



First Quarter FY2016 Earnings Conference Call 31 July 2015

Speakers:

Mr. Rajiv Pancholy, Managing Director & CEO, OnMobile

Mr. Sanjay Bhambri, Chief Commercial Officer, OnMobile

Mr. Praveen Kumar, Chief Financial Officer, OnMobile



Moderator:

Good day, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this session. Thank you for standing by and welcome to the Q1 FY2016 investors conference call for OnMobile Global Limited. For the duration of presentation, all participants' line will be in listen-only mode. We will then have a Q&A session after the presentation. Joining us today on the call are Mr. Rajiv Pancholy, Managing Director and CEO, Mr. Sanjay Bhambri, Chief Commercial Officer, and Mr. Praveen Kumar, Chief Financial Officer.

So before we begin, I would like to mention that some of the statements made in today's call may be forward-looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the earnings presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statements to reflect future, likely events or circumstances. Please be advised this conference is being recorded today. I would like to now hand over the proceedings to Mr. Rajiv Pancholy, the Managing Director and CEO, OnMobile Global Limited. Thank you and over to you, sir.

Rajiv Pancholy:

Thank you, Sourodip, and good afternoon, ladies and gentlemen. Welcome to our first quarter conference call. With me, as mentioned, are Sanjay Bhambri, our Chief Commercial Officer and Praveen Kumar, our Chief Financial Officer. Today in my opening remarks I want to cover the highlights of the first quarter as well as some other more recent developments.

Let me start by saying that the word balance best characterizes our approach to financial management of the company. As much as we desire to grow near-term profitability, we must keep investing in new products and new initiatives. This means giving up some near-term gains for the sake of solidifying our future. The quarter-over-quarter increase in our EBITDA margins from 15.3% to 17.4% in the first quarter would have been closer to 19.5% if we were to net out the accelerated investment in newer products and other future oriented initiatives. It is also worth noting that the growth in EBITDA margins is despite the continued depression in key foreign currencies, which obviously have an adverse impact on our reported financial

performance. However, let all this not obscure the simple fact that OnMobile continues to generate a healthy amount of cash quarter-over-quarter. These adverse currency impacts that I just referred to, however, are not reflected of underlying progression in our business. In the first quarter we successfully renewed our contract with the Telefonica Group of Companies in 13 countries in Latin America. This renewal is for a period of four years and demonstrates the confidence that these customers have in OnMobile. What was even more significant about this renewal was it was done without an upfront fee of any kind. Just to provide a reference point and a historical reference point is that the last time these contracts were signed OnMobile paid approximately \$15 million as an upfront fee. This time we have elected to pursue a different approach. We have elected to accept a lower revenue share without the upfront payment that was made last time. This approach, in contrast, is overwhelmingly better for us because it will lead to a sharp reduction in the amortization and depreciation line as of April 1st, 2016 and consequently a significant boost in our profit after tax performance.

Let me now talk a little bit about more recent developments. First of all, I am delighted to report that we have achieved another key milestone by introducing our next generation RBT service in Vodafone, Spain based on the fourth generation LTE Standard. Using voice of LTE Standard we are able to deliver high definition music experience to users in Vodafone's network. As you all are aware, listening to music in high fidelity and high definition is very different and vastly more enjoyable experience rather than the more traditional telephonic sound that we were used to. This voice of our LTE deployment is the first for us and positions us well as more and more operators embraces new standards. This development is also significant in that Vodafone, Spain becomes the second operator in Spain to offer identity in their Smartphone application and introduce that to the market and to its customers.

On the governance side of things we are thanking and saying goodbye to three of our independent directors who have guided OnMobile for the past several years. They are Mr. Harit Nagpal, Mr. Naresh Malhotra, and Mr.

Gunodashal. Two new independent directors are joining OnMobile's board. These are Mr. Nehchal Sandhu and Mr. Pascal Tramble. Mr. Sandhu is the former head of India's Intelligence Bureau and also the former Deputy, National Security Advisor of the Government of India and is a prominent personality with an outstanding grasp of risk management and international affairs, something that relates well to the global nature of our business. Mr. Pascal Tramble is the managing partner of our private equity firm in Canada and has made several successful investments in the digital media space. More importantly, he has the historical association with OnMobile having been involved with the initial rounds of investments on the company many years ago. With the appointment of Sanjay Baweja in the last quarter, we have added three very skilled and experienced independent directors to OnMobile. On behalf of the Chairman, the entire board and the management team, I am extending a very warm welcome to the newest members of our board. On that note, let me turn over the call to Praveen for a much more detailed overview for Q1 results. Praveen?

