

OnMobile Global Limited
Investor Conference Call Q4 10-11
May 2, 2011

Operator:

Thank you for standing by and welcome to the OnMobile Investors Conference Call Q4 2010-11 presented by Mr. Arvind Rao, the CEO. At this time all participants' lines are in a listen-only mode. There will be a presentation followed by a question and answer session at which time if you wish to ask a question, please press "0" "1" on your telephone keypad. Please be advised this conference is being recorded today. I would like to hand the conference over to Mr. Rao. Thank you.

Arvind Rao:

Thank you very much. Good morning and welcome to all analysts, investors, share holders in OnMobile. I am sitting here in Bangalore. I have Rajesh Moorti, our CFO; Mouli Raman, our CTO and co-founder with me over her in Bangalore. And in Bombay we have Sandhya Gupta, handling strategy and investments. We will follow the standard format that we have done in the past. I will quickly go over the backdrop and the context behind our results in terms of markets, in terms of products and then I will hand over to Rajesh Moorti who will go into the numbers and following that we will have a question-and-answer session.

So the first one in the Talking Points is the Indian telecom sector trends. Now India accounts for roughly about 70% of our revenues. So any development in the Indian telecom market has a fairly material impact on our revenues and earnings. So I would like to talk about that initially. We are beginning to see that the Indian telecom operators have deployed 3G and launched 3G services but they are still extremely nascent. They are not live all over the country in all circles. While the initial uptick looks pretty good, it's still extremely small in terms of numbers. The 3G revenue that most operators are seeing today is largely from connectivity revenues in terms of data and mobile broadband. It's still a trickle in terms of actual users and hence revenues that we anticipate seeing from our products like video on demand and IVVR, the infrastructure which we have already deployed in several Indian telecom operators. We will take a bit of time to materialize.

The second point is that due to 3G services launches in the last 3 years 6 months, telecom operators have significantly diverted a big chunk of their promotion capacity both above the line, below the line, and on the ground in terms of retail towards 3G services. And hence we have seen a

decline in the promotional bandwidth that they have allocated towards value-added services. So while we see that having a temporary effect on our revenues and on our business, we don't see that as a structural change. We anticipate that it's going to come back because even on 3G, telecom operators have told us categorically that value-added services will continue to be a very core and very absolute part of their margin story on 3G. So that's on the India front.

On the international front, the key development for us is due to the turmoil in Egypt, we saw a reversal or a slight change in our fourth quarter revenues coming from our Egypt operations. If you recall, in the third quarter, we had extremely stellar results in Egypt and due to the turmoil we are seeing a drop but in the last couple of weeks when things have improved in the country, we are seeing things turning around. So even though it has had an effect on us in the fourth quarter, we believe that it's not a structural recurring change in Egypt and it will turn around and come back to levels that are higher or better than what we had in the third quarter.

The other thing that I wanted to talk about is the Latin American project that we have which is fairly large. Over there, we are live in six countries. We have not completed the full continent deployment as was planned because in some of the smaller countries, the deployment has taken a little bit longer due to logistical reasons getting the hardware in, getting the infrastructure set up and getting the back haul connectivity to the Miami data centre in place. However, the more important point is that 80 to 85% of the population of Latin America today is covered by the services that we are live with and the most interesting results are that we are achieving somewhere around 1.5% penetration already in the large markets of Brazil, Argentina, Mexico which is actually very material and ahead of expectation and that is reflected in the ARPUs that we are seeing. So for example, on ring back tones in Latin America, we are seeing ARPUs which are roughly 2 to 3 times of India RBT ARPUs. So that again has given us a very positive impact and we are looking forward to continuing that deployment and taking it to a higher level.

On the Dilithium acquisition as our Talking Points, Dilithium is our 3G video technology. We have signed up for the technology with several of the top Indian operators.

The deployment is under way. So the rollout of that technology in the large Indian market for us will be pretty material and as we upgrade all our services to 3G.

Furthermore, with Dilithium we have now expanded our presence in the e-market of China which is a very large market for us eventually over time and this is an entry vehicle for us. We have an office over there. We have people on the ground and we are looking to expand our presence over time in that large market.

