



“First Quarter 2012-13 Investors Conference Call of OnMobile”

August 14th, 2012



**SPEAKERS: Tony Haight, Chairman, OnMobile
Mouli Raman, Co-Founder and MD, OnMobile
Rajesh Kunnath, CFO, OnMobile
Praveen Kumar, Financial Controller, OnMobile**

Moderator: Good afternoon, ladies and gentlemen, I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to the OnMobile Investors Conference Call Quarter 1, 2012-13 presented by the OnMobile management team. For the duration of presentation, all participants' lines will be in listen-only mode. There will be a presentation followed by question-and-answer session. Please be advised, this conference is being recorded today. I would like to now hand over the conference to Mr. Tony Haight. Thank you and over to you, Sir.

Tony Haight: Good afternoon, I am Tony Haight, Chairman of OnMobile. I am glad you are all able to be on this call. I just want to introduce the other people who participate from management side on this call: Mouli Raman, Co-Founder and MD; Rajesh Kunnath, our CFO and Praveen Kumar, our Financial Controller. I just want to particularly thank all the investors for the support and constructive feedback they have given recently and I want to reiterate our commitment to act in the interest of all the stakeholders. We are structuring this call a bit differently given the recent happenings and we want to cover four points.

First point is what happened in the recent past. Second point is what is the way forward, third, the first quarter financials and fourth, Q&A.

On the first point, what happened in the recent past, we have been sent across questions asked by various stakeholders and media, and have provided answers for them. I hope you have had a chance to go through them. On this topic, as we have answered these questions in writing, we will take questions after our presentation.

On the way forward, our focus is on further improving our corporate governance. The steps, we have taken are - we are looking to augment the board of directors with more independent directors and have sought an independent review of the governance mechanisms by external consultants. Their brief is to check the current enterprise risks, management framework, whistle-blower policy, code of ethics and segregation of duties. Emanating from this, they will also be recommending a new delegation of authority matrix, given the rapidly expanding international presence. We have engaged the services of an independent entity to review our business practices and to identify any unknown risks. Given the rapid pace of growth in the international business, we will strengthen the compliance team by recruiting senior talent whose exclusive focus would be all legal and regulatory compliances at our international locations. On a quarterly basis, the Board will meet to review all material contracts above the defined thresholds, regardless of them being repeat engagements with existing vendors. All existing related-party contracts have been terminated and steps

have been initiated to identify all of the vendors to ensure that business is not disrupted.

I am now going to hand the meeting over to Rahul Sachdeva from KPMG, who would comment on our internal audit.

Rahul: Good day, everyone. At KPMG, we have been taking care of the internal audit for OnMobile for the last two years. We have been doing quarterly reviews and have been submitting our reports at the end of every quarter to the Audit Committee. Based on whatever observations we have come across, management responses are obtained and these are then reviewed in subsequent quarters. If we look at it, at the end of the two years where we are today, we would like to put across and say that the state of internal controls right now is under management and are being implemented as and when we highlight any of these. Apart from this, we share the scope of the internal audit with the Audit Committee and the external auditors.

Mouli Raman: Thanks, Rahul. This is Mouli Raman, Co-Founder and Managing Director here. Adding to what Tony was talking about, on the way forward, I will give more details on that. Before that, I would like to thank you all for the support in these turbulent times. As an organisation, we have been through ups and downs in the past, and we have always come out much stronger than before because of our focus on the basics and the support of all the stakeholders. We are confident that a similar thing will happen this time too.

So in my presentation, I have three aspects to cover. The first one, what has been the response from various stakeholders after the recent events; number two, outlook on the business side and third, what are the focused areas going forward.

So to start with, I will give you the response from various stakeholders. Over the period of about one/one-and-a-half months, we have been extensively engaging with all the stakeholders, including employees, customers, investors and partners. On the employee front, obviously there were apprehensions, but we have explained what really happened and the way forward. After all that, we are determined to see the Company through this turbulence time and to be part of the journey going forward. On the customer front, existing customers appreciate that as an organisation we have done the right thing and have high corporate governance standards. As you know, we have been working with many customers for years and have had long and mutually-benefiting relationships. Historically, they have seen a depth in leadership, innovative products and that determination to enhance their businesses. Hence they have expressed their support in

continuing and growing our relationship going forward. So that is on the existing customer's front.