Praveen Kumar:

Thank you, Rajiv. Good afternoon, everyone. Let me summarize the results for the quarter one of the current financial year. But to begin with, let me give you an update on the ForEx scenario in quarter one. As you are aware in the last quarter, we had taken the impact of wild fluctuations in some of the currencies like Euro and Brazilian Real. In Q1 Euro pulled back slightly from the lows of quarter four, but the average rate is almost the same as in Q4. Same in case of BRL again, while the closing rate of Q1 was better, the average rate for the quarter was lower almost by a rupee. So at an operating level we continue to recognize the revenue and cost at these lower levels, while part of the MTM losses have been reversed.

Now, moving to the financials and revenue. Normalize for Vox Mobili we have clocked a growth of around 10% over the Q1 of the last year and we are marginally down as compared to Q4. This is essentially coming out of LatAm and India; LatAm is partially because of the ForEx impact where the average rates in Q1 are lower than – that was in Q4, as I mentioned earlier, and partially because of the trends and change in the revenue share for renewal on the

contract. In case of India it is more cyclical in nature where we had higher than expected revenue in Q4 in certain verticals which was not there in Q1. However, the overall business in India continues to be healthy. The gross margin percentage is flat as compared to last quarter, though the absolute number is lower because of the lower revenue.

Now, coming to the manpower cost. The impact of manpower reduction effort in the earlier quarters has resulted in manpower cost being low by 2% as compared to the last quarter. This is despite the annual increments given in Q1. So every year we would see a step jump in quarter one but not this year.

On the opex, as compared to last quarter we are down 21%, but that was more because of the 12 crores ForEx marked-to-market loss that we had in the last quarter. Excluding that, the opex has gone up from 31 crores to 33.7 crores in the quarter mainly because of new cost which we have started incurring on the new products strategy and the new brands. The total costs are approximately around 2% of revenue which means it has impacted our EBITDA by around 2 percentage points. With this, our EBITDA is at 35 crores representing a margin of 17.4% and excluding the new cost it would have been around 19.5% which is closer to our long-term target margins.

Depreciation is 37.3 crores which includes the step increase over Q4 because of the upfront fee amortization. Now, one important point to note here is that our current full year depreciation would include around 78 crores relating to the LatAm upfront fee and this is the last year of amortization for the same. Effective quarter one of FY17 this amortization will go down to zero. That will bring down our depreciation and amortization cost by 19.5 crores per quarter and this benefit will directly flow into the operating profit and the other margin lines below that.

Moving on, we have another income of 8.2 crores which includes FX gain of 5.3 crores. That leads us to a profit before tax of 6.1 crores and with the tax generated 5 to 6 crores per quarter we have a negligible loss at the net margin level.

Now, going back to the point that I made on depreciation the scenario net profit is also going to change effectively in Q1 of the next financial year. And coming to the key balance sheet indicators our cash position continues to be healthy; we generated good amount of cash in Q1. Our gross cash is increased from 271 crores in Q4 to 294 crores at the end of quarter one and the capex was around 3.7 crores during the quarter.

Now, the last point is on the guidance for the financial year. As you are aware, we said we would give out the guidance in quarter two. But as we continued to gain more clarity and finalizing on some of the finer aspects of our business case and our new product strategy, we thought it prudent to give out the guidance in our current business and the investments that we are going to make on which we have clarity right now. So, accordingly, our aim this year is to get back to an EBITDA margin of 20% by the end of quarter 4 from the 17.4% that we are on currently. This 20% is after taking into effect the visible investments that we have right now which would be at 2% of revenues and the FX impact which is currently at 1% of revenue. So on a like for like basis, this would be almost like reaching 23% EBITDA margins for us. So that's the guidance on our existing business. On the new product strategy, as and when we have a much clearer plan, we will communicate to the suite. With this, we are now open to taking questions.

Rajiv Pancholy:

Thank you, Praveen. We are now ready for questions.

Moderator:

Thank you very much, sir. So, participants, with this we are going to start the Q&A interactive session. Should you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat it's "0" and "1" on your telephone keypad to ask questions. Thank you. We have the first question from Mr. Sandeep Agarwal from Edelweiss Securities. Your line is unmuted. You may go ahead and ask your question, sir.

Sandeep Agarwal:

Yeah. Hi. Thanks for the opportunity. I have three-four questions, if I may. One, sir, as you mentioned that depreciation this year will have around 78 crores from depreciation and amortization and from next year onwards we will save 19.5 crores every quarter from this line item,

so don't you think some other kind of write-up will start by that time the way we are planning to get into new investments and new products, point number one?

Point number two, sir, if you see the growth rates that have really come down in the last two years because of gross currency and other things I agree, but, you know, still the growth is very low, so what are we going to do for the growth in our revenues?