Mouli Raman:

We have got three of the largest handset manufactures. We have sold software stack to enable 3G on the handsets. So that is something that we have closed in the last quarter. And besides that before buying Dilithium, Dilithium had sold the gateway to two large operators and we have revived the relationship now. So these are two things that have happened in China for 3G.

Arvind Rao:

In terms of other products, social RBT which is a convergence of the whole mobile social networking wave and ring back tones which are our core flagship product. We have actually launched these with several of the large Indian operators and overseas and as the next quarter rolls out, we will give you some more sort of insights into the results that we are achieving but this is a very key product for us and it is showing good results. We have also launched a new product called Music 360 which converges all the different music products between ring back tones, music station, ring tones, full track downloads, all into one very large converged music platform. And I am happy to say that a very large operator in Africa has deployed this product. They are our first customer and the initial deployment is completely under way and the earlier results are pretty encouraging. So this is a new large product that we intend to test in that market and then roll out across the world.

Now what I will do is I will turn it over to Rajesh and I will ask him to walk you through the financials, in particular to focus on the year end. So focus on full-year results and also quarter-on-quarter and then quarter versus quarter a year ago. Rajesh.

Rajesh Moorti:

Thanks, Arvind. Good morning, everyone and welcome to this call. As Arvind mentioned, I will initially focus on our

full-year financials. So if you look at our financials for the full-year, we achieved revenue of Rs. 537 crores as against the revenue of Rs. 454 crores of last year. This represents an 18% reported revenue growth but on a like for like basis, this is more like 22% and I will come to that point a little later. Our revenue mix between the domestic and international last year was more like 75:25 and this year international revenue accounts for 27%. So there is a 28% increase in revenue in the international market. We have been giving you the information about the core business versus the investment split of our overall financial performance and if you look at the four quarters which essentially represents the previous financial year with the year before our EBITDA in the core business has gone up from 28% to 33.5% and our operating margin on the core business have gone up from 19% to 25%. So this is something that we have been focusing on and we intend to make this our steady state margins as we go forward by the time the Latin American market has stabilized.

The next point and you would have noted that in our commentary is that we had other income by way of some stake sale in our associate company VerSe Innovation to the extent of Rs. 23.5 crores as other income and post tax is roughly around Rs. 17 crores. So I will want to take this issue head-on. Some of you may be having this question in your mind as to is there a real drop in profit after tax in the company from quarter three to quarter four. So the reported profit of quarter three was at Rs. 20.9 crores and quarter four is Rs. 26.8 crores. If I exclude the PAT contribution of VerSe stake sale, the profit would be more like Rs. 10 crores, so Rs. 20.9 crores coming down to Rs. 10 crores and this is then split into three parts. What is the drop in the operating profit? And I am happy to say that the operating profit margins have been maintained more or less at the same levels. So we had the operating profit of Rs. 17.5 crores last quarter which is now Rs. 16.3. So there is a 1.3 crores drop there. Our other income excluding VerSe stake sale which is essentially the interest income. The dividend income has come down by 2 crores and this is essentially because of the reduction or lower cash corpus that we have and the third one is on the tax. The local tax and the foreign taxes have gone up by Rs. 7 crores. There is some regrouping from previous quarter to this quarter. But instead of really trying to explain why the tax rate has gone up in quarter four, I would just request you to model this

and our tax rate for the whole year was 17%, all inclusive as against the guidance of around 15 to 17% that we have given in the beginning of the year. So please don't look at the tax percentage on a quarter-to-quarter basis. Look at it on an annual basis and we expect for the new year the tax rate to be in the range of around 20%.

There is one more point that we have highlighted in our earnings release and that's the revenue and the content cost adjustment. In one of the large customers, there is a contractual change involved in the content management responsibility and that has had an impact on the revenue. Without this adjustment, our revenue would have been more or less flat quarter-on-quarter and our EBITDA at the company level would have been broadly 21% as against the 23% in the quarter before. I just want to add one more line there. For your modeling purposes, I would suggest that you can consider a recurring revenue adjustment of roughly around 10 crores going forward. So that is broadly that I wanted to highlight on the financial performance. We can open this floor for questions.

Arvind Rao:

Okay, so let's open it up for questions.