On the business development front, in the recent past, we have successfully closed two fairly decent-sized international deals and we will share more information at the appropriate time. Today, we do not see any risks of losing any deals which are in the pipeline as a result of the recent events. That is part of renewed focus on business development in the market. We have empowered some of our senior team members with additional responsibilities and we are also getting some top talent from outside, including some of the high performers who were earlier with us. So that is on the employees and customers fronts.

Now coming to investor front, while some of the existing shareholders have exited the OnMobile stock, some longstanding shareholders continue to be with us and some blue-chip investors have come on board recently. After talking to the investors, they believe that as an organisation, we have done the right thing and we are committing that we will double our effort to engage with them and to hear their constructive inputs and as Tony reiterated before we will do whatever is right in the interest of all the stakeholders.

So that is on the impact of the recent events on various stakeholders. Now coming to the outlook on the business side, we do see a lot of opportunities and challenges around the world. I will start with India.

While we see a lot of opportunities in India on the consumer standpoint, the market is challenging, given the overall telecom industry scenario, lack of an open VAS ecosystem and regulatory challenges. We are working with the operators to address some of these issues and it will take concerted effort from all the parties over the next few quarters to address these challenges. Yes, there are challenges, but we need to work with all the stakeholders to overcome these. Besides the operator business, we are also looking to leverage our platform to provide services to enterprises. Recently we were selected as a mobile platform partner to implement what is called as Ananya Advanced Services to improve maternal and child healthcare in Bihar and this is done by the Bill Gates Foundation. This has been launched in Bihar first and we are in the process of launching this in other markets in the next few months.

Coming to the other markets, in Latin America, I think as you may know, we have launched in 14 countries and the uptake of our services in Latin America has been very positive. We have seen a penetration of RBT of 6-10% in the key markets within the 12-18 months of launch. As of now,

most of the revenues are coming from RBT and we believe that we have good scope for increasing the revenues from RBT as well as rolling out new services. We have very high credibility with the customers because we have been very good in rolling out our services within a short period of time and making the services successful. Again, in Latin America, one thing I would like to add, while these things are good, we do have some practical challenges, which Rajesh will touch a bit upon later.

Coming to Africa, we have gone live with RBT in eight countries wherein, we are seeing a penetration of about 10-20%, which is definitely ahead of our expectations. Possibly we have not seen such penetration in such period of time in any market before. So we are very happy with the progress on that.

Also, recently we had signed an agreement with a large operator in Africa to roll out our music-on-demand services. With this, we are rolling out in nine countries. So overall, with the RBT and music-on-demand contracts, our presence in Africa will be about in 15 countries and this is primarily in Sub-Saharan Africa. We see pretty decent scope for growth in RBT in the existing customers as well as scope for RBT in other customers. But besides that, we also see a lot of scope for new services in the market. That way, we are pretty bullish on Africa.

Coming to Europe and North America, our teams in Europe and the US have been working on a suite of products called OnCloud, which is primarily to help the operators to focus on their significant strengths in communication and make personal communication better by leveraging the assets. So the products provide customer information like social get-up, contacts, building and location and so on and so forth. With this product, we have managed to get a large operator in Europe for roll out across multiple countries and we have been rolling out over the last about three to four months. We have also got a fairly large operator in the US and we are in the process of deploying it.

So that is about the outlook on the business side. Now, coming to what are our focus areas going forward, ultimately we fully understand that performance is all that matters. To make that happen, we are going to focus on the basics. Fundamentally, in times of turbulence, we just want to make sure that we focus on few basic things and do them really well. One of the focus areas for us - is on the people side. We are going to focus on the core values, which has always made OnMobile a great company to work for. This is in terms of openness, transparency, collaboration, honesty and integrity. We are going to focus on instilling these values across organisation. The second thing is about focusing on retaining/attracting top

talent. We have taken or we are taking a lot of steps to retain top talent. But we are also working aggressively on attracting some of the high performers from outside, including some of the high performers who were with us earlier. In this context, I would like to say that recently Sanjay Bhambri, who was earlier with us and has been instrumental in building our Asia-Pacific business, he had left us a few months back and he has joined us again as Regional Vice President for Emerging Markets. Similarly we are also working on getting other high performers, wherever there are slots. That is on people's side.

Coming to the product side, our true bread-winners are RBT and voice-based services. We continue to see very good opportunities for these products around the world, particularly in emerging markets. We will continue to leverage on these opportunities. With OnCloud solution which is helping the operators to compete and co-opt with the OTT players, we see a very good opportunity in advanced markets which is proven by some of the recent deals. We believe that over the next few years, with the evolution of the handsets and the networks in other markets, we will be able to roll out these services in other markets too. Now, coming to again on the product side, one thing that we would like to do now is to focus our energy on fewer products so that we can be the leader in whatever we do. So, actually we are going through a product-planning exercise which we will be able to complete in the next couple of months.

