

# OnMobile Global Limited



First Quarter FY2014  
Earnings Conference Call

August 1, 2013

Speakers: Mr. Tony Haight, Chairman  
Mr. Mouli Raman, Managing Director & CEO  
Mr. Rajesh Kunnath, Global Group CFO

**Moderator:**

Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the first quarter financial year 2014 earnings conference call for OnMobile Global Limited. For the duration of the call, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are Mr. Tony Haight, Chairman; Mr. Mouli Raman, Managing Director & CEO and Mr. Rajesh Kunnath, Global Group CFO.

So, before we begin, I would like to mention that some of the statements made in today's call maybe forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statements to reflect future, likely events or circumstances. And please be advised this conference is being recorded today. So now, without further delay, I would like to hand over the proceedings to Mr. Tony Haight. Thank you and over to you sir.

**Tony Haight:**

Good morning everyone. Thank you for joining us for today's first quarter fiscal year 2014 investor call. I will start the opening remarks and then hand over to Mouli and Rajesh who will take you through the key highlights of the financial performance and other business developments during the quarter. Despite a challenging operating environment in India, we have been able to record a good financial performance for the quarter. We have also had a major customer win - MTN has chosen us as their preferred RBT service provider after months of hectic discussions and negotiations. The MTN contract truly positions us as a dominant global RBT player. This, coupled with the recent acquisition of LiveWire, which was closed on July 19<sup>th</sup>, gives us the presence across all key markets in the globe. These developments and the progress that we are making on various other initiatives lead me to believe that we are poised to witness a dramatic scale of the company.

Before I hand over to Mouli, I wish to clarify what I meant when I spoke to a section of media on the sidelines of the AGM, that was successfully concluded the day before yesterday. I firmly believe that the decision on buybacks should be taken after examining the organic and inorganic needs of the business. I continue to hold that position. It does not mean that I am not looking at other shareholder actions. The steady build-up of cash from operations which we have been able to demonstrate in this quarter will give the confidence to the board to explore shareholder value-add actions. I also wish to clarify that the company has strengthened its internal control measures besides rolling out many corporate governance initiatives after last

year's incidents. There are a couple of more initiatives that needed discussion with the board. We discussed the said initiatives in yesterday's board meeting and they will be rolled out with immediate effect. Over to you, Mouli.

**Mouli Raman:**

Thanks, Tony. And thanks everyone for joining us this morning. I will take you through the presentation, starting from slide 3 of the presentation that we had sent out. Overall, we are satisfied with the results this quarter. On the international front, we recorded a growth of about 20% year-on-year and 6.7% quarter-on-quarter. Latin America continues to grow through RBT growth and we have increased the revenues in Latin America about 50% year-on-year and about 8% quarter-on-quarter. Regarding other markets, firstly, we went live with the largest operator in Bangladesh for RBT. As you may recall, we had won a contract from this operator to replace their existing system with us, based on our performance with other operators in Bangladesh; and we have gone live this quarter.

Secondly, for Africa, the revenue increased by about 28% year-on-year and 9% quarter-on-quarter. While RBT services continue to grow in Africa, we are starting to see good traction in the football service. In fact, we launched it about 6 months back and we have reached about one million users. So it gives a sign that the services beyond RBT are starting to gain traction in the market too. The next point is we won a major deal with MTN. As Tony said, this is a landmark deal for us. I will take you through more details subsequently.

Coming to Europe, there was a decent growth of about 12.5% year-on-year and 3% quarter-on-quarter. This is riding, firstly on the Converged VAS project which we had discussed with you few months back. We had won a deal from Telefonica to run all their content VAS services across all channels including data, that is showing promising results. Secondly, we went live with RBT for another large operator in Spain. As we have said, we have been live with Telefonica for about one-and-a-half years, which has shown good results. On the back of that, we have won large contracts in Spain and we have gone live with one of them this quarter.

Moving to the next slide - about India. We had a marginal decline in India revenues from the previous quarter. One key development in the quarter was the TRAI mandate — double confirmation for activation of VAS services across channels. The second confirmation is to happen through a consent gateway which is managed by third parties and governed by the operator.

This has been implemented since July. I will take this opportunity to take you through the presentation that we have sent out yesterday i.e. TRAI directives on VAS and our views on it. I will just briefly take you through that.

I am referring to the 2011 directive. As you know, in 2011, TRAI had come out with the directive saying that before subscribers subscribe to a service, they have to confirm by SMS, email or FAX. Our view was that - while the intent of the regulator was right, the directive was impractical because of low literacy levels and low SMS penetration which would have had an adverse impact both on the consumers and the industry. Subsequently, a lot of discussions happened between the industry and TRAI.

A number of initiatives were taken by the operators in the industry - things like centralisation of all charging and promotions by the operator. There were common policies for deactivation across all operators, like a common number. If the consumer called back and had a complaint, refund was given unconditionally. Also many operators started double confirmation across many channels. Consequently, wherever these measures were taken, the consumer complaints were significantly reduced and the revenues dropped.