Operator:

Sure, sir. Participants, at this time if you wish to ask a question, please press "0" "1" on your telephone keypad. You will be added to a question-and-answer queue. After you are announced, please ask your question. I repeat, if you have a question for today's speaker, please press "0" "1" on your telephone keypad and wait for your name to be announced. The first question is from Rohan. Rohan, your line is unmuted. Please ask your question.

Rohan:

Sir, can you just give me your breakup for the year for ring back tones and voice portal in the international business.

Rajesh Moorti:

Our ring back tones, revenue contribution is roughly around 42 to 45% and our voice and applications at home is between 32 to 35%.

Arvind Rao:

This is on a full global basis.

Rohan:

Okay. Sir, give me something on your organic Vodafone which is there. What is the revenue from there?

Arvind Rao:

Sorry. On which thing?

Rohan: The Vodafone which you have.

Arvind Rao: No. See, we are live with Vodafone in multiple countries ranging from Africa, Egypt, India.

Rohan: Apart from the Latin America, the new geographies?

Arvind Rao: No, we don't release customer-specific information. I can't give you like Vodafone Egypt and all because we can't do that. It's confidential.

Rohan: Okay. What's the revenue from the Latin America, six countries you are going live, the revenue from there?

Arvind Rao: The last quarter, Telefonica revenue, we booked roughly around 3 crores.

Rohan: Full year will be?

Rajesh Moorti: Again, you need to look at it from the perspective that we have been ramping up the deployment and this is where the penetration levels are going up. So you cannot really compare. We expect a significant contribution coming from Latin America in the new year.

Rohan: Okay. Sir, last question on the investment, going ahead, how much the investment would be going on going forward... the investments in the new businesses and everything?

Rajesh Moorti: Sorry, can you repeat that?

Rohan: The investments which you have been making, going forward, how the investments would be?

Rajesh Moorti: If you look at what is included in the investment bucket is really the manpower cost, the other operating expenses of running the business in multiple countries and the depreciation on the assets deployed and we typically, this is just to reiterate how we account this investment is from the date of the country going live for next 12 months is included in the investment bucket. The last four quarters, the total impact on the P&L was 65 crores and the year before was 45. So you can assume the investment will be in that range.

Rohan: Okay. In that range only?

Arvind Rao: Yeah because you have to factor in two things. As the business scales and grows, we are going to invest more and more related to the scale of the business. However, we are not going to see large projects like Telefonica at least as of today, we do not have any other very large lumpy one-time projects like Latin America where we have to make a significant investment in the next one or two years. So most of the new investments that we see going forward will be what we call as organic or incremental growth which is whenever we launch in a new country we put in a hardware and software upfront but you're not going to see a large continent-wide play with the huge upfront cost. At this point, we don't see any such contracts coming up.

Rohan: Okay, sir. I will just come back if I have any questions. Thank you.

Operator: Thank you, Rohan. The next question is from Vinay Jaising. Vinay, your line is unmuted. Please ask your question.

Vinay Jaising: Thank you so much. I have three questions actually. You know, my first question is, you did mention a revenue recurring of 10 crores. I kind of missed what that was about. So if you can just again throw light on that. Second, you obviously mentioned that there were issues on the Egypt last quarter because of which the revenues would have been impacted but the Latin America is in the long-term growth story. Is it possible for us to know for this investment, you know, some kind of breakup or let me put that other way round, what would have been revenues had at least the MENA unrest not been taken into account and had Dilithium not had issues for this quarter? That's the second question. The third is on the tax rate. What do you think I should take you in the long-term tax rate especially for next year? Should I take 17 or 18 or should I take, as you had mentioned earlier, 23-24%? Thank you.

Arvind Rao: Answer the last one first.

Rajesh Moorti: Vinay, I will go for the last one and the first one and Arvind will answer the second one. The tax rate, as I have mentioned a while ago, it will be around 20% for the new

year. That will include the domestic tax for India as well as foreign taxes. As far as the recurring revenue impact, what I have mentioned is, we have highlighted in our Talking Points an adjustment of around 16 crores. So I do not want people to just model that Okay, on a quarterly basis, it's a 16 crores adjustment and the revenue going forward will lower by that." That number is more like 10 crores. So that's the point I was talking about.