The last focus area will be on improving our execution to address the complex challenges of rolling out multiple products in many emerging markets and doing it efficiently. So we are working to improve the processes and also improve automation and tools.

So to summarize, we want to go back to doing the basics right in people, product and execution. While this will take for us a few months to implement, we believe that at the end of it we will have a great platform for us to build a long-term business. So with that, I will hand it over to Rajesh and Praveen to discuss about the first quarter financials.

Rajesh Kunnath: Good evening, everybody. I will just give you all a quick capsule of the Q1 results. Revenues grew 36% year-on-year, primarily due to a strong growth in the international markets, with the Africa and LatAm businesses gaining traction during the quarter. Revenues grew 4% sequentially. International revenue was 56% of the total revenue and domestic revenues declined during the quarter. We were able to hold on to market share despite unfavourable market conditions. As the recent financials of most of the telecom operators indicate, revenues are under pressure with hardly any new product launches. So we expect domestic revenues to be soft for some

more time. Manpower cost increased significantly both y-on-y as well as sequentially, primarily because the Company continues to invest in new products and deployments in new geographies ahead of expected revenue flows. The quarter also saw the Company absorb the impact of increments of approximately Rs. 8 crores. We have to remember that increments for the last year were only effective from 1st July. So it is not comparable. Head count increased from 1,449 as of 30th June 2011 to 1,668 as of 30th June 2012. EBITDA margins were slightly lower at 19.4% in Q1 FY2013 as compared to 19.9% in Q1 FY2012 and 22.9% in Q4 of FY2012. Margins were primarily impacted by higher manpower costs. Depreciation and amortisation for the quarter was lower than the previous quarter despite higher LatAm revenues. This is because of the tapering effect of depreciation on capital expenditure of previous years. We have to remember that we adopt a very aggressive depreciation rate of charging of our assets over three years. Capital expenditure for the quarter at Rs. 11.6 Crore which is lower than previous quarters, as deployments in the key geographies of LatAm and Africa have been more or less completed. Effective tax rate at 43% continues to be high, as the company has to contend with high withholding taxes in foreign geographies which cannot be set off in India. It is lower than the previous quarter as Q4 of FY2012 has a significant amount of catch up of previous quarters. We are looking at ways and means of improving the structuring aspect to reduce the tax rates, and expect some of this to kick in as we exit Q4 of this year. While operations generated cash of Rs. 42 crores, the impact of higher trade receivables of Rs. 28 Crores, the paying down of short term debt of Rs. 9 crores, and the completion of the last tranche of the buyback of Rs. 4 crores resulted in the overall reduction in cash. Finally, our net cash position after reducing short-term debt of Rs. 71 crores is Rs. 151 crores. Thank you.

I think with that, we will open up to questions.

Moderator: Sure, sir. With this, we will open the calls for a Q&A interactive session. At this time, if you wish to ask any questions, you may please press "0" "1" on your telephone keypad and wait for your name to be announced. I will repeat, to ask a question, you may please press "0" "1". The first question is coming from Mr. Gaurav Malhotra from Citi Group. Mr. Gaurav, your line is unmuted, please go ahead and ask your question.

Gaurav Malhotra: Hi, thanks for the opportunity. Just have a couple of questions. Firstly, on the employee costs, you had mentioned that they have gone up quite significantly in this quarter and one of the reasons is because of the increments. But even if you were to take the September quarter of last year, we still had employee cost of around 37% of revenues. From that time, the LatAm revenue obviously have kicked up much more significantly, and

despite that, we are seeing the employee cost ballooning in this quarter. So where should we see this stabilising at, would it be around 41% or will be the long-term average which is, say, around 36-37%?