And, third, is the ring back tone the only option to grow or we are also finding out newer methods to generate revenue like are you thinking of the advertising real estate or something which we can utilize? So if you can throw some light because I am more worried about the revenue growth and I don't know what products and how will that come rather than margins, I think, profit and margins will flow through, but more important is how you see the growth coming?

Rajiv Pancholy:

Let me answer some of your questions and I'll ask Praveen to talk about the financial questions we hold. First of all, let me just clarify that the guidance we are giving and the numbers we are talking about are only about a legacy business. So this is not representative of OnMobile in the future. What we have said repeatedly is that they are a bunch of new products and offerings and to your point I just want to caution you that this is not just an RBT company; one of our largest growth drivers is another product family called CVAS, the converged VAS product which is doing extremely well in Europe and assigned to do very well in another geographies too.

What we've also mentioned and I just want to reinforce again is that RBT is a very strong base for us and is a domain of competency, but we are basically working on a bunch of new offerings which go beyond the traditional RBT. I think what is missing right now is we are not able to give precise growth in revenue because of the new business, so please keep in mind that the numbers are purely for our existing business which, as Praveen has mentioned, is being affected a lot by currency fluctuations. Praveen?

- Praveen Kumar:** Yeah. Sandeep, for your question on depreciation, you know, there will be no other big write-offs that will come by the quarter one of the next financial year.
- Sandeep Agarwal:** Okay. Sir, if I can again ask, I understand, sir, that you are talking about the existing business and there is a big delta that might come from the other businesses which we don't know right now. But even if you take the existing business, can you give us a broad line that, you know, whether it can grow in high single digits or low double digits meaning some kind of, you know, ballpark idea because it becomes very difficult to understand otherwise where we are moving?
- Rajiv Pancholy:** So the difficulty we have in giving financial guidance is mainly because you will appreciate that I think as of this quarter 78% of our business is outside of India and the wild fluctuations in foreign exchange make it very difficult to put a number against that, but let me try and answer your question differently. If you take away the financial indicators and you look at the other KPIs of a business and a key one, for example, is the number of paid subscribers we have, that is showing a very healthy growth. So there's indeed a disparity between what's happening in our business at the KPI level versus the financial results which are obviously influenced by the foreign exchange variation.
- Sandeep Agarwal:** Okay. Sir, let me try... Yeah. Sorry.
- Rajiv Pancholy:** Just to give you some parameters, if you look at the number of paid subscribers that we have, last year we achieved almost like 10%, 11% growth in the number of paid subscribers and the weight of growth basically continues to this financial year.
- Sandeep Agarwal:** Okay. Thank you. Okay. I will come back in the question in queue. Thank you.
- Moderator:** Thank you very much. We have the next question from Mr. Raj Mohon. He is the professional investor. Your line is unmuted. You may go ahead and ask your question, sir.
- Raj Mohon:** Yeah. Thanks for taking my call. Though you've indicated the guidance will come with more clarity on the new

products, can you give us your assessment on your product business over the medium term, say, over the next three years? Also on the same breadth, being in a kind of monopolistic space, how would you see the margins evolving in this business?

Praveen Kumar:

Let me try and answer your question in terms of what we are planning to do in the and I would say the short to medium term our goal is to launch two of these new offerings within the next 12 months, so I will give you some sense of, you know, the pace at which we are running I will obviously shy away from giving more precision on the date and the geographies, but that's just a kind of stake in the account of benchmark. The opportunity we have and in our assessment we are looking at something which is I see quite significant for OnMobile and this is the statement I've made before and I put this in the context of basically our existing legacy business as a reference point, so the new opportunities are not seen as minor increments on existing business; they are seen as a fairly significant upside on existing business. I'll leave it on that.

Raj Mohon:

Okay. And would you want to comment on margins in the new business or it will be too early for your comment on that?

Rajiv Pancholy:

No. I think it's fair to say that, you know, clearly we, as a company, don't want to play for margins in the revenue shares in the single digit, I mean, this is something that we definitely expected with the new opportunities.

Raj Mohon:

Okay. Basically, what we are trying to assess is considering the different revenue segments of the company both existing businesses with further penetration potential and the new product business is basically we want your assessment on where do you see OnMobile over the next three years; you obviously indicated huge opportunities, but then from 800-crore company generally we want to see whether you will move to a level which is materially higher than where you are standing currently and in this light could you also give us some granularity on what proportion of revenues can one build in from the product initiative over the medium term?

Rajiv Pancholy:

You know, we have over the last year built some credibility because we want to deliver in what we promised and therefore the corollaries we don't want to promise what we don't have a good quantification on, so I probably will take client to answer the kind of questions you are posing to us, except to mention one thing. We are not here to try and do this company a few percentage points at a time. We certainly do have a desire and dreamt to be in a different club and I think, as we get, you know, much finer granularity in the timing and the scope of this offerings, I would certainly come back and update the investors and shareholders on the opportunity.