In July 2013, i.e. last month, seeing the progress made by the industry over the last few quarters, the directive was revised as follows: Number one, all subscriptions must have two consents from the user but they can be on the same or different channel. Unlike what was there in 2011 where it had to be through SMS, e-mail or FAX, the consent can come from any channel. For example, in voice, it was expected that the second confirmation has to come from SMS, email or fax. Now it can happen within the voice channel itself. However, the second consent should be sought from the consumer after communicating all the relevant information about the service, and also by an independent third-party system directly in control of the operator. So the second consent has to be sought and it has to be from an independent system.

Number two, all the channels were included, i.e. including outbound dialer, telecalling, WAP, SMS, USSD etc.

So what is our view on the directive? Number one, this removes the uncertainty around the 2011 directive because the 2011 directive was still active. With this directive, it is very clear that the 2011 directive will not be enforced as it was passed before. We strongly believe that this is in the interest of the consumers as well as in the long-term interest of the industry.

Number two, we also believe that there will be significant drop in business in some areas, in areas such as data and WAP-based acquisitions and one-time downloads etc. because they are being regulated for the first time.

We also expect moderate drop in business in other areas where various measures are being taken over the last few quarters. As we are saying, after the 2011 directive came, there have been a lot of improvements. And after the 2013 directive, in the areas where the improvements have already been made, we believe that there will be a moderate drop in business because of certain user experience and technical challenges arising out of getting the second consent from an independent system.

So what is the impact on OnMobile? Since a lot of measures have been taken over the last few quarters, we expect that there is going to be a moderate impact over the next few months. This is primarily because of user experience and technical challenges related to the second confirmation from a third-party system. We expect this issue to be sorted out in the next few months. Since we do not have much exposure to data and WAP, we will not be having as much impact as many of the other services.

Again, while we see a moderate drop in revenues in the near term, we believe in the long-term potential in India. Because one, we have already seen, after the measures taken over the last few quarters, the quality of consumers has improved. And we believe it will continue to improve. Two, we are also seeing that operators are consolidating various VAS service providers because there have been a lot of vendors across the country at the central and local levels and there is a clear move to consolidate to fewer partners. We believe that we are likely to gain in this because of the technological and marketing strengths, our investments and better consumer understanding, which we have had over the last few years. Also, we are able to bring a lot of lessons from the international experiences. One thing that we are also seeing is that operators are open to higher revenue shares for more value-adds.

The next one is that there are more services likely to be launched because of the improving ecosystem and various non-operator opportunities. Because of these reasons, we believe that while there will be some moderate drop in the revenues in the near term, however, in the long-term we do have very good potential. Now I will go back to slide 4 of the investor presentation. We concluded the acquisition of LiveWire on July 19 and the integration efforts have been initiated.

Going to the next slide, I will briefly touch upon the MTN deal. MTN, is one of the largest operators in Africa and Middle East with about 195 million users and operations across 21 countries, with an annual revenue about \$15 billion and with and ARPU of about \$3 to \$12 in various countries. Today, MTN has RBT in 21 countries, the penetration ranges from over 10% to 25% and this is by far, one of the largest RBT properties in the world today. There was an intense competition to get this business. All the major RBT players in the world participated in this and after a rigorous selection process, MTN selected us. Also, I will give a summary of the agreement. We will replace the existing RBT platform across all the opcos. The deployment will start now and it will take about two years for completion. As you can recall, even in Latin America, it took about two years for us to deploy it across about 14 to 15 countries. Out of the 21 countries of MTN operations, we have presence in 7 countries, so we have to establish operations in 14 new countries. The deal structure is that there is no upfront fee and no minimum guarantee. Another highlight of the contract is the revenue share model. We will get revenue shares starting from the first consumer that we migrate. The tenure of the contract is five years.

With this, we expect the following: One is the number of RBT users that we serve will increase significantly by about 50-60% over and above what we have today. As a result, we expect to generate about \$80 to \$120 million of revenue over the next five years from RBT service alone. Our intent and our efforts would be to provide more and more services to MTN, once we achieve good results with the RBT service.

The next slide is on operational performance. This is the comparison between the quarter one of last year and quarter one of this year. The dependence on India has come down from 43% to 34%. Latam has increased from 19% to 27% and broadly there is a minor improvement in the share of other emerging markets. On the products side, RBT continues to be dominant. Voice and text services has increased primarily because of the content VAS services we are offering in Europe. We have gone live and it has started to show good results. With that, I will hand over to Rajesh to take us through the financials.

**Rajesh Kunnath:**

Good morning, everybody. I will briefly take you through the financial performance, after which we will open up for questions. As Mouli said, the overall revenue growth y-o-y is 2.4% and q-o-q is 3.0%. As far as the y-o-y

performance is concerned, domestic revenue declined by 20% and international revenue grew by 20%.