Mouli Raman: We did invest in manpower over the last few quarters, primarily for two things. One is on the new geographies as well as on some of the new product areas that we are pursuing, and also to improve the operations in some of the existing operations. For example, in India we did improve some manpower for making a few things better. We do know that the manpower cost has to be more optimal, compared to the revenues, so we are in the process of doing three or four things. One is we have re-prioritised some of our initiatives so that we can focus on a fewer initiatives and do them really well so that it is going to result in better revenues. So when we do this, it is quite possible that there is going to be redeployment of resources into different projects. The second thing is that we are also optimising the resources by restructuring – for example, right now we have vertical structures in many of our geographies. So we are looking at how it is possible for us to better share the resources across geographies and customers. So this is one thing we are in the process of doing, and this will take effect over the next few months. Also in some cases, we have been on revenue-share model and in some cases we believe it should be possible for us to charge some of our services to the customers instead of them being on the same revenue-share. So that way we are going to be in discussions with the operators to increase revenue share or have a different price for some of the different services that we provide. These are three things that we are doing to optimise the manpower across.

Gaurav Malhotra: Okay. Thank you.

Mouli Raman: Thank you. Next.

Moderator: Sir, the next question is coming from Mr. Vinay Jaising from Morgan Stanley. Mr, Vinay, your line is unmuted.

Vinay Jaising: Thank you so much. Sir, I have a couple of questions. Firstly, you mentioned you are going to start operations with one more operator in Africa for about nine countries or nine circles, my question here is how would you look at that operator? Like Telenor, are you paying something upfront or what is going to happen to the cost element of it? The objective of getting an answer here is where do I look at EBITDA margins and revenues incrementally with this new operation starting. That is my first question, sir.

- Mouli Raman:** Firstly, it is nine countries, not nine circles. So what we have seen in these operators is that it takes a few months for the revenues to ramp up. Over a period of time, we have seen that in these emerging markets, they stabilise around a similar operating margin and we do not expect this to be any different. Over the next few quarters, the operating margin and revenues will stabilise.
- Vinay Jaising:** Sure. Would this mean that for the coming few quarters the margins would go down for the company, because of ramping up in these new circles?
- Mouli Raman:** We do not expect the operating margin to go down as a result of this.
- Vinay Jaising:** Great. Sir, my second question is – you did mention that you are getting old manpower back into the Company wherever there are opportunities, and the previous question you also mentioned about the staff cost. What would be your overall number of employees and the turnover as compared to last year before you losing senior management in the Company? Has it changed, has it increased, has it reduced?
- Mouli Raman:** I think, just to give an overall picture, the last three years, in 2009, 2010, we were above the industry average in terms of attrition. In 2010-'11 we were in line with the industry average. The senior level, we did have more exits than we would have liked. But overall, at the Company level it was in line with the industry average. So what we believe is that with a better focus on the people as I talked about before, making them part of the change, providing them more responsibilities and challenges, we believe that we should be able to control the attrition fairly well this year. Again, that remains to be seen, but we are taking all the steps to ensure that attrition is low this year.
- Vinay Jaising:** My apologies, what I meant was the first six months of the year, has the attrition been higher or was it in line with what it was?
- Mouli Raman:** No, no it is not higher now.
- Rajesh Kunnath:** Vinay, Rajesh here. I would like to just add one more point. I think it would partly address what Gaurav had asked. Though our manpower costs are bending to be higher this year, whatever is the increase in manpower as a percentage of revenue will be offset by Opex savings. As Mouli said, our idea is to maintain the operating margins. That is the overall effort of the Company.
- Vinay Jaising:** I am going to be quick and add two more questions. You did mention softness in the domestic revenues which I assume would be on account of

two things, one, probably losing Idea as a customer in the longer term, which accounts for 10-15% of your overall revenues and the second would be, just generally the value-added space coming down. Is it possible for you, with a one-year-forward perspective, to tell us where your domestic revenues you think would be in terms of absolute percentage? Would it go down by 15%, would it go down by 5%, any indication out there just on domestic bit?

Mouli Raman: We cannot share the number at this point in time, but what we know is that today it is about 45-46%, and that is likely to be in the range of about 36-40%, that is what I would think it to be at the end of the year.

Vinay Jaising: I assume that is partly because your international operations are growing very healthily?

Mouli Raman: Yes, that is right.

Vinay Jaising: Do you think in absolute basis you will have more than double-digit fall in your revenues domestically? I am just trying to push where do we see the fall of domestic revenues stopping?

Mouli Raman: I think as we see today, it is going to be in single digits, but higher single digits.

Vinay Jaising: Great. Thank you so much. I have no other questions. Thank you.

Moderator: Thanks for your question, Mr. Vinay. The next question is coming from Mr. Anirban Roy from Morgan Stanley. Mr. Anirban, your line is unmuted. Give me a moment, I think this line just hanged.

Rajesh Kunnath: We can move to the next call.

Moderator: The next question is from Navin Kulkarni. Mr. Navin, your line is unmuted.

