

# **OnMobile Global Limited**

**Investor Conference Call – Q4**

**30 Apr 2010**



**Operator:**

Thank you for standing by and welcome to the OnMobile Investor Conference Call for Quarter 4 results presented by Arvind Rao, the CEO. At this time, all participants are in listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question please press "01" on your telephone keypad. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Rao. Over to you, sir.

**Arvind Rao:**

Thank you very much and good afternoon to all the investors, shareholders, and analysts who are on this call. I have with me in Bangalore the CFO, Rajesh Moorti; the CTO and co-founder Mouli Raman; and our COO, Sanjay Uppal with me for this call. And we will be following the standard format which is we have circulated the talking points. So we will go over first with the background context to the financial results. We will talk a little bit about developments on the Customers front and on the Products front which are the two key engines for us both now and in the future, and then Rajesh Moorti, our CFO, will walk us through the numbers, and following that there will be a Q&A session. So I will deal with the first section first which is the market context for our results.

As you all know, the last 12 months particularly in the Indian market has not been an easy market for the telecom sector. As you know, the telecom operators and that we are white labeled and therefore, we are dependent on them for marketing and promotion of our services which has gone through a very rough patch. There was intense pressure on the telecom sector and when we analyze the Value Added Services revenues and this is the addressable Value-Added Services, so it excludes person to person SMS, roaming and data access. When we analyze the addressable VAS growth, which has been seen in the publicly declared results of Airtel, Idea, and Reliance, and also our estimates on Vodafone India, the VAS in these large Indian operators over the last one year has grown by roughly 5%, whereas over the same period of time, OnMobile India VAS revenues have grown by 9%. Now this is dramatically lower than the historical VAS growth rate that we all have been used to. So the point I am trying to make is that the slowdown in our revenue, and I am focusing only on the topline for now, the slowdown in our revenue growth in these last four quarters is largely driven by the slowdown in the market growth in the Indian market, which is roughly about 70-77% of our revenue base. So that is the key driver which explains the revenue line for us and while we are beginning to see that this market is turning in terms of revenue from the TRAI directive which slowed us down in the first few quarters as well as new services to tackle the low ARPU segments for subscribers that are being seen today. We are

beginning to see a turnaround in the revenue trends in the last month and a couple of months. But overall in the last one year, the results due to the market has been a bit dismal. So with that I am going to turn it over to Sanjay Uppal to talk about the material developments on the customer and products front before we get into the numbers.

**Sanjay Uppal:**

Thank you, Arvind. Welcome everybody to the call. The first piece of information is that we have launched RBT in Ecuador and as you folks know, we have the Telefonica deal that we signed for Latin America. So we are very pleased to say that this launch that we have done is the first country of our multi-country Telefonica project. Subsequent deployments are also on track for the remainder of the year for RBT as well as for the related Value-Added Services products. Next on, as you know we had the global agreement with Vodafone and we have launched the next country. We have initiated the project to launch the next country within the Vodafone deal and that is Vodafone in Egypt. Now if you look again at an international deployment, within Western Europe, we have won a significant new deal for the rollout of RBT. We cannot announce the name of the customer but suffices to say that this is within the Western European portion of the continent for RBT and related services. So within Vodafone, Telefonica as well as Western Europe, we are going to be pretty busy in rolling out RBT and Value Added Services in that geographic region.

Now moving closer to home, as some of you may have seen, we have launched a version of RBT that we call 'Reverse RBT'. This is for the caller to hear their own tune or a promotion that the operator may put. So this is with an existing GSM operator in India and we believe that this covers a new segment of customers as I mentioned these would be for people who want to listen to their own tunes or selected promotions. And we are pleased to say that this was first in the market. Now, there has been a significant development in terms of BSNL. We have replaced and swapped out a competitor and have completed the migration in a record amount of time. By the way, just on the reverse RBT side for the point of amusement, you folks may have seen some of the advertisements that have come out on TV from Tata Docomo. So, while saying that it was a large existing GSM operator, I think everybody is in the know based on those ads that you folks have seen on TV.

**Arvind Rao:**

This was that the advertisement during the IPL test matches from Tata Docomo, which said that this is My Song. All that is done by OnMobile.

**Sanjay Uppal:**

Now moving to music radio in the Asia Pacific region, on the last earnings call we mentioned that we had signed on significant new

deals. We are extending that and we are continuing our dominance of music radio in the Asia Pacific region by signing on three additional large operators. In North America, we have extended our reach for our 'Network Address Book' and 'Social Address Book' range of products. We have commercially launched a wireless based NAB, with a large cable company and also won a significant deal for a complete 'Personal Data Management' solution for a converged operator. And by converged operator, I mean the operator that is running on more than the mobile screen, because we are seeing the convergence between PC and mobile, between mobile and TV. Our client service telephone application that runs on the iPhone was deployed for an Information Services Provider in France and to contrast it with competing applications that may have human interfaces on the backend, there is a completely automated service that runs partly on the iPhone as a client and partly on the backend with our speech recognition engine on the server. And then, finally on customer perspective, our Phone Backup application again for the iPhone was launched at an additional operator in Europe. And this is now available and one of the top downloads in the Apple Store.