As far as the q-o-q performance is concerned, India declined by 4%, which is the marginal decline that Mouli spoke of and international revenue grew by 7% largely aided by Latam and Africa.

Coming to the EBITDA performance, our EBITDA growth was every strong both y-o-y and q-o-q. Even if you normalise it, after excluding the FOREX gain of 9.9 crores in the quarter, there is still growth vis-à-vis the previous year quarter. As far as q-o-q is concerned, while there is a marginal decline in the normalized EBITDA percentages, we have to note that in Q1 of this year we have incurred almost Rs. 27 million of the acquisition-related cost, legal and professional charges and travel costs. So, if you normalise it for the acquisition-related cost, our EBITDA margins would be about 23.5%, meaning it would be almost in line with the previous year's performance. As far as net profit is concerned, we put in a very good growth of more than 47% y-o-y and 30% q-o-q growth. The normalised PAT performance after excluding the post-tax impact of the FOREX gain and the one-time acquisition costs is also in line with the y-o-y performance .

Moving to the balance sheet, we have generated 29.6 crores cash on consolidated basis. As far as our receivables are concerned, when you look at the reduction in unbilled receivables and the increase in billed receivables, the overall increase has been 13.3 crores. So, DSO is actually, marginally up by two days, but we know exactly where the issues are. We have issues with Telefonica Spain, Idea and Vodafone where contracts got closed out recently. We expect all of these collections to come in the second quarter after which we should see the overall receivables declining by about 15 to 20 crores. With those comments, I now open up for questions.

**Sourodip Sarkar:**

Thank you so much, sir. With this, we are going to start the Q&A interactive session. So I would request all the attendees, if you wish to ask any question, you may press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat - participants if you wish to ask any questions, you may press "0" and "1" on your telephone keypad and wait for your name to be announced. And the first question is from Mr. Vinay Jaisingh from Morgan Stanley. The line has been unmuted, Mr. Jaisingh. You can go ahead and ask your question, please.

**Vinay Jaisingh:**

Firstly, thank you for the opportunity. I have two questions from my side. My first question pertains to MTN. I do understand as you suggested MTN is a big player. You have no amount of money which needs to be paid upfront and there is no liability with them on the other side as well. But what kind of revenue share do you have with them? Does that improve or reduce your absolute margins of 23%, which you have currently? It may not be in the first year but incrementally. And what kind of CAPEX or OPEX would you be looking at spending in MTN? That's my first question. I am just trying to see what's the incremental amount the company can grow in terms of EBITDA and not just the revenues. So, that's my first question.

My second question is, if I look at the employee cost for this quarter it's about 752 million. I think it is the single biggest amount which has gone up on q-o-q or year-on-year basis. Rajesh was kind enough to suggest us some 23 million amount, which has gone up on account of MTN. So, is it just that? If it had not been there, the employee cost would have been lower? So if you can share some thoughts from that as well. Thank you.

**Rajesh Kunnath:**

Vinay, this is Rajesh. Your first question was around MTN. You wanted to know if the overall margins that we would earn from MTN would be in-line with the current margins of the company or whether it would be accretive to the current margin structure. The answer is yes, because the MTN deal does not have the issue of upfront fee. And it's one of those classic revenue share models that we have for our RBT businesses all over the world. We believe that at an operating margin level, not at an EBITDA level, we should be around 20%, which means that it will definitely be accretive to our overall numbers. The revenue potential for the deal, as we already mentioned, is between \$80 to \$120 million, which will pan out over the next four to five years. CAPEX for MTN will be more or less in-line with the typical RBT deployments that we have all over the world, which would be in the region of 7-8% of the overall revenue of the deal. And that CAPEX will be incurred over the next 12 to 24 months. So that's answer number one.

Answer number two is relating to the manpower cost, where you said that you have noticed the manpower cost going up q-o-q from 66 crores in the last quarter to 75 crores in the current quarter. 66 crores of the last quarter - while it did have the impact of the rationalisation efforts that we took in Q3 last year, you also need to note that it had about almost 5 crores of reversal on account of leave encashment and gratuity, which we typically assess at the end of the year. So if we actually normalise the manpower cost to that extent, you would come to about 71 crores. Also, we have the annual



increments of about 6.5%, amounting to 4.2 crores, which we have rolled out from April this year. So if we add that up, you are at manpower cost of about 75 crores for the quarter. Our manpower cost is in line with our expectations and there has been no headcount increase. Our headcount is flat from 1,664 in Q4 FY2013 to 1,663 at the end of the current quarter.

**Vinay Jaisingh:**

Thanks Rajesh.

**Moderator:**

Thank you so much. Moving on to the next question that is from Mr. Sanjay Parekh from Reliance Mutual Fund. Mr. Parekh, you can go ahead and ask your questions, please.