Navin Kulkarni: Last quarter, I believe the contribution from LatAm revenues was around 15%. Could you give us what was the contribution in this quarter and what kind of penetration you have achieved with your products in this geography, and what kind of active subscriber base you have?

Rajesh Kunnath: Navin, just repeat the question once, please.

Navin Kulkarni: Last quarter the contribution from LatAm was around 15% I believe. Could you give us the contribution from LatAm revenues in this quarter?

Rajesh Kunnath: Yes, it is 18.5%.

Navin Kulkarni: Okay. Could you give us the active subscriber base that you have in this geography?

Mouli Raman: I think as you were saying, the countries, the penetrations have been 6-10% in the key markets there.

Navin Kulkarni: Secondly, on India revenues we have seen that there is a decline of 4% on a sequential basis, where do we see this stabilising at least on the absolute revenue – probably this quarter was around Rs. 81 crores. Do you have a figure in mind that probably at this level it might stabilise or something of that sort? Anything on absolute revenue terms, which would be helpful for us going ahead?

Mouli Raman: As we were saying, there is going to be a drop in revenues in India, and we expect that to be in higher single digits for the year.

Navin Kulkarni: Okay. So for the whole year you are referring to?

Mouli Raman: That is right? Higher than expectation at this point, yes.

Navin Kulkarni: Okay. And lastly on the tax rate, how do we modulate for this year and year next, as in FY14, can you give us any kind of guidance on that?

Rajesh Kunnath: I would not look at it more as a guidance as to just tell you that the current tax rates seems to be at the level with which we would be at least for the next two quarters. Only once we put in some sort of a restructuring initiative in place, would we want to hazard a guess on how it would move southwards.

Navin Kulkarni: Okay, fine. That answers all my questions, thank you.

Moderator: Sir, the next question is coming from Nitesh Kamdar. Mr. Nitesh Kamdar, you line is un-muted, please go ahead and ask your question.

Nitesh Kamdar: Yes, good evening, everybody. My question is what is the payback of our investments of Rs. 200 crores in the Telefonica deal in terms of revenue in profits and in what timeframe?

Rajesh Kunnath: We cannot look at it as a very specific payback module. All that we can say is we are expecting the LatAm revenues to be in the region of Rs. 600 crores to Rs. 800 crores over the next five years. And we expect a

reasonable 12-15% operating margins on the same. So with these numbers, I think you can do your math.

Nitesh Kamdar: Okay. But then when you say 12-15% operating margin and Rs. 800 crores of revenue, then we are not recovering the amount we invested in the deal.

Rajesh Kunnath: No, this is after amortising. This amount that I mentioned to you is after incorporating the amortisation.

Nitesh Kamdar: Okay. Thank you.

Moderator: Thanks for your question, Mr. Nitesh. The next question is coming from Chetan Kaulra from Aditya Equity .Mr. Chetan, your line is un-muted.

Chetan Kaulra: Yes, a very good evening. Since Tony is there, I just wanted to hear from him, what is his long-term goal for this investment in OnMobile.

Tony Haight: Well, my long-term goal is for the valuation of the Company to be significant multiple higher than it is today. My goal for the company is for it to be the dominant VAS player in providing services to people in all geographies using mobile telecommunications and that they come up with products and services that allow us to do that, that are value to our customers and for which we will get paid. I have no intention of departing from this investment because I think it has a great deal more potential. I want to be careful about my forward statements.

Chetan Kaulra: Thanks.

Moderator: Thanks for your question, Mr. Chetan. The next question is coming from Mr. Raj Mohan. Mr. Raj Mohan, your line is un-muted.

Raj Mohan: Yes, thanks for taking my call. I had a few questions. It has been discussed in the past that once penetrations in new markets reach around 5%, especially the Telefonica deal I am referring to, it leads to a surge with higher visibility. With you reaching 5% in key markets, have we reached that phase in Telefonica where incremental absorption would be materially higher?

Mouli Raman: What I can say is that as of now the penetration that we have had in the key markets, not just in key markets, in other countries in Latin America, has been in line with earlier expectations. So over a period of time – in our original business plan, we expected a penetration about 12-15% in various markets and the current progress is in line with our expectations.

Raj Mohan: Okay. Where I am coming from is, if I look at your quarterly numbers of the past few quarters, on the international size, it has been increasing. But then the absolute increase has been slightly going down. So just wondering whether we cannot take two/three quarters' figures to be sacrosanct in any fashion and sort of, there could be some lumpiness in revenues.

