financial community that if TRAI decides to license that, "if", that would imply some sort of a licensing fee, whether it is 10% of the top line revenue or 15%. As I said before, we have met personally with TRAI, we have met with the Chairman we met all the members and we have explained to them and so as the industry association that we are paid, our revenues are from growth revenues of the operators on which the license fee and the spectrum fees have already been deducted. So, you can't double tax the revenue. And they have assured us that they have understood this very clearly in black and white and they have assured us that there is going to be no sort of licensing in terms of taking 10 or 15% of the top line particularly for players like us who are on deck.

Now if it was off deck revenues, where the WPC and the spectrum fees are not being taken, then those companies

offering off deck may have some licensing fees of their top line but that does not apply to us. So, I don't see any impact from this. I mean when we have talked to TRAI, basically what they want to do is they want to exercise some control over matters like telemarketing over spam call or making sure that number of VAS companies that are emerging are all solid companies, they are not fly by night operators. People don't make, what shall I say, unauthorized content available to subscribers. That sort of stuff, it's got nothing to do with us and it will have nothing, if at all it has any impact, it will only be positive.

Nikhil Pahwa: Okay and how do you see that impacting the broader ecosystem?

Arvind Rao: I think, as I said before, I mean if at all there's anything, it will only be a positive change for the ecosystem in terms of cleaning it up and having better transparency and better capitalized players and better stronger players, it will lead for consolidation in the space.

Nikhil Pahwa: Okay, great. All the best for Q2, thank you.

Arvind Rao: Thank you.

Operator: We have another question from Shailesh. He is from KR Choksey Shares & Securities. Shailesh, please go ahead.

Shailesh: Yeah, thank you, gentlemen. Thank you for taking my question. I have some basic questions. Arvind, you have been deploying huge amount in the Telefonica and Vodafone, is there any kind of a lock-in arrangement that these operators will be there with you for certain number of years so that you can recover your investment?

Arvind Rao: As we have said for before, the Telefonica contract is exclusive for a period of five to seven years from the date of going live. So on the current circumstances, assuming that they're going live in this fiscal year, you can assume roughly six years from now, and we have exclusive rights to that entire continent with Telefonica.

Shailesh: Fine.

Arvind Rao: Okay. And in the case of Vodafone, while we don't have any exclusivity built in, when we launch with every one

customer, it's a more or less the effort required to go to into it, it's a de facto exclusive. I mean, again if I look back at nine years of operation of this company, we've had only one case where significant customer has dropped out. And again as we talked about on this call that customer has come back. So our ability to actually maintain continuity of revenues from our customer even without exclusivity built into the contract has a proven track record and the reason for that is because we continue to innovate and we continue to give them scale of operations and execution like no other company can give them.

Shailesh:

Fine. My second question is, I mean is there any change in the way of OnMobile is seeking the revenue, I mean like are we trying to become some kind of outsource infrastructure provider to these Telcos or it is not so?

Arvind Rao:

No, first of all, I don't think, see it's not also infrastructure. I mean, if you are saying that, if I look at like Airtel had done the deal with IBM and with the Nokia, Siemens and Ericsson for outsourcing various parts of their network infrastructure and stuff, that's not really the way we operate and our business model. We are geared, first of all, we are not an infrastructure player, we are managed services player. Our focus is on customer facing revenues and on delivering revenues and revenue maximization to the customer. That's our core value proposition. We are not into the business of providing infrastructure and walking away and meeting the customer alone to maximize service revenues. That has been our business model from day one and we'll continue to be so in the future.

Shailesh:

Great, great. And Arvind, if I am not wrong in understanding, see, you guys are commanding market share because you are innovators. When you innovate a product, there is some kind of premium attached to it, then other people might catch up. So I mean, how do you see the whole game? I mean, I just want a broader picture to have more clarity.

Arvind Rao:

Yes, there are two different approaches philosophically, right. One is to say that, when you launch a new product, you will charge a premium price for it and then as it becomes a commodity over a period of time, you drop the price. We have a different approach to doing it in that we don't look at it as a product by product basis, okay.

We operate on a relationship basis, which means because when we work with a customer on a long-term basis as a partner, we do not sort of sit down and renegotiate or revisit commercials with every product launch. In most of the cases the revenue share, the commercials are set. So we don't waste time on commercial negotiations. Now, what that means is that in many cases we do forward pricing. And we give the customer the advantage of a low revenue share as on day one rather than doing premium pricing and then dropping it down.