Moving onto the material developments on the products, as I mentioned while announcing the Reverse RBT for Tata Docomo, we completed the development, testing as well as commercial launch of this product and we have integrated it with features that we believe are important given the change in the ARPU and revenue shift within the Indian context. And those integrated features include the micro charging as well as automated provisioning and we believe that this could create an entirely new channel for monetization of music as well as promotions. Now RBT provisioning gained an additional mechanism and this is what we called Viral USSD. So, from a USSD channel that obviously requires much less intervention than you would have on SMS, users can now select their songs and it can be virally spread to other users within the system. RBT, so far has been restricted more to the telecom base infrastructure but we have launched RBT that runs on voice through a SIP based solutions. So, we have integrated it also for the SIP based channels and these would allow RBT now to run on non-telecom based networks as well. On the products perspective, moving onto the growth now in 3G networks and in App Stores we have developed a pack of OnMobile widgets that span cricket, magazine readers, learn English, music and a lot more and we are launching them in existing customers and we will be talking about more of these in subsequent quarters. Also given the excitement about cricket recently in India, at the IPL, we launched a multi-channel text and voice alert platform, so that users who signed up for daily pack could get a voice alert on SMS that was synchronized with the overs that were being played as well as it was multi-channel, so you could get by dialing into a

number, you could get an audio commentary also of the match in progress and this was done in a scalable fashion so that millions of users could get that information disseminated in a very short amount of time to a large number of subscribers. You folks may have also seen the announcement that we did with Big FM. Big FM as a programming partner to augment what we have done with streaming music. And so we have launched this service whereby if you dial a number on the voice portal, you can hear your local music station wherever you are in India. We plan to take this outside of India as well. But this is a significant breakthrough because hitherto you could hear your local music station only in the geography that you were in. So, this basically breaks down any boundary that is present and you can hear that music. It is also ad-free. So, ad-free music that you can hear throughout the nation independent of which station that you want to listen to. Last couple of items, we continue to extend our reach on the client side for our phonebook application. So, there is a new Android platform and we have extended the reach to the Android platform as well as extended it to our phone backup to Blackberry devices. And the last piece is that we have developed this automated system for speech recognition for CRM and we have launched it with a transportation company in Europe. So, just want to conclude and say that both on the RBT as well as Value Added Services side, our Network Address Book as well as our speech recognition engine, we had significant new material developments on the products perspective in Q4 and we would be talking about launching them in terms of deploying them in customers in subsequent quarters. Back to you, Arvind.

**Arvind Rao:**

So, before I hand it over to Rajesh to get into the financials, we have also listed out and this is available on our website as well which is the non-financials KPIs and I am happy to say that today OnMobile Services have access to roughly 730 million subscribers all over the world and out of these, roughly 80 million unique active users are using our services every month. That puts us in the same league as some of the top internet websites around the world, such as Facebook, Twitter, and MySpace. Similarly, we have over 44 million active RBT users. These are users who pay on a monthly basis, so it's very high recurring revenue, both to the operator and to us. Finally, in terms of KPIs, we have held our growth in employee count to a large extent, largely in the context of the market conditions and today we are live in about 25 countries around the world which should again expand dramatically once we expand our coverage of the Latin American and European markets that we have targeted. So, with that, I am going to turn to our CFO, Rajesh, to walk you through the financials.



**Rajesh Moorti:**

Thanks, Arvind and welcome everyone to the call. I will just quickly touch upon the quarter 4 numbers before getting into the full year financials. In the quarter 4, our revenue was roughly Rs. 123 crores with an EBIDTA of Rs. 21 crores and a PAT of Rs. 11 crores. So as compared to the previous quarter we have grown in revenue terms predominantly in the domestic market and we have more or less held on to the EBIDTA that we had in the core business and continued to invest as the point no. 6 of our talking points illustrate that our investments have stayed at Rs. 10 crores mark for another quarter. Our PAT at around Rs. 11 crores is at a similar percentage to the previous quarter, we have a higher effective tax rate in this quarter and that's why that has affected our PAT. If I move on to the full year numbers, the 2009-10 revenue at around Rs. 454 crores is 12% more than the previous year. We had explained in our previous earnings call that we had a loss of one significant customer in India and that along with the TRAI guidelines and the uncertainty that prevailed in the marketplace about the revised TRAI guidelines for some time had roughly 10% impact on our revenue. Our EBITDA for the full year at around 830 million was around 18% as compared to 32% in the previous year, largely because of the investments that we have done this year. The investment in Latin America, the investments for growing the business in Asia Pacific region as well as the negative impact on the revenue for the two reasons I explained earlier contributed to this decline in EBITDA. Our profit after tax at around Rs. 42.8 crores was exactly half of what we achieved the previous year. It certainly has been a difficult year for us but we have really done a lot of investments in the last 12 months and as Sanjay mentioned a little earlier about the new customers that we have signed up in Western Europe, in Egypt and the rollout in Latin America that would mean that we will continue to invest but that should give us a good revenue growth in the quarters to come. Other financial points that I wanted to touch upon. We had a CAPEX of roughly around Rs. 40 crores in the last 12 months and we ended the March month with around Rs. 240 crores in cash.