Praveen Kumar: Sorry, Raj Mohan, I did not get your question – what has been coming down on a quarter-to-quarter basis?

Raj Mohan: Essentially, if you look at the international revenues incrementally, like if you look at the September quarter over June quarter, there was an increment of about Rs. 22 crores. Then the next quarter in December, it increased by about Rs. 16 crores, then by about Rs. 12 crores. And then this quarter, it increased by Rs.10 crores. So though it is increasing and though it is showing a steady increase, the absolute number has been coming down. So I was just wondering, whether we cannot take this to be any major trend line and there could be lumpiness in the future which could materially have a higher positive impact.

Praveen Kumar: I do not think you can take this as a trend Raj Mohan because it is factor of multiple things. It is a factor of when you sign up a deal, especially a multi-country deal, though deployments are going live at different points in time and different countries have different adoption levels, so you can really not establish a trend of what is the absolute increase in international revenues. Suppose the deployments that we have done over the last six months yield us good result in the next quarter or two, then probably that number of Rs. 10 crores would increase. I am not saying that you will consider that for any trending or anything, but it is really difficult to make a trend out of it, because it depends on a lot of other factors.

Raj Mohan: Mouli, in your initial remarks you had mentioned two deals which obviously you could not spell out, but I just wanted to know whether you would be able to give details on the geographies or the product lines that have garnered these deals.

Mouli Raman: I think at this point in time, I would not be able to. I think we will make an announcement on this at an appropriate time.

Raj Mohan: Okay. Next is on your employee cost which Rajesh explained, Rs. 8 crores was the increment given in this quarter. Apart from that, there was also a mention of employee addition in nascent markets. Which are the nascent markets that have referred to?

Rajesh Kunnath: It is Africa and North America.

- Raj Mohan:** Okay. Then one final question is, you mentioned the engagement with employees in your initial remarks. Apart from high-level exits, has there been any disproportional exodus at the account-managerial level?
- Mouli Raman:** No, I think overall, the attrition has been in line with the industry average.
- Raj Mohan:** Okay. Thank you so much and all the very best.
- Mouli Raman:** Thanks a lot.
- Moderator:** Thanks for your question, Mr. Raj Mohan. The next question is coming from Mr. Nikhil Pahwa from MediaNama. Mr. Nikhil, your line is unmuted.
- Nikhil Pahwa:** Hi, I was just wondering, you mentioned that you have terminated accounts with related parties and I would assume that it refers to risk profile and to traffic and high margin and unbranded content. So could you share what you have done in order to address that loss, potential revenue?
- Mouli Raman:** Yes, we have made alternate arrangements to get similar content from other players here. In some cases, mobile traffic will do direct deals with the operators. It is one of these two models.
- Nikhil Pahwa:** Okay. Which means that your platform will be... they will do direct deals with the operators?
- Mouli Raman:** That is right. Like any other content, we do not have the contract with mobile traffic...
- Nikhil Pahwa:** Just curious as to how much of your revenue in India is coming from subscription services, because we have seen that not just in the last quarter but even increasingly in the current quarter, operators are tracking down on subscription for the season, like Airtel has taken their subscription in-house. So could you share some colour on what is going on in the market and what we should expect?
- Mouli Raman:** As I was saying, yes, operators are implementing certain policies in terms of charging, for example, earlier if they had Rs. X to be in the balance before charging the customer, now they are saying X plus two, whatever, the thresholds have increased now. That is one thing that they have done and the second one is in terms of marketing promotions, the bandwidth has come down. These are the two things that have happened.

So what we are looking at is, we are working with operators on two fronts, one is what are the alternate ways of letting the consumers know about the services and the second thing is how we improve the engagement in spite of these constraints. So these are the things that we are doing. As we said before, as a result of all this, at this point in time, our visibility is that there is going to be a higher single digit impact on the revenues in India for the year.

Nikhil Pahwa: You also said about giving us an idea, if there is anything that you are planning on the direct-to-consumer front. I think you hinted at that in one of your earlier comments. Also I thought the mention of OnCloud, but from an India perspective, is there any plan to move beyond RBT and subscription-based models, because your dependency on RBT and mobile radio must be pretty high.

Mouli Raman: What is the first question, Nikhil? Is it D to C, right?

Nikhil Pahwa: Yes.