**Sanjay Parekh:**

Yes, thank you for the opportunity. One question is on employee cost that you covered. Employee cost to sales is actually still high and we were targeting to reduce it earlier. So where do we see this over FY14 and FY15 because structurally, clearly I completely agree that the revenue has to be shared. But ultimately you are saying that the profitability is low for us. And hence, do you think that there is need for the right balance there? And second is on the working capital intensity - do we see significant improvement moving ahead. And this clearly is in the context of our ROCE and ROE being very, very low. I very strongly believe that unless we do something about improving that, our valuations will really be very low, which are on a price to book, or any other parameter very low.

Third is when would we start merging LiveWire, if you can guide that? And fourth, I missed out the gross cash and debt in the net cash, if you can tell me that? And the fifth is, I missed from Tony's comment that they did consider the buy-back but based on the organic and inorganic opportunities, as I understood it was withheld, but then he said that there are certain shareholder value actions. Can we get some more clarity of what would be those actions? And this is very important from our point of view because you have seen that in this last quarter, the market cap has eroded further to 50%. So I request for the clarification of the last point i.e. what do we intend to do? At what point would it trigger, that you think and realise and then take some action, please? Thank you very much.

**Rajesh Kunnath:**

Sanjay, Rajesh, here. I will go question by question, but let me know if I missed out something as I am addressing each one of them. Your first question was around employee cost, which today is at about 39.6%. And you said it is seemingly quite high when you look at the overall trend or where it should be. Our effort is to see that the employee cost comes down to about

35%. That's what we have planned for the year. And we believe that with the current scale of operations, the current headcounts that we have and the revenue growth that we are seeing, we should be at that number as we get to the third or fourth quarter. That's our effort. And we believe that we are in the right direction. So if you see even the first quarter, we have actually not added headcount. So we believe that with the current headcount and with certain further rationalising action that we will take, we should be seeing manpower cost as a percentage of revenue declining over the next few quarters.

The second point was about working capital intensity. The progress that we made on working capital in the first quarter as a result of the various actions that we took on other items within the balance sheet and due to our profit from operations, we have been able to generate 29.6 crores of cash. As I have said in my opening remarks, we believe that receivables, which today, from a DSO standpoint, is at about 167 days should come down to about 130-135 days; that is our effort. We are trying to see that we keep our unbilled receivables at about 45 days and our billed receivables at about 90 days which totals to 135. This is the mix that we should have. As we bring 167 down to 135, we should be seeing a significant reduction in working capital, which as you know, is the biggest component of our balance sheet i.e. Receivables is the biggest component in our balance sheet. And once this is pruned down, we believe that should itself release between 25 to 30 crores of cash. So that is as far as working capital intensity is concerned.

The LiveWire merger, the transaction was closed on July 19. Right now, the integration efforts have started. So from the coming quarter onwards, LiveWire results will be consolidated in our overall numbers. As we speak, the integration efforts are on and we are tying up some of the loose ends of the transaction in terms of certain closing actions that the buyer and the seller need to perform. So as we speak, the LiveWire revenues have started clocking into our consolidated business but it will get added to our business in the Q2 results.

As far as gross and net cash is concerned, for the period ended 30<sup>th</sup> June 2013, the gross cash is 228.4 crores and the net cash is 181.4 crores. Now, coming to the shareholder value actions, I will basically be answering this partly on behalf of Tony and Tony can add in if he believes there is anything that he will like to add on. What he meant that looking at the cash accumulation of the first quarter, if the trend is sustained for the next two to three quarters, we will look at alternate shareholder value actions. If cash continues to accumulate in this order, buyback, which may not have been

considered right now, could be considered in the ensuing quarter. And also, possibly, as we end the year, there could be higher dividend. We have increased the dividend from 10% to 15% in the last year. If cash accumulation continues in this order, we may look at a higher rate of dividend. So we are conscious of the inputs that various shareholders have given us. And I think, it would be looked at as we go through the year. The first quarter cash generation gives the confidence to the Board that they can look at some such actions in the next two to three quarters.

**Sanjay Parekh:**

Yes, thank you very much. And I have follow-up questions. One is again the same question, at the current rate of Rs. 21, we are at 240 crores of market cap and the cash is 180 crores. So we really strongly feel that at least there could be a policy wherein incremental cashflows, that you can have after even paying for LiveWire, are first used for buyback. At this rate, even a small amount of say 25 to 50 crores, would be good enough to restructure the capital structure.

Second - there can be a payout policy per se. And in our case, the payout can be taken up to say 40-50% and that can also help. And that is in addition to the buyback because buyback, I think, is very, very strongly recommended at this level. But that is my recommendation and I will keep it that level. Third is - now that you have 35% of employee cost, if I reverse work that, just taking the first quarter employee cost then that would mean around 850 crore plus of revenues. So if you can provide me guidance on revenue and margins.