**Arvind Rao:**

Before we open up for questions, I would just like to add a couple of points. One is, as we headed into this year in the first couple of quarters and we sensed that the markets were going to be a bit stormy and the revenue line was not going to be as robust as we thought, we were faced as management with the dilemma of whether to cut back severely on our investments, particularly in terms of overseas expansion in Telefonica, in Vodafone, and other countries. We chose as management not to do that because we believed that it is a huge real estate opportunity at a global level and these are very valuable slots which if we don't take it some other competitor or somebody else would take it and they would gone for a long period of time. This was evidenced by the fact that all the International contracts that we have signed so far whether



it's been in 14 countries with Telefonica or 4 countries with Vodafone to date, they are all roughly for a period of five to seven years, so they are extremely long-term contracts and very valuable and we didn't want to lose that opportunity. So we continued to invest. Now, obviously that is a fixed cost structure which under normal management prudence one would tend to cut when you see the revenue line being less robust than what you thought. But we made a management call saying that we want to continue to do it and position the company better for long-term growth while taking a short-term hit. So what are we doing for this year in the immediate term given these results. I just wanted to put that in context before opening it up for questions. There are fundamentally three things that we are working on right now to sort of turn the numbers around. The first one is while we continue to work on our investments globally, we are working to accelerate the rollout in both Telefonica and Vodafone as fast as we can, so that the international revenues from those large projects can be pushed in front as much as we can. Now we had gone on record saying that in the large Telefonica Latin America project that we would see the full 13 countries deployment happen by March-April of 2011. Right now, we estimate that we may be able to achieve that three to four months earlier as an aggressive target and we have teams that are working very hard to try and accelerate that.

The second thing that we are doing is we are accelerating all our new product launches. So we are carefully reexamining all our product road maps to see which products we should re-prioritize, which are the higher revenue generators, bring them upfront, and accelerate the product launches with most of our customers. Because if you launch new products in existing customers, the sales cycle is extremely short and we should be able to plug a lot of the revenue gaps with these launches. And the third thing we are doing is we have initiated a study within OnMobile to carefully examine and re-examine our cost structure with the microscope and we are going to be making some adjustments both particularly in our mature businesses to improve efficiencies, to consolidate positions, to automate more extensively such that we could have some margin contributions from these efficiency efforts as well. So with those observations, I would like to open up the floor for questions.

**Operator:**

Thank you, sir. At this time, if you wish to ask a question please press "0", "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press "0", "2". The first question comes from Mr. Gaurav Malhotra from Citigroup. Please go ahead.

**Gaurav Malhotra:**

Hi, thanks for the opportunity. I just had three or four quick questions. First, I see that your domestic revenues have rebounded



quite heavily. Just wanted to check if it contains any one-offs as such. The other question is that your international revenue seems to have fallen quarter-on-quarter, any particular reason for that. If you could just answer these two, then I can ask the other related questions. Thanks.

**Rajesh Moorti:**

Hi, Gaurav. Yes, the domestic revenue has some one-offs and that's roughly around Rs. 5 crores but bulk of that is actually in the second half of the year. So if you look at the run rate, it is not going to be dramatically different. Secondly, yes in the international revenue in our data products business we have seen some deferment of revenue because of one large project that we are working on in Western Europe but overall the run rate is pretty healthy.

**Gaurav Malhotra:**

This Rs. 50 millions of one-offs in domestic would be for the fourth quarter. Right? Not for the second half because I am talking from the quarter point.

**Rajesh Moorti:**

Yes, this is accounted in the fourth quarter but this revenue relates to the second half of the year.

**Gaurav Malhotra:**

Okay, if you could just highlight what is the reason for the jump in the content cost. It used to around 19% of revenues and now suddenly this quarter it has jumped to 22% of revenues.

**Rajesh Moorti:**

Gaurav, again as we have mentioned in our talking points, the one off revenue that we recognized has a related content cost and direct cost. So both have been recognized in quarter four because we had completed all the contractual formalities in this quarter and that's when we could recognize the revenue. So I agree that the part of the content cost and part of the revenue is one off.

**Gaurav:**

Okay, if you could just elaborate the reason because if I just take it as a percentage mathematically, it should not have gone up. So it is gone up by like 350 basis points. So what is this one of revenue which is resulting in such a high content cost?

**Rajesh Moorti:**

Gaurav, there is one part of our business which is the media business where we have a much higher revenue share and we also share a higher percentage of the revenue with our media partner. So that is the segment where we have recognized the higher revenue and therefore the direct cost allocated to that revenue is where you see a significant basis point increase.