Raj Mohon:

Okay. To probably slightly probe in a different way, Rajiv, like could we see an inflection point happening in the company, say, in the next two years this fiscal or the next?

Rajiv Pancholy:

The answer is yes.

Raj Mohon:

Okay. Coming specifically to LatAm, can you explain the fall in the LatAm revenues for this quarter and what will be the revenue share decline in terms of its impact on revenues? Moreover, since you've also expanded in LatAm with the OID, when will the overall LatAm revenue start to show any meaningful growth again?

Praveen Kumar:

Raj Mohan, I will take the question on the LatAm revenue and then Sanjay will answer on the OI. LatAm revenue partially is impacted by the FX fluctuation which is Brazilian Real, as you know, has declined in the last two quarters. That's probably about 20% of the decline in LatAm. The overall revenue share in LatAm this year for the 13 countries we have signed up would be in the range of around 12 to 15% and that's the trade off that we have done between not paying upfront fee versus reduction in revenue shares. The benefit for us will be obviously much more than the drop in the revenue.

Sanjay Bhambri:

Yeah. Raj, on the OI, as the revenue is starting to kick in now and as the deployment is over and the ramping starts, your question was will the revenue still grow, so obviously the impact of revenue shares that the team's target is to try and minimize the impact of the revenue share through OI, obviously 13 countries versus one operator is a challenge,

so obviously the intent would be to minimize the impact through OE.

Raj Mohon:

So you see the overall LatAm pie increasing for you on a sequential basis from, say, somewhere in this year or it will take the next year for you to get that?

Rajiv Pancholy:

I think, you know, again please understand that there are couple of things that play in the LatAm market. One is the contract renewal where we have basically traded off the upfront fees for a lower revenue share, so that will translate into a lower revenues from Latin America at least for these 13 countries. Partly offset by the fact that OE is now kicking in, but it will take time from a coal deployment to the point where it starts to generate some revenue. So I think in the very foreseeable future I would say you will not publish the huge movement one way or another. But then, of course, like in any other territory in over time that we do expect the business to grow. I do, however, want to come back and try and answer your question about the future and not just about the geography.

Let me give some insights in terms of how OnMobile is managing its business both the legacy business and the future. We run a business by having at the very high level ten objectives, ten things that we want to achieve in any financial year. Just to give you some flavour and granularity this year only 40% of those objectives has to do with the legacy business and the other 60% of our energy is focused on all the future business. So that will give you some insights hopefully in terms of what's going on within OnMobile and what are our pre-occupation is in where the energy is going.

Raj Mohon:

Okay. Thank you so much, Rajiv, and wish you all the best for delivering all your promises.

Rajiv Pancholy:

Thank you.

Moderator:

Thank you very much. We have the next question from Mr. Gaurav from Univenture. Your line is unmuted. You may go ahead and ask your question.

- Gaurav:** Hi. Congrats on good set of numbers. Just wanted to understand one thing on this 2% of the revenue that you are spending on the new product development, is that the only investment that is required for the two new products that you have talked about or would it be much more than that?
- Rajiv Pancholy:** No. Actually I think the investment is much more than that. This 2% probably what you will see within this financial year when we actually start to introduce, the products you probably will see expenses which are more related to each geography in which you are releasing these products these are like the marketing cost, promotional cost that kicked in. But they will also be partly be offset by the new set of business that these new products generate. So this is I think when Praveen mentioned the 2% was basically what we are seeing at the present.
- Gaurav:** Okay. Sir, basically what I was trying to get that is that we have got 225 odd crores of cash now, so would this cash be utilized for the new products or would this 250 odd crores of cash be lying idle in the form?
- Rajiv Pancholy:** I think the fair answer to that one would be that some of this cash will be needed as roll up the new products. The reason we have done nothing with this cash apart from buyback that we did I think last year is precisely to get actually handle on how much of this cash is needed and after that we will make a decision on what to do with the rest of the cash.
- Gaurav:** Okay. And the two new products I should expect to be launched both of them in this financial year, at least the launch, I am not talking about all the geography's launch, but the initial part of the launch?
- Rajiv Pancholy:** Yes. That's correct.
- Gaurav:** Okay. Got it. And one last question to Praveen. Praveen, what would be the tax rate going ahead and have you done something on the structuring part of it because the tax rate looks to be pretty high?
- Praveen Kumar:** I think we have been explaining this on every call. Our tax rate is high because of all the foreign currencies taxes that

get written off in India. So till such time we achieve a decent amount of profit before tax that can take in the impact of this foreign currency write-off the effective tax rate is going to be high. We are working on certain set of things to reduce the effective tax rate in different countries, but as you know, these are related to the local government and probably may take some time and it's really difficult to put a timeline on that. But what should happen is when the amortization from the next financial year when it comes down, then probably you will see a very realistic ATR number being played out because the drop in depreciation will result in a very good and a decent operating margin which will then result in a decent profit before tax and my tax may not go up in the same proportion and so we will definitely see a good ATR then.