Fourth is - would you give LiveWire numbers separately after you merge so that we do understand that the core business is intact? And if at all, there are some interim issues, they are because of LiveWire. And if you prove that, it will be very helpful to our say shareholder for at least three quarters. And last is that last quarter you have said there is some unbilled revenue and tax receivables and that itself would increase the cash flow. Where are we on that? And the last is on the Capex that we have planned for this year and next year?

**Rajesh Kunnath:**

Sanjay, I will just take the last two questions first before Mouli addresses the first set of them. We had a significant build-up of unbilled revenue in Spain and Idea & Vodafone in India because the signed contracts were still not closed out last year. So unbilled revenue has actually declined. If you see the other current assets line item in the balance sheet, that amount has come down by 47 crores. Since most of the agreements were closed out only in Q1, they have now moved to billed revenues, and we expect, as I said, about 20

to 25 crores of collections to come through in the coming quarter on account of the unbilled revenues moving to billed revenues. In terms of Capex for the year, last year, we spent 59.6 crores on Capex. Even though we have the MTN deal on, we don't expect overall Capex to be higher than 60 crores for the year. I will hand over to Mouli now to answer the other questions.

**Sanjay Parekh:**

On the tax side, tax recoverable that you had?

**Rajesh Kunnath:**

We have not had significant growths in the tax recoverable during the quarter, but yesterday we were informed that on one of the matters i.e. VAT refund matter for 2002-2005 years, we have got a favourable order. This will amount to a release of about 6 crores from the overall recoverable. So we have made some progress on tax, though our income tax refund still is due for which our efforts are underway. But on VAT, we have had a small success to report as of yesterday.

**Mouli Raman:**

So I will take the question of the revenue and the margin growth for the next year. And after that I will handover to Tony to address the buyback question. On the guidance front, based on the visibility that we have today, we continue to maintain what we said last quarter, which is we expect to have a higher growth than last year both on the revenues and EBITDA margins. However, over the next few weeks, we will know as to how the consent gateway is going to pan out. But at this point in time, we continue to maintain on what we have said in the last quarter. So with that, I will hand it over to Tony on the buyback.

**Tony Haight:**

So let me progress this by saying we have in OnMobile, a very strong attitude that we are only at the beginning of what we can bring out of this opportunity in this industry globally. We deploy and employ a number of people who are addressing the issue of new products and services because we believe that the products and services that we are selling today may not be the products and services that we are going to be selling in two years, and they may not be the ones we are selling in four years. And if we don't do this, we are not doing things in the best interest of the shareholders in our opinion. We will make decisions on buybacks according to these following general rules. First, expand the business profitably in new areas where we see the opportunities exist. If we don't have any of those opportunities, or not sufficient to use up the cash and we start to accumulate cash beyond a safe and reasonable amount then, yes, we will consider other shareholders actions. But those other shareholders actions include both an increased dividend and/or a buyback scheme. And we will make those decisions as we

progress through our operating plan, as we progress through the year and see how things are working out. But you need to know that we are aggressively pursuing and expanding this business globally which requires capital.

**Sanjay Parekh:**

Yes, on this, I will just speak two minutes with Tony that there are so many benchmarks in India. It could be HDFC, which has a payout ratio of 45% or Infosys, which has a payout ratio of 30% and at an appropriate time. But also in our case, it is extremely important that our valuations, which are now actually less than one time EV/EBITDA, have to be considered in all the decisions that we take. And I would not have said this if our market cap would have been say 1,000 crores or 1,500 crores. So on a business reality, we are always there to back you up, but we are answerable to our investors - on a timeframe which is long and we have been holding for long now. So it is very important, sir, that even a simple amount as 20-25 crores per annum i.e. 20 to 25 crores this year and 20-25 crores this year or next year for buyback, would be very, very good for existing shareholders and it would also attract new shareholders. You would appreciate some of the large institutional holders have moved out of our stock and also you are seeing the erosion in stock price. So these factors have to be considered, respected sir, from you and the Board. This is really felt very strongly, not only by us as a large institutional shareholder, but all the investors would have the same view including the employees of the company. I hence, strongly urge you to think over this. And as I am saying, it is just 20-25 crore per annum that we are talking. And you have a huge amount of cash. So all your business plans can go on and yet you can do a buyback.

Also between buyback and dividend, I really feel this is the best time that our capital structure could be handled because we have 11.5 crore shares. This time, we don't have to service that equity for the next 10 and 20 years if we do buyback today. So if we buyback say two or three crore shares, then we don't have to service those equity and hence in future payouts of dividends can be higher to those 8.5 or 9 crore shares. And this can be done with our existing business plans particularly because you all also feel that the value of the company is low. And it goes well to the employees who have been given ESOPs. So it works extremely well for all the shareholders including you all. It is just that I request that you think about it.

**Rajesh Kunnath:**

Sanjay, thanks for your inputs. Tony will relay your inputs to the Board. You had one clarification on LiveWire having separate financials. When we send

out the next investor presentation, we will show the LiveWire financials separately to the investors.