Arvind Rao:

Regarding the MENA thing, first of all, MENA is a combination of our presence, as per our definition in Egypt and UAE and other countries in Northern Sahara region. We are seeing an issue really only in Egypt. We are not seeing a down-trend or anything in any of the other regions where we are live. We are happy to discuss with you offline. We can discuss revenue to some extent on the MENA region but it's not a material. Overall MENA region is not really material but Egypt which had a very strong contribution in the third quarter, that has taken a little bit of hit in the fourth quarter but again as I said the key question over here is – we are having this conversation two quarters from now. Would MENA be back on track? That's the key question and based on the last few weeks we believe that it's definitely doable.

Vinay Jaising:

If I may just twist the last question again. Just to get a flavour of how good your growth was in Latam, is there any way we can find out? Obviously, we have got the numbers of 2 to 3 X ARPUs and you know the 3.1 million users but any other way of knowing something which kind of gives us the flair of how much is this as a percentage of the 100, how much was it earlier as a percentage of Rs. 120 million last quarter.

Rajesh Moorti:

Overall, if you look at sequential growth, from Q3 we have grown about 300% in Q4 while the base is small but that's the growth we have seen in Latam.

Arvind Rao:

Vinay, while I understand your question and I am happy to give an answer like 300%, you know, that's not really relevant because the numbers are fairly small. So for example, we are actually tracking it right now where we are seeing month-on-month growth in the range of 32 to 40%, month-on-month. But that's because the range is small and we are really setting very high targets on a month-to-month ramp-up basis.

Vinay Jaising:

Thank you, sir.

Operator:

Thank you, Vinay. The next question is from Sameer. Sameer, your line is unmuted. Please ask your question.

Sameer:

Good morning and thank you. Just one quick question I had regarding – you had mentioned in the first market in which you had launched, you have about 3 million active subscribers. Just want to check if this is Ecuador because I think that's what I remember which was the first country where OnMobile had launched operations in Latin America and does that mean you almost have a 20% penetration within that country because population of Ecuador is about 15 million. And the second question is again on revenue from new investments from international markets. This number still hasn't budged from last quarter which was about Rs. 120 million to about Rs. 101 million marginally down. What proportion of this revenue this quarter is from Dilithium? If you could give us, it will be great.

Arvind Rao:

Okay. So let me answer your first question. The way this is written in Talking Points may be misconstrued. When we say that we have 3 million customers in nine months, it is nine months from the date when we deployed in the first country. Okay? So it's not like the first country has got 3 million users. Maybe it's written wrongly or not very clearly out here. But as of today, across Latin America we have 3 million plus customers and a rough penetration of 1.5%. That's where we are today. Okay? So it's not the first country.

And your second question was the international growth. Rajesh.

Rajesh Moorti:

In terms of the revenue coming from Dilithium acquisition project, again while we do not split it out separately, but the idea is overall for the six months' period if you look at it, it is between 2 to 3% of the total company earnings.

Sameer:

Just one followup, any progress in terms of winning new contracts, I know you are pursuing operators in North America, and also if you could give us some clarity in terms of – you have about 900 million in cash on your balance sheet, if you would need to go for additional fund-

raising, if you do in a contract from any of these new markets.

Arvind Rao:

So as of today, we are in discussion, as you know, with several operators. If we have won something large, we would announce it but typically we would announce it only when we go live and this is largely for customer confidentiality reasons. So the agreement in most cases is we have won certain contracts but we cannot disclose it until we go live. That's part of the customer confidentiality. Now in the contract that we have closed, as well as the news ones that are under discussion, we do not see any large lumpiness of the nature of Telefonica in Latin America. So, you know, it would be the – what I would call as business as usual. So for example, when we launched Vodafone Egypt, sure we had to make an investment but that investment doesn't really show up anywhere on our – it doesn't make a material impact on our business because it's relatively small and can be absorbed. So the new contracts that we are winning and closing are more in that nature. They are not in the nature of a Telefonica Latin America project.

Sameer:

Okay. Thank you so much, Arvind.

Operator:

Thank you, Sameer. The next question is from Gaurav Tyagi. Gaurav, your line is unmuted. Please ask your question.