**Arvind Rao:**

Yes, Gaurav, just to explain it, you know, media although we account for it under COGS and content cost, it is a different sort of a partnership relationship. So just to give an example, supposing we want to do deal between us and Disney to launch mobile



services, typically how the deal would work in our media segment is we go to an operator, we negotiate our revenue share and whatever the revenue share that they give out which is typically 50% to 60% is split 50-50 between Disney and us. So that 50% which goes to the media partner is counted under our COGS and content cost although in reality it is not content cost. That is why whenever our media business goes up and the number goes up, it may disproportionately affect that.

**Gaurav Malhotra:**

Okay, Arvind, just one last question. You mentioned that Ecuador has been launched. If you could just give us some sense of what has been the uptake, what is the cost for RBT over there versus the ARPU over there, you know, something qualitative for us?

**Arvind Rao:**

Yes, you know, Gaurav, if you don't mind, I will defer this until the next quarter for two reasons. One is, it is very early and usually what happens is that first of all the customer doesn't like us to talk about it in the early phases because it gives out competitive information. And the second thing is in the first few months typically we do a lot of things like "try and buy" where it is given for free to drive penetration. We use a lot of marketing tactics to drive up usage. So the realistic results that we will get from Ecuador and Ecuador went live in actually in the second half of the March. So the first part where we will be able to give you even any some indicative numbers will be in the next quarter. But the point I want to make is that we had committed to taking the first Latin American country live before the end of the fiscal year and I must tell you that when we went into Telefonica deal, you know, we are going into a very large continent with very complex networks in multiple languages. You know, it is not an easy deployment system. And I am happy to say that our OnMobile team both out there as well as with support from Bangalore and Europe were actually able to get the first customer live in the committed timeline. And the second thing that as Sanjay said is that just day before yesterday we reviewed with our Latin American team, the deployment schedule for all the 13 countries. And it is actually looking to be right on schedule or even ahead of schedule, which is the other thing that is very positive. Now, obviously this has a cost. Now we would never have been able to achieve this if we had backtracked on the investment level or the commitment level that we had committed to in the last year. So to that extent, we have taken hit but that's what it is.

**Gaurav Malhotra:**

Thanks a lot.

**Operator:**

Thank you, sir. The next question comes from Mr. Srinivas Rao from Deutsche Bank. Please go ahead.



- Srinivas Rao:** Thank you very much, Arvind and the team. I have two questions. First on your international deployment, could you throw some light on the ones which have now been in operation for some time under Vodafone like the ones which are launched earlier in Romania, for example? And secondly, the quarter which you are going to enter, that is when the World Cup starts, so just if you can give some more clarity on the next few large countries which maybe you are looking at and will we see a revenue uptick in the next quarter?
- Arvind Rao:** Okay, I will just talk a little bit and then Mouli and Uppal can add. Basically, Vodafone Romania which was the earliest country which went live probably about 9 months ago. I am happy to say that in terms of penetration and adoption which is the key metric that we use for our services, we actually went as high as almost 6%-6.5% within a short period of time and the other beauty about it is that Vodafone Romania, the results that they achieved with RBT within the first 6 months of service launch with OnMobile exceeded the results that a competitor had in the same market even though they had been in the market live with the same service for the last two years. Okay, so overall the service in the first deployment is going very well. Vodacom as I told you in South Africa which is the second Vodafone is still under a lot of testing and trialing with "try and buy" and using different pricing packages. So then we have to give it about here to 6 to 8 months before we can give out the first sort of indicative results on that front. Regarding the World Cup, Mouli and Uppal, if you have...
- Mouli Raman:** As far as the World Cup is concerned, we are going live with 12 countries in Latin America and we are also going to be live in a couple of Asia Pacific countries.
- Srinivas Rao:** What products?
- Sanjay Uppal:** With the World Cup, I mean with the Soccer World Cup, it is primarily SMS and voice based. We are seeing good interest in some of the countries and the other countries are going to be sort of more subdued on the marketing side. But we are going to be live in about 14 countries with this product.
- Sanjay Uppal:** Just like we have pointed out in the cricket side where we have an extremely popular application that is multi channel between SMS, voice, and even additional channels to come we are adopting that same technology to be able to provide alerts and commentary for football.
- Srinivas Rao:** Just for clarification, you said 14 countries. So that will include Latin America also?