The advantage to us is that it gives us more of a visibility into the revenue share stability. Because they are starting at a reasonable point, so it's not like to worry that every year on a new product, there's going to be pressure on the customer to bring it down.

Shailesh: Great. Some routine questions, I mean like when we try to bifurcate the total revenue, what percentage is coming from RBT, what from IVR, and what about others I mean and how it is shaping up going ahead?

Arvind Rao: See, we have different product lines. I mean, if I look at that the Network Product Unit, which has ring back tones and missed call alert and ODN and several other products into it, but ring back tones is a key one. That's roughly about 45, 50% of the revenue of the company today. Rajesh, has that changed or is that correct?

Rajesh Moorti: It's broadly in that range, Arvind, and the Application and Voice portal unit is the 30 to 35%.

Arvind Rao: So those are the two major drivers of revenue for the company today.

Shailesh: And going forward, will it be the same or you see some kind of changes because as we progress to a data related services and all these things?

Arvind Rao: You know, if I had a choice I would love the RBT unit to be less than 13% of our company's revenues, because I don't like any product or any customer region to be dominant in terms of market share of our revenues. The problem we are having is that we are seeing, you know, I would call it as unprecedented demand as I've said in the past for RBT and RBT related products.

So while we try to diversify in pump up data products and all these widgets in app stores as fast as we can, the problem is you have a runaway train in terms of RBT and as a result are going from strong and better to better even more and more customers from around the world are looking at our results and actually asking us to come and replace their in-house systems. So it's a bit of a dilemma for us to sort of satisfy that demand at the same time diversifying our revenue streams.

Shailesh:

Great. And one last question, Arvind. I mean, what is this whole tax issue? You guys have been receiving a notice after notice for payment and some additional demand is placed on you then High Court asked you to put additional deposits, I mean what exactly is the whole case and where it is heading?

Rajesh Moorti:

Okay, I'll take that...

Arvind Rao:

Can you take that, Rajesh?

Rajesh Moorti:

Yeah, okay. Okay, we can have a discussion offline...

Arvind Rao:

You can discuss it offline if you want. That's quite complex.

Rajesh Moorti:

Yes, it is very broadly we pay service tax to the Government of India, the Revenue Departments are pretty aggressive and they're trying to tax the same thing while we have a VAT. Obviously, we have contested that but you have to go through the normal appeal process and pending those appeals being cleared you have to pay the amount under product.

Shailesh:

Have you made any kind of provisions or shown it in balance sheet or P&L somewhere, I mean if it is where exactly?

Rajesh Moorti:

Yeah, it is in the balance sheet, there is no provision made. And we can discuss this offline.

Shailesh:

Great, thanks, Rajesh.

Rajesh Moorti:

Okay.

- Arvind Rao:** Okay. I think we'll take a couple of more questions, right.
- Operator:** This is last question from Surabhi Chandna from Morgan & Stanley. Surabhi, please go ahead.
- Surabhi Chandna:** Hi, thanks for the opportunity. I wanted to know what are your thoughts with the 3G and BW services, expected to launch anytime after January. How will they impact of your business, what you're looking forward to?
- Arvind Rao:** I mean I'll let Uppal and Mouli respond, but what I can think of is that 3G because of the higher network speed and because it will cater ... it will basically enable the power of all these smartphones to be really unleashed. I think it's only going to expand the market potential of VAS fivefold, tenfold as it rolls out. Now, the question is really is are we geared up with the right set of 3G services and all that. We have some 3G services that we have been doing overseas in many countries. And we plan to bring those in.
- But on the other hand, we also have a couple of product team inside really looking at the new set of 3G applications as we want to roll out for all these, both the 3G operators as well as BW. I think it's going to expand the market dramatically.
- Sanjay Uppal:** I will just say a couple of things here. So one is that there's going to be an impact across our product line because of both the speed as well as the ability to do more media related stuff. So when you look at video, for example, video can have an impact on everything from sports to Bollywood to infotainment and the services as well as to RBT. And so that is one track that we are taking. Now the impact of that is difficult to say because there really has not been as much history in the emerging markets of this specific tax of services and the impact from a long-term basis. But we do expect that there will be an impact on practically every service that we run today, when 3G and 4G roll out, that's one part.
- And the second part is because of the nature of these networks, there will be new classes of services. For example, we expect that the collaboration will be much more prevalent, when we have 3G and 4G services rolling along and things like multi-party conferencing, which we already have as part of our platform today, that there will

be an expanded need for that as we get new media streams in. So there will be the new services as Arvind was pointing out both done by OnMobile as well as with our partners and I think our expectation is that in this new world of 3G and 4G, basically the sky is the limit when it comes to value-added services.