Gaurav Tyagi:

Thanks a lot, sir, for the opportunity. Sir, I have three to four queries. The first one being your operations under the investment phase. Revenue on a sequential basis was lower but OPEX was higher. So just trying to understand how long will this investment in future growth will continue because, you know, on a sequential basis Rs. 5 crores as EBITDA is a significant amount when compared to your bottomline. So if you can just share something on that. Now the second question is, you mentioned adjustment is not Rs. 16 crores but it is Rs. 10 crores. So basically are we saying that Rs. 6 crores will again start flowing back from the next quarter and again will cost also increase by the same amount so that impact at EBITDA will be neutral? My third question, I will come back with the third question which is on the India side. If you can answer the first two please.

Rajesh Moorti:

The first one is in terms of the negative operating profits in the investment's side of the P&L. Your point is right. We have been spending more money on that side and that's really because bulk of the Latin American deployment has gone live in the last three to four months, plus we have investments to make in the new markets where we are still not live and there is a Dilithium acquisition related P&L charges which are there in these last couple of quarters. So as we have explained before that once the 12 months' period is over from the date on which a customer has gone live or the project has started, then we move that to the core business. And given the fact that consistently over the last four quarters, our core business operating profit and the EBITDA margins have improved by 400 to 500 basis points, that clearly shows that when we move that from the investment to core, we have been able to convert that to a profitable project. That's number one.

Number two, as regards to your comment on the adjustment of 16 crores, let me clarify again. The 16 crores has two components. One is the recurring component. That is a one time. Yes, you are right. The 6 crores revenue and the cost component will be back from the next quarter.

Gaurav Tyagi:

Okay. Sir, just a quick followup on the first question, this Rs. 5 crores increase and EBITDA loss. If it's possible to break between LatAm and Dilithium, you know, this is what we are investing in LatAm, so this is why EBITDA loss has increased because if you are reaching 80 to 85% of our target population in the LatAm market, so that proportion of losses should narrow down in the coming quarters. That's what I just want to understand.

Rajesh Moorti:

Again, in LatAm, there are multiple countries. So there are costs in Brazil, Argentina, Mexico or Ecuador. So again, from the date of going live, we will take out country by country from investments bucket and put into the core. So it's very difficult to really give you the split. I won't be able to give you the split by country as well. So we internally track this very closely because we have business cases for each customer and each project. It's really difficult to give out that on the call.

Gaurav Tyagi:

Okay. Sir, my next question is to Arvind. This is regarding the market potential for the Indian Value Added Services space. What I want to know, sir, is that except for SMS and

2G GPRS bandwidth charges, what is your estimation for market size currently and the projected growth over the next two, three years because, you know, I believe that is our target market and the open-garden approach might hurt our chances in the long term. So just want to understand the potential of our target market.

Arvind Rao:

For the Indian market, first of all, the short term, clearly the market is going to a bit of an inflection for two reasons. One is that everybody is waiting for 3G VAS to really take off and it's going to take a while while the infrastructure is put in, handsets are distributed, 3G users come on board, end-user prices actually drop so that it can be material. So I believe that 3G VAS is really to going to take off only after two or three years in a material way. Okay? In the short term, I continue to believe that the existing 2G services will continue to dominate but the key over here is getting the operators to agree to reduce the end-user prices to take penetration to the next level. That is the key issue apart from the promotion issue because while we are sort of empowering a big chunk of Indian VAS market with all these telecom operators, the end-use pricing is ultimately determined by them under their brand name. So while we can talk to them and talk to them, you know, at some point, we are hoping that they will actually allow us to launch lower price services or they will agree to reduce the price of the services in a segmented manner so that we don't cannibalize our existing revenues. But until that happens, I don't see penetration having a quantum increase. So just to say on RBT and all that, we are roughly at say 20-25% penetration in India, I don't see that getting to 40-45% unless we open up a new price point RBT service.

Gaurav Tyagi:

Sir, totally understood that point. But sir, there are two parts of it. One is obviously we try to negotiate better revenue share with our existing service portfolio and get a better deal out of it. Secondly, if we offer new services with the existing revenue sharing arrangement, so which part are we betting on a big time because frankly...

Arvind Rao:

Let me answer that question. It's well said that prices can only go down, they can never go up. Okay? So revenue shares with operators, we have seen in all my history where – I have never seen it go up. Okay? In fact, with scale and as product becomes more mature, then there is pressure for the revenue shares to come down. So we don't sort of –

none of our revenue growth is coming from any assumption in terms of renegotiated higher revenue share. The growth that we are planning is largely from launching of new services.