Gaurav: So how do we take that as a number because this quarter is obviously not a reflection, it's like 6 crores of PBT, 6 crores of tax, so would it be 40-45% on the effective tax rate basis for the full year?

Praveen Kumar: Yeah. That should be in that range once we start achieving reasonable PBT numbers, yes. With the base of around 5 to 6 crores per quarter which is my minimum write-off that is there in the books.

Gaurav: So minimum 5 to 6 crores should be for FY16? FY17 onwards we can look at some normalize level, right?

Praveen Kumar: Yes. That's right.

Gaurav: Okay. Got it. Good. Thanks.

Praveen Kumar: Thank you.

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

Prakash: Thank you for taking my question. Many of my questions have been answered. My questions were asked by the previous participants, but just a few basic clarifications. If I remove the FX impact which is coming through on the

legacy business, you would be growing at some number between 10 and 12% per annum, sir, is that right, sir?

Praveen Kumar: Yes. Definitely, Prakash.

Praveen Kumar: Yeah. If we remove the FX fluctuation, probably this year if the FX remains at what we are now, it will definitely mean anywhere between 7 to 12% of growth.

Prakash: Fair enough. And just to understand if I look futuristically, let's say, two or three or four years down the road if I look at legacy business versus new business and try to put some percentage into it, new businesses should be between 30 and 50% of your overall turnover or it's difficult to say?

Rajiv Pancholy: Prakash, I think, as I mentioned before, it's difficult for me to put a number on it.

Prakash: Fair enough.

Rajiv Pancholy: It should be a significant part of OnMobile.

Prakash: Fair enough, sir. So if we take a 3 to 5 year view going forward, it should be a significant part of OnMobile and the EBITDA should be as good or better than the legacy business?

Rajiv Pancholy: Better.

Prakash: Fair enough, sir. Outside of that is the 2% of revenue which you are incurring as some kind of speed up or start-up cost for this new product developments, etc. But going forward if you put the marketing spends and all that as together, adjusted for that the EBITDA will still be between 17 and 20%?

Rajiv Pancholy: Now, look, I mean, I don't want to give guidance on the future business. I think just to reiterate, Prakash, you know, the reason we've broken up the legacy business is that is very tangible; we can actually slice and dice it in many different ways and give you the accurate numbers.

Prakash: Fair enough.

- Rajiv Pancholy:** The new business is little bit more complicated and let me explain what is actually happening.
- Prakash:** So we just take it as it comes Q-o-Q and see how it develops?
- Rajiv Pancholy:** Correct.
- Prakash:** Very well, sir. And just a couple of other pointers, if possible, if you are looking at the existing RBT business which is the legacy business if you could give us some idea of the potential growth in that business possible, you are right now growing at 7 to 12% which is fine, but what percentage do you have of the total number of possible subscribers that you can own who can be paying subscribers?
- Rajiv Pancholy:** You know, Prakash, I think we have a combined connectivity reach of almost 1.5 billion of which the last time we announced the numbers we were sitting at about 61 million. So this is a very small percentage and a large market. So I think, you know, we certainly look at the opportunities being quite tremendous for this particular product and it will happen with bunch of things, it will happen with the right promotions, it will happen with the right evolution of the product, it will happen with other things that we are working on that will affect the penetration rate.
- Prakash:** Fair enough. Fine. All the other questions of mine are answered because of previous participants asking them. Thank you very much for taking my question. Thank you, sir.
- Rajiv Pancholy:** You are welcome.
- Moderator:** Thank you very much. We have the next question from Mr. Deepak Odhar from Sapphire Capital. Your line is unmuted. You may go ahead and ask your question.
- Deepak Odhar:** Yeah. Thank you very much for the opportunity, sir. Sir, my first question is considering all this new product innovation happening. Do you see any risk of this product obsolescence in RBT?