- Mouli Raman:** Yes, that's right. That really matters here. For example, in India we will be going live but we are talking about where there is decent interest in football.
- Srinivas Rao:** Yes, that is what I wanted to clarify. So here we should see some revenue momentum in the next quarter because the World Cup falls practically in the middle of it actually.
- Mouli Raman:** What we are seeing in Latin America is that the countries which are going to be participating in the World Cup, they are more interested in marketing, basically. Other countries, they are interested but not as much. So based on the marketing thing, it will be mixed. That's what I am saying.
- Srinivas Rao:** If I can just have two more feedback from you. One on AdRBT and on Reversed RBT, any initial feedback?
- Arvind Rao:** On AdRBT, we are up to about a million users and it is still going on. It is slow. I mean has it been slower than what we expected? Yes. Again, as I said, the customer, which is Vodafone and we are taking it very gently because, you know, they are very sensitive on the customer's side. I can't really say more on this. It is definitely beyond, what shall I say, behind track that we had thought, but so far the customer dissatisfaction, which is the main thing that we are worried about, is well under control.
- Sanjay Uppal:** The conversion rates are very good. The total number of subscribers may be lower than what we expected.
- Arvind Rao:** On the second one, on the Reverse RBT again, you know, while we can't give out the exact results, I am happy to say that in the first two weeks alone when we launched, we managed to get over more than 150,000 subscribers. So the response rate on reverse RBT has been pretty good. As per our internal estimates, this has the potential to be anywhere from 25% to 50% of the size of Ring Back Tones.
- Srinivas Rao:** Thanks a lot.
- Operator:** Thank you, sir. The next question comes from Mr. G.V. Giri from IIFL. Please go ahead.
- G.V. Giri:** Hi Arvind, good afternoon. What level of India growth is sustainable because if one removes this 5 crores, then it is still almost an 8% Q-on-Q jump which seems to be a very strong jump. Is there any indication of sustainability we can give? Number two, if this one time item is stripped out in revenue and cost, I am still struggling to understand, would it be correct to say that the EBITDA would have been higher by about one crore or one and a

half crores? Number three, your international revenues dipped. It was asked in the earlier round of questions but I kind of missed the answer. Why was there a dip in the international revenues quarter-on-quarter? Then compared to 3Q, why is your tax rate higher, other income higher, and depreciation lower and what is your CAPEX looking like for FY11?

**Arvind Rao:**

I will just take the first question which is what do you believe is the sustainable rate for India. I will answer this in a different manner because, you know, right now, last year, and this year, I would say are completely turbulent years in the Indian telecom industry. To be very honest with you, I will tell you, can I predict sort what is even the range in which it is going to grow, I don't know. But I will tell you what I do know. What I do know is that every operator today, every operator in India is desperate and eager and asking us to accelerate the launch of any and all products that we have in our lab because they want to promote and push back faster and faster because their core business is crumbling, that is one. Point number two is, if you look at Value Added Services and you take person to person SMS and all that out, if the balance is roughly about 6% of an operator's topline in India today, I firmly believe that if we are sitting here in 2015, you know, that number should be nothing less than 35% to 40%. Okay, so you can work the math on the size of line, it's going to happen, it has to happen. There is no alternative.

So, now how fast that market develops, I really don't know. It could happen in fits and starts. I believe that last year there was an aberration in the momentum and the trend line because of TRAI and because nobody predicted this. Even the Telecom operators if you talk to them they had no clue that there would be this phenomenon of multiple SIMs, people using it only for incoming calls, only for outgoing calls, people not paying and being put on grace period, low ARPU, subscribers who have only Rs.20 balance at any one point. I mean, it is a completely different market that we are sailing into. That was not foreseen by anybody at the beginning of last year. And you know, we don't have any better radar screen or a crystal ball than any of the operators. So I think in the short term if you ask me quarter to quarter or even next year, I can't really predict. But what I can tell you is that the underlying latent demand for the services is absolutely robust. There has been no impairment in that latent demand and it is just a matter of time before it actually comes out.

**Rajesh Moorti:**

Giri, you had a lot of questions there. Let me try and recollect and answer each one those. One was the other income. The other

income, if you look at quarter-on-quarter, there is a marginal, just a three million increase. So it is really about the interest rate that we get from banks on the fixed deposit and the investible surplus. It is a very marginal change. If you look at the tax rate, the tax rate is a combination of the profit that we make in India and the profit that we make in the international subsidiaries. Obviously as the revenue in the international subsidiary was lower, the profit was also lower. The profits in the international subsidiary actually give us the tax shield. With a lower profit there, obviously the effective tax also goes up and that is what we have seen in this quarter. If you look at the EBIDTA stripping out the one-time items, we had a 20% EBIDTA last quarter and an 18% this quarter. If you strip out the one-time, I think we would be roughly in the 19% range, so not so significantly different from the previous quarter. Does that cover all the questions?

**Sanjay Uppal:**

On the international revenue. In our data product business, there is one of the large operators that deferred services roll out and since we recognize revenue based on milestone, this revenue has got deferred into the next quarter.

**G.V. Giri:**

Okay, what about your CAPEX outlook?

**Rajesh Moorti:**

We have spent Rs.38 crores in the last fiscal year.

**G.V. Giri:**

Okay, do you have any materially different expectation for next year?

**Rajesh Moorti:**

The capital expenditure in the coming year will certainly be much higher because we talked about this last new European operator, we had talked about the rollout in Egypt and also all the Latin American rollout will happen this year. So this year capital expenditure will certainly be higher. We are just giving final touches to our entire CAPEX plan. I hope this will be at least 50% higher.

**G.V. Giri:**

Okay, I understood. Thanks a lot. Thank you very much.