Gaurav Tyagi:

Sir, can you just mention few?

Arvind Rao:

So, for example, like I told you, I mean – let's say ring back tones. Right? So ring back tones is a classic product. It generates roughly about Rs. 25 ARPU for a telecom operator today. Now we believe that if you want to take RBT from 20-25% penetration to 45-50% which I believe is doable. You can't do at the same price point. So we are launching something called RBT-Light which has got segmented or reduced content. So we don't have all the branded content that is available on the full price service but we offer a different price point. We offer RBT-Light which is roughly at say Rs. 10 or 15 per month. Okay? And we believe that you can easily get another 10-15% market penetration using this price. It's no different from Armani Express, Jet Airways and Jet Lite. It's the same thing. We have got operators to agree to do this. We are in the process of launching it as we speak and I am hoping that in the next two years, it's going to add a material thing to our India revenue. That's an example of one service with one differentiated price point we are launching.

Gaurav Tyagi:

Right. Sir, basically existing service portfolio has the potential by reducing price points to further increase the penetration instead of we coming out altogether with new different services?

Arvind Rao:

No, we are doing both. When you have a large service that is doing well, you know, we call it feature expansion and service extension. So we do that. At the same time, we have a separate team that is working on innovation which is a new product. Okay? So new products are things like we have talked about karaoke phone which we are in the process of launching as an example. That's an example of a completely new service that we are launching. For that matter, social RBT which is what I talked to you about. We are planning three, four other such services.

Gaurav Tyagi:

Totally understood. Just the last question which is on the CAPEX side. I think I missed – you said something about the investment. Just the CAPEX estimation for the coming

year and if you can provide the breakup. That's all from my side. Thanks.

Rajesh Moorti:

Yeah, we expect the CAPEX for the new year to be between 60 to 80 crores.

Gaurav Tyagi:

And sir, breakup between domestic and international?

Rajesh Moorti:

If you look at the last year, I think we would have spent roughly, I think, 50-50. In the new year, a lot more will be on the international side.

Gaurav Tyagi:

Okay. Thanks a lot, sir.

Operator:

Thank you, Gaurav. The next question is from Mayur. Mayur, your line is unmuted. Please ask your question.

Mayur:

Hi, good morning. Sir, wanted to know how come we have not added any country in this quarter. We had 52 in quarter three and still 52 in quarter four, no country in Latin America.

Arvind Rao:

Like I said, we continue to work on Latin America but these countries have not actually gone live. So when they go live, only then we count it. So even if 80-90% is finished, you know, we are not going to count it until it goes live.

Mayur:

Okay. And what is the new timeframe? Are we going to finish Latin America by the next two quarters or so?

Arvind Rao:

No, no. We are going to finish it definitely within the next two quarters. You have to understand one thing that the work is already well underway. We anticipate that – as I said in the earlier call that we anticipate finishing the deployment by March 31st. You know, there is a slippage of about one quarter. It's not going to go into the quarter beyond that. And again like I said, while we are slipped by a quarter, you are talking only about 15% of the market coverage in terms of subscribers. So while it is a slip up, I agree it's not a material slip up and quite frankly it's a very complex situation.

- Mayur:** Fair enough. Sir, regarding the stake sale of Ver se, we have 17% stack remaining with us. Do you plan to sell it off this year or we plan to hold it?
- Arvind Rao:** See, we are not an investment company. So in reality, we did this as an experiment. Okay? We did this as an experiment because of a couple of reasons. One is, we have extremely high credibility and relationships with our target customers and they expect a lot of products from us. Now while our R&D team is cracking up a lot of products, we also want to incubate companies that can do it outside our internal system so that we can serve customers better. So we did VerSe as an experiment and hence we will be liquidating out of it completely.
- Mayur:** Sir, in FY12 we will liquidate it fully or there is no plan as such?
- Arvind Rao:** No, there are. By the end of the next fiscal year, we will be out of Ver se.
- Mayur:** Okay. And sir, in a non-financial KPI, is there something called a unique users which I have seen from 105, it's down to 100? What would this mean, sir?
- Arvind Rao:** What we mean by unique users is, people who have actually used the service. Who are using the service, and who have used the service in a particular quarter, now you know in India, for example, a lot of the telecom operators are actually cleaning up their databases in terms of active users, multiple SIMs. So we are working with them to a large extent to clean up some of these. So the decline is largely due to that, not due to anything else. There is no change in our existing business.
- Mayur:** And there was one more thing that you have launched in Indonesia with a lot of success. It was probably that customer churn would have been managed well there. How is it implemented there? I mean, how is the progress there and what about India launch or there in India itself?
- Rajesh Moorti:** We are in discussions on two fronts. One is in the operator where we have been very successful. We are enlarging the scope of it to include more number of users and earlier lifecycle of the consumer. That is one. And the second