- Rajiv Pancholy:** Let me answer the question differently. I think the reality is the RBT product that we've had for the last several years has become somewhat dated because the amount of new features that we've introduced have been kind of minimal on that front. So the opportunity we have and that's what we are working on is basically evolve it in fairly dramatic steps. So this will have an impact on its renewal. It's possibly different positioning in the marketplace and also the way we take it to our customers. So all of these will basically have a very positive impact on this business.
- Deepak Odhar:** But overall do you expect this RBT thing to go on like it will not get outdated kind of thing?
- Rajiv Pancholy:** Well, you know, in any technology it's impossible to say at what point will a particular product become obsolete. It goes to cycles. The challenge is always, you know, can you keep the product fresh and that typically happens by adding new things and also adapting it to the change in lifestyles. This is the lifestyle-oriented product and I think that's the dimension of innovation that we are pursuing on RBT itself.
- Deepak Odhar:** Okay. I understood that. And, sir, my next question is that we have done a capex of about 3.7 crores right in this quarter, so is this the same capex that you are talking about the 2% of revenue as investment or this is separate from that?
- Praveen Kumar:** No. capex is different. The 2% that I spoke about is the part of the operating expenses, opex line item.
- Deepak Odhar:** Okay. So that 2% is basically in new product development and new investment in brand, right?
- Praveen Kumar:** That's right.
- Deepak Odhar:** So if you can provide some flavour on that what are these new products that we are talking about and by when will we start seeing the impact of these products?
- Rajiv Pancholy:** As I mentioned, I am not comfortable basically releasing all the information of other products. We don't want to

educate our competitors, so the features have become evident. However, in terms of timeframes I think in the previous question I did mention that at least two of them would be introduced during this financial year.

Deepak Odhar:

During this financial year? And what kind of like 2% of this revenue is what we've guided for in this year, so will this 2% remain same in the next year or this 2% will kind of increase or how would that outlook be there on the spending part?

Rajiv Pancholy:

So to answer that question I have to basically break down the investments and new products into several different buckets and perhaps that will give you sort of indirectly answer your question. There is the actual investment in R&D which is application development, service development, platform evolution to support these new services, so it comes in the bucket of R&D. So part of this is what we are doing to basically physically develop these new products.

Second component is the expense that you incurred when you are actually launching the new products which is to do with the marketing cost, the positioning cost, the public relations and all the associated things, all the channel costs and that will actually happen as and when we are ready to introduce the product and also will depend in the geography.

The third part of the investment in new product has to do with the evolution of our brand and this perhaps the most significant part of the OnMobile story where for years we have positioned ourselves as a white label value added services. Frankly, it's my personal opinion that as an expression of who we are doesn't make much sense. So when we actually put our service on somebody's Smartphone on the screen, you cannot say, you know, press this button because this is a white label VAS service. It has to be something more precise, something more meaningful, something more relevant to what the services will deliver and experience of the end user and that basically necessitates that we actually have a retail consumer label brand that people associate with our service worldwide and that is the third bucket of investment that we are going

through. So the 2% that Praveen talked about is basically made up of the investments in developing the identity that will exist that our users will see on the Smartphone screens and to certain extent the R&D that we are spending on the actual product development, but excludes any marketing cost that will come in only when we are ready to launch the products.

Deepak Odhar:

But we are also investing in some kind of app-based product or something like that?

Rajiv Pancholy:

That's correct. That's what I referred to.

Deepak Odhar:

Okay. I understood. That's it from my side. Thank you very much.

Moderator:

Thank you very much. We have the next question from Ashrin from Deutsche Bank. Your line is unmuted. You may go ahead and ask your question.

Srinivas:

Yeah. Thank you very much. This is Srinivas from Deutsche Bank. Sir, my question just two-fold I think you have alluded it in your previous comments on the, you know, non-legacy product pipeline, as you mentioned. First is you mentioned this converged VAS can you kind of throw some light as to what exactly, you know, what is happening there. And secondly if I interpret what you said, you know, that you are looking at a retail presence which is quite different from what the strategy of the company have been up until now, will that require different and changes in the organizational behaviour or the way you structure yourself?

Rajiv Pancholy:

Let me answer your second question first and I will hand it over to Sanjay who will answer your question about the converged VAS product. The answer simply is yes. It will need changes within the organization. We've been changing the skill mix within the organization given this, however, I just want to mention because this is a key point it does not mean that we are giving up on a traditional operator relationships and our legacy business model, so the two will coexist. For certain things we will both continue to go using the legacy approach, but in many new initiatives you will see OnMobile develop in identity that

the end user will be able to relate to on a global and ubiquitous basis.

Srinivas: Understood. Just, you know, sorry you were saying something, in fact, on a comment to Prakash's question I think you were elaborating on the strategy for the new products, would you like to add something on that, sir?

Rajiv Pancholy: No. I think Sanjay would probably best position to answer your question on CVAS. Sanjay?

Srinivas: Okay.