**Sanjay Parekh:** Sir, thank you very much and best wishes to all of you and our support will always be with you.

**Mouli Raman:** Thanks a lot, Sanjay, really appreciate it.

**Moderator:** Thank you so much. The next question is from Mr. Gaurav Malhotra from Citigroup. The line has been unmuted, you may go ahead and ask your questions, please.

**Gaurav Malhotra:** My questions have been answered, thank you.

**Moderator:** Thank you so much, Mr. Malhotra. I will like to repeat, participants, if you wish to ask any question, you may press "0" and "1" on your telephone keypad and wait for your name to be announced. The next question is from Dipen Shah from Kotak Securities. The line has been unmuted, you may go ahead and ask your questions, please.

**Dipen Shah:** Yeah, I had just one book-keeping question, most of the questions were been asked by Sanjay already. The depreciation cost in this current quarter has risen by about 5 crores quarter-on-quarter. Any specific reason for that and should we take this as a base for the future?

**Rajesh Kunnath:** As you would be noticing over the last three to four quarters, the overall depreciation and amortisation, because we report both together, have been steadily increasing because of the Latam revenues kicking in. In the current quarter the depreciation is higher than for the previous quarter primarily because of the Telefonica Spain contract as well kicking in. That is, the revenues for the quarter include the Telefonica Spain revenues for which there is a UFF, for which a proportionate charge has been taken in depreciation. So depreciation and amortisation is roughly half and half. So that 29.6 crores is roughly 14.8 and 14.8. In the 14.8 of amortisation, the additional amortisation is primarily on the account of Spain.

**Dipen Shah:** Okay. So then we should now take this 30 crores as the base of depreciation and amortization in the future.

**Rajesh Kunnath:** Yeah, I think, that would be a fair assumption.

**Dipen Shah:** Okay. Fair enough, thank you very much and all the best.

**Moderator:** Thank you so much. The next question is from Mr. Rajamohan. He is an individual investor. Mr. Mohan, you can go ahead and ask your question. Your line has been un-muted.

**Rajamohan:** Yes, thanks for taking my call. My questions revolve around the North American markets. In the North American markets, over the medium term of say three to five years, will OnMobile be able to launch its bread and butter business of RBT into its existing mobile cloud customers like AT&T and all? Once you incorporate your services into LiveWire customer base, will your existing customers be positively inclined to you on enlarging your scope with them? And in this context, have you had any discussions with AT&T, T-Mobile and all and seen them show some inclination on expanding your scope?

**Mouli Raman:** So just to recap the rationale of why we bought LiveWire. Today in the North American market, we have heard of penetration of about 4-5% in a very large post-paid operator and about 10% penetration in a prepaid operator. And what this means is that the market has potential. And the first step is to improve the current penetration levels in the existing customers as the LiveWire customers today are at much lower penetration. And over the next few quarters that is what we are going to be focusing on. Once we start seeing positive results, that is, increased penetration usage from the current levels, our intent is definitely it will go to the larger operators. But the most important thing is for us to show results with the current customers. That is when we can go with confidence to a large operator like AT&T. And today, we firmly believe that the operators are looking for more revenues and margins. We talked to the customers of LiveWire before the acquisition and they are committed to making this successful. And we believe other operators are likely to have similar views. So over a period of next few quarters, we will definitely hit the much larger operators.

**Rajamohan:** Currently, what is the penetration at LiveWire and where do you see it heading over the next, say three years?

**Mouli Raman:** Today, the penetration level is around 1% or so. And it has recently been over the last few quarters that the new platforms are being deployed in the managed services model. So only recently the model is aligned for growth. And we firmly believe that there is no reason why it should not be at the same penetration level as what the market has already achieved at least over



the next four to five years. So we are fairly optimistic about the growth opportunities from where we are today.

**Rajamohan:** So that will be to the tune of say 5% to 10% penetration?

**Mouli Raman:** It is again based on operator. Our internal plan is to reach at least the levels that the market has already seen.

**Rajamohan:** Okay. In this context, what is the internal assessment on the quantitative opportunity in the North American market over the medium term with let's say the LiveWire deal getting you closer to say \$35 to \$40 million run rate in the next three years? Is the company looking say somewhere around \$50 to \$75 million annual run rate opportunity over the next five years from this continent?

**Mouli Raman:** Yes we believe market has the potential.

**Rajamohan:** Okay. Coming to Latam, do you think Latam will continue to deliver 30-40% growth rate on a higher base and have you commenced testing the market with your other voice and data products and how has the acceptance been?

**Mouli Raman:** There are two things. One - today we are live with RBT in Telefonica and that is what is driving almost all of our revenues there. And based on the current penetration levels that we have there and the trends that we are seeing, we firmly believe that we will have growth from RBT in Telefonica over the next two years or so. That is with the current music form of RBT. In Telefonica today, we are already in the process of rolling out more services like soccer and some of the music services and over the next few quarters, we will start seeing more revenues from those products. That is the first factor of growth. The second one is that seeing the results of RBT in Telefonica, we have already won two contracts. They will go live later this year and early next year. So in that way, there is untapped potential in the Latin America market due to which, we are bullish on Latin America.