**Operator:**

Thank you, sir. The next question comes from Mr. Amit Ahire from Ambit Capital Mumbai. Please go ahead.



**Amit Ahire:** Hello Sir. I just wanted to understand if I rightly understand, you said that by the end of December probably, we will be completing our Telefonica deployment. So when do you expect, you know, the monetization the deal and the steady state revenue coming in from all the 14-15 countries when we go live?

**Arvind Rao:** Okay, here's what I said. Last time we had said that our original plan was to get everything live by March-April 2011. Right now, what we are saying is that we are in discussion with the operators and our internal teams to accelerate that to December. So, I don't want to commit that we will go live in December because several of these are beyond our control in terms of when the operators are ready with their network and their capabilities. Also, you must recognize one that thing that towards the end of the year in November and December, all operators in the western world has something called a blackout period. So, they don't allow new services to be launched or any network changes to be made in the November-December timeframe. So, while we are aggressively shooting for that, we may be able to get several of them live by December and some may slip over into the Jan-Feb-March quarter, but the commitment we have is that by April 2011 all countries in the Telefonica Latin America project that we have signed will be live and will be generating revenues. Now, coming back to your thing on steady state, you know here is what it is. if I compare with this with the normal adoption curves, I mean if I look at our ringback tones in a market like India, let's say in any emerging market that we have launched and we believe that Latin America should be roughly similar, but typical range would be depending on the country and the date of launch, at the end of first year, somewhere around 3% to 4%, second year somewhere around 6% to 8%, the third year somewhere in the range of 12% to 14%, and by the fourth or fifth year we hope to be able to touch somewhere about 18% to 20%. That sort of a typical adoption curve or a penetration curve that we would expect to see for a Latin American market at this point. And that's the sort of trajectory that we are hoping for. So, coming to your point about when would there be steady state revenues, you really will be seeing this in probably year 4 or year 5, and this again is assuming that we don't launch or come up with any new product innovation on Ringback Tones during this period of time.

**Amit Ahire:** Okay sir. Thank you.

**Operator:** Thank you sir. The next question comes from Mr. Naveen Kulkarni from MF Global Limited. Please go ahead.



- Naveen Kulkarni:** I have two questions. One is on the Reverse Ringback tone. What kind of potential do you see for this product? And do you think this product can cannibalize the normal RBT or what are your thoughts on this product specifically?
- Arvind Rao:** Yes. First of all, why did we even think of Reverse RBT? We thought of Reverse RBT because our market research showed that there was a significant part of the market that actually wanted a product which worked something like this, which is, when you call someone, I don't want to listen to the music that you have picked. I may not like your taste. I want to hear the music that I want to hear. So, there was a distinct segment of the market that wanted this service. Therefore, we decided to develop and launch such a service. What do we expect it to be? I don't know. Is it going to 10% to 15% of market? We believe so. Could it be as high as 25%-30%? It's possible? So, we will know that within about a year once we have some maturity in the adoption and we try out different pricing packages, different promotions, and we have a much better feel on the take rates.
- Naveen Kulkarni:** Okay, but do you think if our customer already has a Ringback Tone already, then but some other customer has a Reverse RBT, then do you think there would be some problems with as in the customer saying that I have not subscribed. So, I don't know exactly...
- Arvind Rao:** Okay. Here is what it is. Let's take two scenarios. Suppose I have subscribed to RBT. So, when you call me, you hear the tune that I have picked, right? And I am paying Rs. 30 a month. Now, I never get to hear the song that I have picked. So, in many cases I may even have forgotten which song I have picked. Therefore, I don't change the song for many months and therefore the revenue is not so high. Now, on the other hand, I am making on an average 15 to 20 calls a day. Many of those calls are to people who don't have ringback tones, okay? So, I would like to hear a song whenever I call someone because it is for a reason, it puts you in the right mood, you want to hear it, different reasons why people have it. So, you are monetizing the calling party rather than the called party at that point. Now, the question comes how do you handle the conflict?
- Mouli Raman:** And, we have some rules for it. It depends on the operator and there are multiple situations and the rules are different. I just want to give one example. If a called party has set a specific song for a calling party, in this case, we do not play the reverse ringback tone. We play the ringback tone set by the called party, for example. Actually, the industry is coming together. All operators are coming together and we are defining the rules, which are going to be common across all operators basically. So, I mean there are



multiple rules and they are different for different operators, but we are setting the common rules in discussion with all the operators.

**Sanjay Uppal:**

And I think the early indications do not indicate much cannibalization, but it's of course little bit early to tell and it's not too difficult to figure out because on one hand you are hearing your tune versus on the other hand someone else is setting the tune for you.

**Mouli Raman:**

Actually, this is particularly important because if you look at it, in many of the new operators, the significant number of subscribers do only call-outs. So, in that way, this is a product, which we can target at them whereas RBT is not targetable at them. So, in that way, I mean there is a different set of users.