Sanjay Bhambri: So I think on the CVAS I think your question was what's happening there, fundamentally most of the operators globally what they are doing is they are kind of consolidating this storefronts under one look-and-feel one banner and that's what is now wind as converged VAS means all VAS services are getting converged. So all different kind of contents get monetized over different kinds of stores and just to tie them together into one single platform look-and-feel and engagement with the consumer is what CVAS is and that's what we've been on the journey over the last 18 months and trying to put lot of operators on that single converged platform. That's basically what converged VAS is and that's what our journey is going to be. If you have any specific question on that, I can try and answer that.

Srinivas: I mean, just are you basically the one who is managing the storefront on a managed service basis, is that what it means?

Sanjay Bhambri: Yes.

Srinivas: Okay. Understood. I mean, are there any operators you can name or you would not be able to do that?

Sanjay Bhambri: That would be a challenge, but, as you said that we have a large spread across. We started with operators in Europe and then we are moving to different geographies, so we are now in multiple geographies with the same product.

Srinivas: Understood, sir. This is helpful. Thank you.

Moderator: Thank you very much. I would like to repeat, participants, should you have any questions, please press “0” and “1” on your telephone keypad. We have a next question from Saurav Shah from AUM Advisors. Your line is unmuted. You may go ahead and ask your question.

Saurav Shah: Thank you. This I think many people have asked in terms of the products. I think I have got some of the questions answered. Just want to check with you what opportunity space are you kind of targeting because just traditionally your sales have been to the Telco themselves, so is this a new kind of B to C sort of model that you are looking at and, you know, what market size or getting into detail I understand you are not very comfortable now. What’s the opportunity space in terms of revenue, etc., what kind of spaces you are looking forward in the next two to three years? And in the following from that is what’s the cost structure that you expect to change for this kind of delivery? Thanks.

Rajiv Pancholy: First of all I will probably decline to answer your question about the cost structure because this is related to my earlier comments that the precise financial parameters of the revenue, margins and cost we will basically communicate only when once we are very sure and I think part of that is also predicated on timing in the geography in which we introduce the product. The space is very vast. You know, when we look at OnMobile and where’s been its key assets and where we take it in the future. We always remind ourselves that we have the word global in our name which means that any opportunity we pursue must be first of all global in nature and therefore as an extension very vast in nature. What we have consciously done is to eliminate all those initiatives from our portfolio which were local or more limited in nature. So that is an indirect way of answering your question that we’ve only fixated on those opportunities which are significant on a global scale.

Saurav Shah: Okay. So would you have done some solutioning with maybe one or two customer basis and then you want to take this independent, you know, IOS or Android platform is that the type of approach or standalone application as you

develop and, you know, introduce directly to sort of end customers or sort of B to C model?

Rajiv Pancholy:

So the applications we are developing are basically our own. The immediate thing that we want to do is to fundamentally make sure that and you have to understand that the way you actually propagate an application is typically not done through the operator these app stores and that's why people do a search and download an app. The important difference is that whereas an operator typically has a geographical boundary. If you were to download an app from Google, you know, app stores, it tends to be more global; anybody and everybody has access to that stuff. So that is visibility. It's association with the functionality must be more global than local and that requires that you take a different approach to how you position at the market and also the identity that you give it. So this will be a case of changing many things in a model and at the same time exploiting what we do have in terms of asset. So we absolutely will have a very strong relationship with the operators, that is one of our assets. But in the way this is communicated in the market, the way it's distributed, the way people actually go and find it and where people downloaded from will be indeed very different in the future and this is not something unique to OnMobile; that's just a general trend of industry. When people are looking for new apps, they typically don't go to an operator's website.

Saurav Shah:

You anticipate any acquisitions to, you know, go faster to market or something like this or this is all organic?

Rajiv Pancholy:

Our acquisition strategy has been very clear. We will not look at acquisitions as, I would say, default mechanism, but as, you know, we do have a significant file of case that's available to us. And I think, as we continue down the journey, if we decide and we determine that we need something that we need to help us move faster, we would certainly not hesitate to do an acquisition. But, as like I said, it is not a default mechanism. And so far we have not felt the need to make an acquisition to execute on this strategy.

Saurav Shah:

I mean, last part you mentioned was looking at the global large space, any idea in term of how the industry or around

the specific application that you are looking at in terms of size what they are or what's the top provider or this kind of application should be making from the applications?

Rajiv Pancholy:

The only number I want to give out once again is that today based on our existing connectivity we can successfully address the needs of 1.5 billion people on this planet. That's the need of very vast space. And that, by the way, precludes any further geographic growth that we might have based on the legacy business. So to start with, any new thing we do this is an obvious and existing base to which we can deliver the services for which we do not need to basically increase the geographic approach.

Saurav Shah:

Okay. Thank you.

Rajiv Pancholy:

We will take one last question, Sourodip.

Moderator:

Sure, sir. Sir, we have the last question from Mr. Alok Agarwal from Spiral Capital. Your line is unmuted. You may go ahead and ask your question.