thing is that, we are in advanced discussion with operators both in India and some Asia Pacific markets.

Mayur:

Okay. Fair enough. Thank you and good luck, sir.

Operator:

Thank you, Mayur. The next question is from Surabhi. Surabhi, your line unmuted. Please ask your question.

Surabhi:

Hi, thanks. I have two questions. First one is on depreciation. Depreciation is down this quarter. I just want to understand the reasons and going forward, now I remember the amortization for Telefonica payout will happen as the revenue progresses. So we do expect it to go up. Any guidance there from Rajesh would be helpful. On the second question, wanted to understand your Dilithium upside. We discussed that there are about 2-3% of revenues this quarter or on a current basis. How do we see that going forward? Is it cyclical? Will it happen over a quarter? Or is it a one-year upside that we are seeing? Any guidance on that?

Rajesh Moorti:

Okay. I will go for the first one. Depreciation, again I would suggest that don't look at it on a quarter-on-quarter basis. There are multiple reasons for that. One is that, we are buying CAPEX much cheaper. We have been able to utilize the asset much more productively and more importantly also while we increased the useful life of the asset a couple of years ago, which clearly shows that we have been able to use the assets even beyond the depreciated life. And that's why there will be a reduction. Second part, if you really look at the depreciation and the percentage of the revenue over the last four quarters in the core business, you would realize that the depreciation in the percentage of the overall revenue is also dropping. So that clearly shows the sweating of the assets. So that's on depreciation.

The second one on Telefonica market development and deployment fees, what we had communicated last year as well is that this amount would be amortized over the life of the contract which is five years in the ratio of the expected revenue over the life of the contract. So year one expected revenue over the total revenue from the contract. So as we move into the year two, year three and year four, the total amortization that will come into the P&L would be higher. So what you said, Surabhi, is absolutely right. Last year, we

had taken roughly around I think 4.5-5 crores as a charge for the P&L. This year it would be more like 25 crores plus.

Surabhi:

Thank you.

Arvind Rao:

On the Dilithium question, Surabhi, here is the issue. Dilithium today is largely outside India and some emerging markets. This year, we're operating on a CAPEX licensing model. Okay? The CAPEX licensing model in the telecom sector is typically cyclical with large telecom operators placing the bulk of their orders in the fourth calendar quarter. Nothing we can do to change that. So that is the cyclicity inherent in Dilithium. Now in some of the emerging markets, India in particular, we have actually managed to move them from a licensing to a revenue share model. It is to remove some of the cyclicity and also to capture some of the upside going forward. We are still sort of rolling out Dilithium into all our existing customers and reviving the business that they were in with their existing customers. So probably next quarter or six months from now, we will be able to have a better visibility into the actual revenues that this is translating into. Right now it's a bit too early.

Surabhi:

Okay. Thank you.

Operator:

Thank you, Surabhi. The next question is from Raj Mohan. Raj, your line is unmuted. Please ask your question.

Raj Mohan:

Thanks. I have a couple of questions. First, you have mentioned ARPU's of 2, 3 X in LatAm. Do you have similar estimates on margin expectation from this contract? Will it lead to significantly higher EBITDA than 30-35% in steady state?

Rajesh Moorti:

Raj Mohan, I think, before we get into LatAm, to answer your question first, the EBITDA expectation is higher and that conclusion is drawn from our experience in the other emerging markets in Asia, Middle East and Africa where we have seen – the first year is typically the year of investment. There are only costs. Year two is where you have some revenue and cost has reached a breakeven point and then as we go beyond the breakeven point, the margins will ramp up dramatically. So typically, in year four and year five, we expect the margins from these newly developed markets to be 55-60% contribution margins. So

contribution margin here is defined as direct revenue minus all the direct re-attributable cost.