**Naveen Kulkarni:**

Okay. I have one more question. Do you have launched speech-recognition based CRM service with a transportation company in Europe? What kind of market do you see for products like this in probably India and abroad? And what are the steps that are being taken by the company to develop such products for corporates?

**Sanjay Uppal:**

To be quite honest, this is a new business which is, I won't say it is an experiment, but we are trying to figure out what will be the role of such automated speech recognition for CRM and we were able to make a fairly significant dent in this particular case. It is a new vertical, it's a transportation company. So, I think the early results show that we can shorten the amount of time because of the automated speech recognition. So, based on the results that we will see probably in the next quarter or so, we should be able to put more concrete plans and talk to you about how this might impact CRM on a wider basis. I think it is little bit early to tell right now.

**Naveen Kulkarni:**

Okay. But this model won't be based on revenue share or something like that. It will be like a one-time deployment kind of a thing.

**Sanjay Uppal:**

There is no restriction on model right now. So, the kind of technology or service that we have deployed has no particular bias towards either a licensed deal or a revenue share deal.

**Naveen Kulkarni:**

Okay. Thanks. That answers my questions, sir.

**Operator:**

Thank you, sir. The next question comes from Mr. Sandeep Shah from ICICI Securities. Please go ahead.

**Sandeep Shah:**

Yes, Arvind. You also said that to turn around the numbers in FY 2011, there would be some new strategies in terms of accelerating the rollout in Latin America and Europe and accelerating the new product launches. How should we read that in the first half of



FY11, again the investment would be higher where the results in the second half would be much higher versus the earlier expectations?

- Arvind Rao:** No. We are trying to accelerate without really modifying the investment or the manpower deployment schedule significantly. So, it's not going to have an effect on that.
- Sandeep Shah:** Okay. Thanks. Rajesh, this Euro 5.5 million worth of investment which we are looking is for the new client win in the Western Europe?
- Rajesh Moorti:** Yes. That's right.
- Sandeep Shah:** Okay. When we should expect commercialization from that client?
- Rajesh Moorti:** That will be the late second half of this financial year.
- Sandeep Shah:** Okay. And here the accounting treatment would be similar to what we have done with Latin America?
- Rajesh Moorti:** That's right.
- Sandeep Shah:** Okay. And just on the Reverse RBT, if I have heard correctly, is the calling party if he has a Reverse RBT and the called party is having a direct RBT, the calling party will listen to the direct RBT and not the Reverse RBT?
- Mouli Raman:** That is one of the rules. Again, it depends on operator to operator, but that's the rule that we are expecting many of the operators to follow. That is only one of the conditions.
- Sandeep Shah:** Okay. And Rajesh, just any Forex gain/loss because last time we had some Forex gain in the investment item?
- Rajesh Moorti:** Yes, but this quarter the Forex gain is much lower. Obviously, the Forex liability that we have is in Euro and most of you are aware of the Euro movement, the Forex gain is lower than what we had in the December quarter, but yes there is some amount of Forex gain.
- Sandeep Shah:** Okay. In actual terms, the investment has been lower this time?
- Rajesh Moorti:** Because of that, but, yes there are investments that we have made as a result of the overall investment bucket, we have actually increased compared to previous quarter.
- Sandeep Shah:** Okay. Thanks.



- Operator:** Thank you, sir. The next question comes from Mr. Rahul Mehta from Lucky Securities. Please go ahead.
- Rahul Mehta:** Good evening, sir. Just wanted to check if the operating margins, which have come down to under 18% to 20%, are they likely to revert back to the 30% that we used to be at some point of time? Is there any chance of that happening in the foreseeable future?
- Arvind Rao:** Okay. Here is what I can say. The big impact really when I look back on the year is that there was a huge dip in the revenue compared to what we had forecast going into the year. Okay, now, some of that was clearly due to market trends that we did not anticipate in terms of the India market slowdown, TRAI, etc. On the other hand, we maintained our cost and our investment level without really changing that trajectory too much. Okay, so that should tell you that as the revenue picks up and comes back, there should be a healthy improvement in our margins as we sail forward. While in the short term if I look at, maybe, one or two quarters or something, that may or not happen, but in the long term, one or two years, can you expect to see some improvement? We believe so.
- Rahul Mehta:** Okay. And this EBITDA margin without...I mean if one were to remove the investments that you are making in Europe, which are going through the P&L, then what would be the EBITDA margin excluding those investments which are being made currently?
- Arvind Rao:** We have got the EBITDA on our core businesses as about 25.6% in this quarter and that is exclusive of the investments.
- Rahul Mehta:** Okay, sir. So, the investments are taking away roughly about 5% to 6% of your EBITDA margin, is it?
- Rajesh Moorti:** Roughly it's around 8%.
- Rahul Mehta:** About 8% taken away.
- Arvind Rao:** By the way, I just want to caveat this, just so that you understand this. There is what we classify as investments because we continue to have capacity expansion and all that, which are in the normal course of our business. We do not break those out into investments. So, you should not assume that 7% to 8% of EBITDA is the only investment that we are making in this company. There is a normal course of investment, which is being handled in our EBITDA and then there are very large investments, which we break out separately.
- Rahul Mehta:** So, the 7% to 8% is beyond the normal investments that have been made.