Alok Agarwal:

Yeah. Hi. This is Alok Agarwal from Spiral Capital. I think I've got two questions. One is in continuation with what previous analyst was asking and he gave an answer like we are looking for users who are going to Google and download the app. My worry emanates from that very fact, I mean, you are basically saying our relationship with the existing operators is not very material "We are going to develop the apps where consumer or user will come and download" and that's where your stance is going to be. My worry is now there are hundreds of thousands of apps and there is so much of a clutter, I mean, there is the same people download apps now not just for days or possibly hours and minutes, so what's going to be the distinguishing feature for you where you think you can go and stand up, I mean, you are going to outstanding or you are going to stand out in a way that people are going to download your app?

Rajiv Pancholy:

If I may, I think you were misinterpreted what I just said. At no point are we suggesting that the relationship with the operator is going to be obviated by the new initiatives. In fact, my starting point was that's the strength that we have

and we are going to build upon it. However, if you look at even the way the operators are increasingly trying to basically propagate their services is through these platforms. So, you know, it is the fact that, you know, we have certain places where people go and it is not and please don't extrapolate my statement to mean that we are just going to put it out there and hope that somebody will come. That's absolutely not the case. There are extensive programmes that I wouldn't talk about OnMobile, but in general where there's a lot of work being done to basically build the awareness, introduce that to people in different ways, do promotions and fundamentally to deliver a value and experience that make things go viral. So all that is something that we will be doing and investing in. This is not just the case of let's just build an app and hope for the best and that I can assure you on.

Alok Agarwal:

I mean, just to take a little bit further is it going to be in the domain of music, games or anything any thoughts like anything you want to distinguish?

Rajiv Pancholy:

At this point in time I will not give any more details in our future products. Please understand that as much as everybody else it's a competition, so I cannot say that. But I believe I've answered your question. We are changing because the world around is changing; the way people acquired services.

Alok Agarwal:

No. I think when the Flipkart and the Snapdeal of the world wants to go app only, the world is clearly changing.

Rajiv Pancholy:

That's correct.

Alok Agarwal:

And the second question is like this was the agreement you have mentioned like where your amortization of 19.5 crores quarterly will change from the first quarter FY17. My question is I think somebody had asked earlier possibly in case I missed it what's going to be the reduction in revenue, you said that it's going to be loss of revenue because it's going to be the reduced revenue share, so how much is going to be the net gain for you at the EBITDA level from that? Because, see, this is the easy maths because you've got the current revenue, right, and there's the reduced revenue share model that you've worked out and there's a

current 19.5 crores depreciation which is going to get reduced, so what's going to be the reduction in the revenue if it doesn't grow? If it grows, that's great thing, but on the as it is basis what's going to be the reduction revenue for you?

Rajiv Pancholy:

So I think I'll let Praveen answer the question, but I just want to repeat a few things. Please go back to my earlier comments in the deal that we have signed with and the renewal with the Telefonica in Latin America we've made a very clear and conscious trade off. It will lead to a reduction at the EBITDA level, but an increase at the profit after tax level. So that's the trade off.

Alok Agarwal:

Sure. I just want to know the trade off because in the trade off you've identified the 19.5 crores gain, but you've not identified the loss. That's what I wanted to know; that's it, nothing else.

Rajiv Pancholy:

No. The loss is but something you can forecast in the future. We know what they knew revenue shares.

Alok Agarwal:

No. As I said, as a standalone basis as of this quarter, I mean, this June quarter if I take into account, what will be the reduction in revenue for you which translates into straight at EBITDA level?

Praveen Kumar:

So, Alok, let me take that question on the reduction in revenue share. The revenue share reduction is not so straight forward which is that it's coming down from X percent to Y percent. The way we have defined it in the contract is there is a slab rate and up to this slab rate it's a particular rate and below this slab rate the revenue share changes. So our estimate is for this financial year the revenue from LatAm should be down by about 15% on a run rate basis.

Alok Agarwal:

Okay.

Praveen Kumar:

And that will be the impact on my EBITDA, but then the impact which will be on the operating profit is much more than the 15% of the LatAm revenues.

Alok Agarwal:

Sure. Sounds good. Thank you. That's it from my side.

Moderator: Thank you very much, sir. I would like to now hand over the proceedings to the management for any final or closing comments. Thank you and over to you, Mr. Pancholi.

Rajiv Pancholy: Well, thank you very much, ladies and gentlemen. As always, we would continue to communicate to you any other developments beyond this point. Please do look out for this information and once again thank you for your presence today. Good bye.

Moderator: Thank you very much. I would like to thank all the investors for joining us today. Hope you all spent a useful time. With this, we conclude this session. Wish you all a great day ahead. Thank you very much.