**Rajamohan:** Looking at the product picture in a country like India wherein you have 50% from RBT and the rest from the other services, can we see Latam assuming a similar proportion over the next three years or five years especially on Telefonica side first?

**Mouli Raman:** It is a forward-looking statement, I would expect the RBT to continue to be a dominant contributor in Telefonica and Latin America. But in Telefonica



particularly, I would expect that over the next three years, with roll-out of more services, we can possibly expect about 30% of the revenues.

**Rajamohan:**

Okay, one final question on Europe. The growth of this quarter in Europe was around 12.5% and you have implemented this Telefonica Spain VAS project. I am just wondering whether 12.5% seems to be a very sober kind of growth? Will the remaining quarters in the future show more robustness from that continent?

**Mouli Raman:**

Based on what we have seen, one thing I can say for Europe is that no player is showing growth there. We have been able to capture the opportunity of running all branded services for operators, and that is an opportunity that we are seeing across many operators. And besides Latin America and Africa, we are fairly bullish on Europe because we are seeing more opportunities in content VAS and RBT.

**Rajamohan:**

Okay. But then this particular contract was supposed to contribute about \$60 million over the next five years. You would have started recognising from this year. But we couldn't see the actual impact in your financials. So that is why I was wondering whether a larger proportion of this contract will start accruing to you from the remaining quarters?

**Rajesh Kunnath:**

Rajamohan, I will request, if we can allow some of the others to also ask questions. I will just respond to this specific question that you had. You said that for Telefonica Spain, we have a potential of \$60 million of revenue over five years. The answer is yes. That is the potential of the Telefonica Spain contract. We have just started the rollout. So in terms of how it should play out in the current year, on a quarter-on-quarter basis, we will see a steady progress because this is the first few quarters where we have recorded the revenue. So it will see a steady progress. It won't see 15-20% quarter-on-quarter growth purely on this contract. But as Mouli said, we have started getting certain customers in that region. We have a contract from say Vodafone and we are discussing with one more operator in the Czech Republic. So if we are able to sign these contracts, we should see some revenue coming in from these customers as well. So it won't be only a Telefonica play. You will have revenues coming from other customers as well primarily on the RBT business.

**Rajamohan:**

Okay. Thank you so much and all the very best.

**Moderator:** Thank you so much. The next question is from Mr. Vikas from Kotak Mahindra. The line has been unmuted, you may go ahead and ask your questions, please.

Mr. Vikas, your line been unmuted, you may go ahead and ask your questions, please. Moving on to the next question. We have Mr. Anup from SBI Mutual Fund. The line has been unmuted. You may go ahead and ask your questions, please.

**Anup:** Good morning everyone. Do you expect acceleration in growth in either Latin America or in Africa in the coming few quarters?

**Mouli Raman:** Definitely we are expecting growth from Latin America, Africa and Europe for the coming quarters for this year.

**Anup:** So the growth would be maintained at the levels that we saw in Q1? Would that be fair assumption to make?

**Rajesh Kunnath:** No. See, we have been reporting quarter-on-quarter growth in Latam in the region of 5 to 7%. That's the trend that we had been having through the most part of last year. We expect that trend to continue, in this year as well, and same would hold for Africa as well.

**Mouli Raman:** But once we roll out MTN, obviously the growth should be much higher in Africa.

**Anup:** Sure sir. Secondly, when we started implementing the order with Telefonica, we had decided to amortize the entire expenses or depreciate the entire expenditure on equipment in the very quarter in which those expenses took place. So do we plan to have a similar policy for the CAPEX that we will do for MTN?

**Rajesh Kunnath:** Anup, to clarify, the CAPEX that is the server-related software which we buy for our deployment is amortized over three years. Our depreciation policy is three years and that's consistent for all deployments all over the world. That's as far as the depreciation is concerned. As far as amortization of the UFF of the Latam Telefonica deal is concerned, that UFF is getting amortized over a phased revenue achievement of each year.

We had a revenue achievement projected, when we signed the deal i.e. the actual revenue getting reported year-on-year. The amortization happens

according to that trend and the trend of amortizing has being in line with the earlier projections.

**Anup:** Sure sir. Thirdly, sorry if I am making you repeat the answer but the tax rate has spiked up again in this quarter. So what is the outlook on this? In previous quarter, you had highlighted certain longer-term measures that you have been working on to bring the tax rate down sustainably. So where are we placed on those measures?

**Rajesh Kunnath:** As you have rightly indicated, that the tax rate of the current quarter is at 42%. We had mentioned in our previous quarters that we expect tax rate to be in the region of 33 to 35%. The major factor for the spike in tax rate to 42% during the quarter, is a temporary unrealised Forex loss on the India books on Capex. We believe the temporary difference, depending on how the Forex rates play out in the next few quarters, should hopefully be reversed. Our effort is to keep the tax rate in that 33-35% band.