Surabhi Chandna:

Sure. Thank you.

Arvind Rao:

Well, let's take one more question and then we'll hang off. We'll conclude this call.

Moderator:

There's another question and the last one from Mr. Ankur Rudra from Executive Global. Ankur, please go ahead.

Ankur Rudra:

The duration of contracts in India, how often do these renew and how often do you go to revisit the scope in terms?

Arvind Rao:

Any of our contracts are actually for 3 to 5 years in terms of contract. In terms of commercial, the reality is, you know even though whatever you write in the contracts, any large operator will tell you that you know we can revisit the commercials anytime we want. So there's a sort of a contractual term and sort of a practical term in how life really works. But usually, what happens is that operators you know in the past used to – revenue shares were much higher. Many times they would want to have a commercial renegotiation every year. I'm not seeing that right now. And as I said before we are already operating fair enough far down the scale curve. So we are seeing less and less pressure to keep revisiting the commercials.

Ankur Rudra:

The re-scoping that you spoke about earlier and answer to my earlier question, is that something we can potentially expect from other of your customers in India as well?

Arvind Rao:

Sorry, I didn't get the first part of the question.

Ankur Rudra:

You spoke about re-scoping of one customer who's asking for trying to take off the content part flowing through OnMobile earlier in the call. Is that something we can potentially expect from your other customers in India also?

Arvind Rao:

Of course, I would love to tell you if I knew it. These are not simple and straightforward matters. It's not even just

you know - what shall I say? – It's not even a simple commercial negotiation. It's been a problem like there is a operator may say we want to do it and they go out and actually try to do it. In some cases, they may find that it's tougher than what they thought, it's more complex, it has huge amount of implications, then the savings that they expected to get on something are just not there or was it. So they may come back and say "hey, continue doing it." So one never knows it.

Ankur Rudra:

Okay, fair enough. Just one bookkeeping question last one for Rajesh. What was the absolute number for the content development for the one-time revenues last quarter? You said that the revenues were 50 million. Just go to get a sense so that we can look at the trend in content costs on a theme basis.

Rajesh Moorti:

Ankur, I think you should just look at the margin percentages in this quarter and that's fairly indicative.

Ankur Rudra:

Okay, fair enough. Thanks for that and best of luck.

Arvind Rao:

Thank you.

Rajesh Moorti:

Okay.

Arvind Rao:

Hey, guys, I think I am going to hang out because I have to leave and catch a flight. Can I just say one thing that if there are any other questions, you will have Rajesh Moorti or my numbers and our e-mail IDs. Please drop us a line and we'll address it in the next 24 hours.

Arvind Rao:

Thank you very much.

Arvind Rao:

Okay. Thank you.

Moderator:

At this time, there are no further questions from the participants. I would like to hand over the floor back to Mr. Arvind Rao. Over to you, sir.

Arvind Rao:

So, once again I just wanted to thank everyone for attending this call. And you know, as I've said in my initial messages, you know, one is we see absolutely no impairment in fact as we go around the world looking for value-added services opportunities. We see that the market is even larger than what we thought, point number one.

Point number two is, you know in all the customers that we are operating in, all the major customers that we are seeing, you know, in spite of the conditions, I'm happy to say that we have been able to maintain our growth share. And that tells me that our products are well respected, our customer franchises in tact and there is no impairment in any of these things.

And that last year's results were largely as we have always maintained, you know, basically driven by the Indian macroeconomic environment particularly pertaining to the telecom industry and our international investment to the extent of that. So we are quite looking forward to this coming back of our momentum and we look forward to delivering results in the next few quarters. So with that, I want to thank all of you and wish you all the best. Thanks.

Moderator:

And that does conclude our conference for today. Thank you for participating and you may all disconnect now.