Mouli Raman: So on D to C front, at this point in time our primary focus is on how to market the services to consumers using means other than the traditional means today, which is all OBD, SMS and other channels. So from that standpoint, yes, we are finding alternate ways of reaching out to the consumers to market the services. But besides that, we do not intend to do a full-fledged D to C service, which we are going to take directly to the consumer at this point in time. So we may revisit it after a few quarters, but at this point in time, we do not plan to do that. So that is one.

And the second question was about – Nikhil, could you please repeat the second question there?

Nikhil Pahwa: Actually I also forgot what the second question was.

Mouli Raman: The relevance of OnCloud in India, right? So in India, what is the plan?

Nikhil Pahwa: No, I am talking about some products -- moving beyond CRBT, is that a plan because I am assuming a dependency on CRBT as well as perhaps mobile radio would be extremely high right now.

Mouli Raman: To an extent, yes, but as you know, we also have a lot of fixed and data-based products. For example, one of the services which is doing pretty well today is Reach Alerts. Similarly, we are also increasing our portfolio on the music front and on the sports front. So over a period of time, we will see a lot more data-centric products from us.

Nikhil Pahwa: Any plans for any production in appstores directly?

Mouli Raman: No. We do not intend to have any standalone app on the appstore. Our primary strength is in working with the operators and providing services which leverages their strengths. OnCloud is one such initiative which primarily allows the operator to compete and co-opt with the OTT players. So our focus is going to be on that side, not on a standalone application side.

Nikhil Pahwa: Okay. Could you shed some colour on the status of some of your earlier launches? One was the phone backup business that was mobile service mentioned many quarters ago. There is RBT. What is the status on those products?

Mouli Raman: On phone back up – you are referring to phone back up in emerging markets?

Nikhil Pahwa: Phone backup in all markets.

Mouli Raman: Overall, we are seeing very good adoption of phone backup in some operators in North America and Europe. For example, in some cases we are seeing 50% of users using the service in large operators in North America and Europe. But again, there the operators do control the distribution of handsets, and hence what goes into the handset, and hence the penetration has been very good. The uptake and the usage have been very good. But in emerging markets, we are still where the operator does not control the distribution of handsets and hence the downloading of clients becomes more difficult. We are seeing challenges in large scale adoption of these services as of now. That is on the phone backup and the other thing that you asked.

Nikhil Pahwa: Any other products? Also what is the update on Dilithium?

Mouli Raman: On Dilithium, we do continue to serve Dilithium on a licensing model in various markets outside of India. In India, we have gone with the revenue-share model with services on top of the platform. As you know, as of now, because of larger challenges, on vast services, 3G adoption has not been great. So I think this is going to be a long-term play. But as of now, we do not have any impressive results to write home about on Dilithium in the emerging markets, but outside of India we continue to sell this on a licensing model for the large operators around the world.

Moderator: Sir, the next question is coming from Mr. Sanjay Parekh from Reliance Mutual Fund. Mr. Sanjay, your line is un-muted.

Sanjay Parekh: Thank you. One question is, we have seen apart from this event that our return ratio has come off in terms of return on capital employed or return on equity, and over years even our operating margins have come off. Now, part of it is explained by investment mode that we are into. But what we believe is that overall, even over a longer period that balance is important to regain return on capital employed, return on equity and operating margins. So the question is, even if you see the last quarter, the absolute profit is just Rs. 11 crores. So for the critical mass that we have, the size of profit on a quarterly basis, is significantly lower. So what are the steps that we would take to regain our operating margins and return ratio.

The second question is again on employee cost, clearly you are spread out very well all over the world, but regarding this quarterly run rate of Rs. 76 crores, as I understand, a huge efficiency is possible in that area. If we can get those efficiencies where we are, maybe either we overinvested particularly with reference to employee cost, that delta itself would significantly raise our earnings and valuations.

The third question is what do we do to the cash? In this scenario where the confidence is low, why not reduce the debt significantly to increase the confidence? The excess cash beyond that, because our net cash is Rs. 150 crores, what is our plan to do with that in terms of paying back to the shareholders?

The fourth question is on the taxation. Now, taxation is a the biggest cost and our tax rates are going up significantly. Does it mean a bit of maybe, somewhere on pricing the product -- clearly a tax rate of 47% is just too high. So somewhere there has to be some reorganisation or re-planning or calibration to see that we do not get into such high tax bracket. So what do we do for that?

So these are the four questions, if you can help me, please.

Rajesh Kunnath: Sanjay, I will just take them in the order of how you asked me. The first question of yours was why is the operating margin declining and when looking at it as a percentage of either as a return on equity or return on capital employed it has been declining. That was your first question, right?