**Anup:** Okay, agreed. Thanks a lot for your answer.

**Moderator:** Thank you so much. The next question is from Mr. Nikhil Pahwa from MediaNama. The line has been unmuted, you may go ahead and ask your question please.

**Nikhil Pahwa:** Sir, thank you. I was just curious, what is the performance of the government project that you had taken up few quarters ago in Karnataka?

**Mouli Raman:** In Karnataka, we had run the pilot and it had decent results. Because of a technical reason in submitting the contract, we could not participate in that bid and hence we have not won that contract. But we are in touch with other state governments and the central government.

**Nikhil Pahwa:** Could you elaborate a little more on the technical reason?

**Mouli Raman:** Technical reason is that we could not submit the tender in time because of some technical issues that we had while submitting, in the on-line system.

**Nikhil Pahwa:** Okay. Could you also just tell us about the performance of the music download service you had launched?

**Mouli Raman:** We have launched in a couple of operators, the uptake has been decent, but it is in an early stage and I think we can give better update over the next few quarters.

**Nikhil Pahwa:** Is this a particular service that you see expanding across your operator network because, correct me if I am wrong, the RBT acquisition and the wins that you had are essentially a foot in the door for launching other services. Could also share a little bit about what sort of other services you are looking to push to operators across the globe?

**Mouli Raman:** Across globe we are seeing different trends in different markets. In US, we are seeing opportunities where operators are looking to bundle music service along with their core plans to make it more attractive for the consumers and it has seen some success and we are seeing more operators being keen on doing that.

In Europe, we are seeing some opportunities for that, but we are seeing operators are very keen on increasing revenues and margins. And they are looking at RBT as one of the key ways of doing that and we are trying to capture as many opportunities as possible in that. And we are also seeing the operators looking to outsource all their content VAS services. Whatever their branded content services are across multiple channels, they are looking to outsource it. And because of our success in Spain, it's initial days, but we are seeing positive trend,

As far as Latin America and Africa are concerned, RBT still has more potential. We are rolling out music services, soccer, dating and music download and M-Radio on voice and so on.

And in India, we are looking at going beyond music in RBT. We are also looking to the music download service, that has potential in India and we are starting to work on that. And we are also looking at non-operator business. As we said, even the current services, we are trying to take them beyond the operator to market and also exploring alternative pricing models and so on.

**Nikhil Pahwa:** Okay. Just curious about things on the investment side, you said you still looking at inorganic growth options. Have you also considered reviving the incubation unit that you set up a couple of years ago? And I think, VerSe was one success that you had from that. Are you looking at doing more of that or is that plan now not on the road map?

- Mouli Raman:** If there are interesting opportunities, we will always look at them. The whole idea is that by investing a small amount of money, if it is possible for us to fund the company at early stage and support them in becoming successful. Yes we are open to it. And if there is opportunity, we will do it.
- Nikhil Pahwa:** So are you looking at it in an organised manner wherein you are actually looking at the options in the market? Because if you look at it, at least in the mobile app space, there have large number of start-ups in the India in the last one year and there are cash issues in the market because follow-on investments beyond the angel stage are not easily available. So is that something that you are considering or is that not part of your plan?
- Mouli Raman:** Okay, we are not doing this in an organised manner. Today, we are being more opportunistic.
- Nikhil Pahwa:** Okay.
- Rajesh Kunnath:** We have time for one more question after which we will have to close.
- Moderator:** Sure, sir. So the last question for today's session would be from Mr. Ritesh Paladia. He is an individual investor. Mr. Paladia, you can go ahead and ask your question please.
- Ritesh Paladia:** Thank you sir. Can we have some financial insights on LiveWire?
- Rajesh Kunnath:** Sorry, I couldn't get your question.
- Ritesh Paladia:** Some financial numbers on your acquisition LiveWire.
- Rajesh Kunnath:** You mean the purchase consideration that we have paid?
- Ritesh Paladia:** Revenue and profitability.
- Mouli Raman:** So as we said, we are just in the process of taking up the operations of LiveWire from the erstwhile promoters. Still early days for us to give you a broad trend of the revenues and the results. But what we have mentioned when we engaged with the investors after the acquisition was that it will take us good three to four quarters to integrate the business of LiveWire and during those three to four quarters we would expect some cash burn, in the region of about half a million negative EBITDA for the next three to four quarters. But we will have a better sense of this as we start integrating.

**Ritesh Paladia:** Thank you very much.

**Mouli Raman:** Thanks a lot and looking forward you joining us in the next conference call.  
Bye.

**Moderator:** Thank you so much, sir. I would like to thank all the participants for joining the Q1 FY2014 conference call for OnMobile. With this we conclude for today. Wish you all a great day ahead. You may all disconnect your lines. Thank you so much.

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