- Arvind Rao:** Yes, that's what we break out. That's a large project investment.
- Rahul Mehta:** Right, sir. Thank you very much and all the very best.
- Operator:** Thank you, sir. The next question comes from Mr. Rajiv Sharma from HSBC Securities. Please go ahead.
- Rajiv Sharma:** Thanks for the opportunity. Just a couple of strategic questions. One, I just wanted to understand with 3G auction getting over by next week, how do you plan to participate with this 3G opportunity and what kind of products do you think currently...you are very much focused on RBT but what are the incremental products which you think you will develop or you have in your kitty which will allow you to participate in this growth which will definitely you know, the operators not launching before next 9 to 12 months, but as and when they launch. Second, you suggested that you will continue to invest in international operations. Does this mean that will it be to the same extent you have done this in the last 12 months or it will lower so that I can get a feel on the EBITDA margins and third, when you do investments internationally, how do you differentiate between your CAPEX and OPEX. Is it do with the network equipments which you buy, you are putting in CAPEX, if I understand it correctly?
- Arvind Rao:** Okay, let's do the first question which is a 3G. I will add little bit and then Mouli and Uppal can add. Very quickly, we are already live both in Europe as well as other developed markets, whether it's Australia, Malaysia with products which are 2.5G and 3G. This includes things like address book, social address book, phone backup 2.0, phone book 2.0, Mobile Paparazzi and whole bunch of products. So, clearly once 3G is ramped up in India and we see enough of a market, we have many of those products. We will immediately roll out into the Indian customers that we already have. The second thing is that many of our existing products can be what I called 3Ged, which means you can put a video component on to it or a streaming component on to it which is not possible today because of the 2G network. So, many of our products can become 3G if you want to call it that way.
- Sanjay Uppal:** If you look at 3G, there are three aspects of it that make it interesting for new services roll-out. One, obviously, it is faster. Secondly, it is multimedia, so you can do video and images. Thirdly, it is always on. And that provides a new class of applications apart from the extension of current applications that can be 3Ged. Just to give you an example. We are already live as I mentioned in the talking points, with certain operators around this convergence which can be three screens. So, it can be the PC screen, the TV screen, and the mobile screen. This calls for a fast

media-enabled always-on kind of network. So, you can do convergence. This is a new class of product that we will be rolling out once 3G takes hold in India.

**Rajiv Sharma:** Okay. And my second question on the international operations.

**Mouli Raman:** Could you please repeat the question?

**Rajiv Sharma:** My question was basically, you suggested that you will continue to invest in Latin America and basically you invested this year as well. So, I just wanted to understand the extent of investment this year. And secondly, how do you differentiate between CAPEX and OPEX in your international projects?

**Arvind Rao:** On the international thing, there are two types of investments that we would make on the international front. One is sort of what I would call as incremental investment which we are making all the time, which is, we are talking to an operator in Canada, we are talking to an operator in Mexico, we are talking to an operator in Ghana, we are talking to an operator in Japan. You know, that goes on ... that is normal course of business. That really does not affect or have a material effect on our margins to any extent. The second type of international investments are very, very large deals like the Telefonica's of the World that we have signed. We are working on a couple of those. Will any of those actually fructify, I don't really know. When they do fructify, obviously we will bring it to the attention of all the shareholders and investors because they are material and could have a material impact on the Company. So, as of today, we don't have any of these large projects that I can say have fructified, otherwise we would be announcing it but we are working on a couple of them.

**Rajesh Moorti:** And in terms of the CAPEX and OPEX, like any such large deal would require us to recruit people in that territory, which would require a lot of travel by our product teams and our engineering teams. So, that is an OPEX and that is expensed out. The equipment that we install in the operator, that is the only one which we consider as the CAPEX and then we depreciate over the three or five years' period as the case may be.

**Rajiv Sharma:** Thank you very much. Just a small follow-up question. Basically, it's not a followup. It's completely different. There is lot of difference, when I speak to couple of other VAS operators, I think there is another new category which is emerging is cost based VAS which allows operators to reduce their OPEX. Is this also going to be a focus area for OnMobile or are you there in such kind of VAS products.



---

**Arvind Rao:** Today, we are not really into that part of the house. Traditionally, our business model and our emphasis and our value proposition to customers have been to increase their revenue lines. We have been asked several times to help them on this and have we looked at it and continue to look at it and experiment with it? Yes. But as of today, do we have any strategy to make a big play in this? The answer is 'No'. We have not really planned it.

**Rajiv Sharma:** Thank you very much and all the very best.

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

**Arvind Rao:** On behalf of all the management out here, I would like to thank all of you and we look forward to delivering better results and making you a little happier than this call. So, thank you very much and have a good weekend.

**Operator:** That does conclude our conference for today. Thank you for participating. You may all disconnect now.