Sanjay Parekh: Yes, two things. One is operating margins over years have come down, and secondly or return ratios, ROCE and ROE. It is a great business but is the ratios are very low. Somewhere the balance in terms of getting a higher

ROE, ROC, that should be resulting because of higher operating margin - how do you regain that?

Rajesh Kunnath: As you just touched upon when you asked the question, the last two years have seen us putting in significant investments in new geographies. As we have told you, the revenues on these investments will accrue to us over a period of time. You can see that the efforts that we put in Latin America and Africa one/one-and-a-half years back is what is actually flowing through to us now. But we also are appropriately increasing our investments in North America and also in Europe. So as we put in these investments, we expect revenues to accrue from these regions also in the coming years. So our current focus is to continue the revenue growth or continue the trend in the revenue growth while maintain operating margins. We believe in at least one/one-and-a-half years from now we would have reached a stage of equilibrium where the revenue growth will sustain and the expenses will not follow the same pattern. So we will see operating margins improving over a period of time. When you look at it at this current phase, you will obviously see the margins being lower and the ratios also not being too impressive. But we believe that this is all an investment for the future and we think that all these investments will bear fruit in one-and-a-half to two years from now. That is your first question.

The second question was about manpower. Yes, your point is right that there is a scope for us to rationalise, and that is what Mouli had briefly touched upon. We will be looking at a combination of redeployment, as also whether there are any revenue opportunities that we can explore with customers for additional services that we are offering them. So that is definitely going to be an upside for us. But opportunities of rationalising through redeployment - is something we are aggressively looking at.

The third point was to do with the cash flow where you had said that what is the way in which we are planning to utilise the cash? As you would have seen we have made our first attempts by paying down our short-term debt marginally in the first quarter. Our immediate focus as far as utilisation of cash is concerned is to reduce our working capital debt to the extent possible and only avail working capital debt where we see a very high interest arbitrage. So as things stand, we will continue to have these levels of cash, but for steady decline in the short term debt. We are sure that even the cash that we generate from operations will only add on to whatever we currently have. But directionally, we are working towards being debt-free by the end of the year. That is our target of utilisation of cash right now.

The last point that you asked was on taxation, why is taxation so high. Yes, taxation is high because of the unique way in which we are structured

currently. We have our businesses located in an SEZ in India, whereas we have billing being done from each country directly to the customers and all this billing that is done to customers there, when they pay us, they deduct withholding tax. That withholding tax is something that we cannot offset in India because of the structure we have in India. We are looking at some restructuring options, but at the same time we need to clarify to you that we are not going to look at those aggressive restructuring options which some companies adopt. We are looking at something where we strike the right balance on restructuring and that is why it is taking us time. But we are sure that we will implement something by Q4 of this year after which we will see the tax rates normalising to a level marginally less than 40%. But as of now, I do not see the tax rates declining in the near term. That is what we wanted to clarify. But we will be fully aware of it and we are looking at ways and means of reducing the tax rate.

After this, because of the time constraints, we will have to move to the last question.

Moderator: Thanks for your question, Mr. Sanjay. The last question is coming from Mr. Chetan Kaulra from Aditya Equities. Mr. Chetan, your line is un-muted.

Chetan Kaulra: Any thought given for shareholder-driven buybacks since best investment will be in our own company - of utilising debt, available cash?

Mouli Raman: Tony, you want to take the question?

Tony Haight: I am not sure I understand it. You say that again, please? Rephrase it for me.

Chetan Kaulra: Yes, any thought given on shareholder-driven buyback since we had a Board-driven buyback once, so we cannot have it now. I think the best investment of our cash is in our own company.

Mouli Raman: Tony, on the buyback, do you have any thoughts on doing buybacks in the near future is the question.

Tony Haight: No, I do not. I am more interested in seeing us deploy the money and expanding our efforts geographically and expanding our efforts in lines of business where we are not deployed today. That risk involves India and the rest of the world. It also gives us an opportunity I believe to increase our margins. So I think we have a better use of capital going forward in doing those moves rather than buying back stocks.

Chetan Kaulra: Okay. Thank you.



Mouli Raman: With that, thank you all for participating in this call. I am looking forward to your participation in the future. Thanks a lot. Bye, bye.

Moderator: Thank you, sir. With this, we conclude the conference call. Thank you all for your participation. You all may disconnect your lines now. Thank you. Have a good evening.