Raj Mohan:

Then would you want to give any growth rate targets for the next year, both revenues and bottomline?

Arvind Rao:

Honestly, we are still working on that and finalizing that because we are trying to get a more detailed understanding on things like 3G rollout in India and uptake which is not easy to do. And that requires a lot of working closely with the operators. They themselves are finishing their operating budgets and targets for next year as we speak. So until they are finished with this, we have sort of done ours and we have better clarity. I think we will be a position to release that somewhere in a month or two months.

Raj Mohan:

Okay. One final question is on this loss of revenues due to change in contractual scope in the major customer. Will this kind of thing emerge? Is there a possibility of these kinds of things emerging in other customers also? And could you explain what exactly was the contractual scope change?

Arvind Rao:

Okay. So to answer your first part is that, there is not much scope of this sort of stuff happening in the future again and again. Here is the issue. The issue is like this. When we provide value added services, the content involved in the services – let's take a classic example. Let's take the music or ring back tones. In some cases, it flows through OnMobile and in some cases it does not. And when I say it does not, I mean that the telecom operators enter into a direct contract with the music companies and pay them the royalty directly. It does not flow to OnMobile. Now that has been our preferred model since day one because the content flowing through OnMobile has a negative effect on the margins and we are not really looking for padding up of our topline by having content flowing through us. We have been working with operators to convince them to actually enter into direct content arrangement. That's why it doesn't flow through us and today if I was to look at India, we are probably about 80% of the operators are actually following that model. So there are very few operators that we are working with who are still left behind in the other bucket, 20% bucket. We are actually getting people to do more and more of this because it is not a good thing for us. There are very few people who are left in India. So continued impact

risk is low and outside India in terms of international, almost all cases the content flows directly to the operator.

Raj Mohan: I understand. Thank you.

Arvind Rao: It's not an issue at all there.

Raj Mohan: Okay. Thank you.

Operator: Thank you, Raj. The next question is from Himanshu Shah. Himanshu, your line is unmuted. Please ask your question.

Himanshu Shah: Sir, thanks for the opportunity. Sir, I have a question on Ver se Innovation. Sir, we bought this company probably for 5.5 crores and we have been selling stake to this company in various bits and pieces. Just trying to understand why so because today this company has been valued at more than Rs. 300 crores and why actually are we selling this stake?

Arvind Rao: Well, we didn't sort of buy a stake in a company. Basically we incubated it from startup. Okay? So the initial funding was what we put into the company to start it up along with the counting team. Now we are not an investment company. We are an operating company. Right? And the reason we did this was largely to test our ability to incubate companies with innovative products which are complementary to us. Okay? The main objective is to serve our customers better. So in other words, we are leveraging our in-house R&D capabilities by also funding very exciting start-ups which can complement our internal capabilities. Now once we have done that, it doesn't make sense to stay invested. We are not, as I said, for making investment returns. We are here to incubate fund and get out. Okay, so now will we do more Ver se, but we will not stay in such companies. We will incubate and we will exit.

Himanshu Shah: Okay. But sir, would that have been better off if we sell in one go rather than selling it in bits and pieces.

Arvind Rao: No, this is not about selling. This is about the stage of the company and when is the right time to bring in a venture capitalist, when is the right time... it's like a baby. Okay? You have to understand when you can disengage and whether the baby has learned to walk, whether she has gone to school, learned how to dress by herself, learned how to

read books. Okay. So we exit partially based on bringing in the right people. So when we think that the company is ready for a good venture capitalist who can add value, we will bring them in. When we think that the company is well established, matured, solid and we can exit, we will exit.

Himanshu Shah:

Okay. Fine, sir. Sir, my second question is about Voxmobili. Just wanted to have some colour on how we have done over there on a year-on-year basis, if I can get the numbers for FY10-11 in terms of topline and what proportion of our revenues would be on a basically revenue share basis and how the equation is changing on that side.

Arvind Rao:

So, on that front, first of all, you know, we don't disclose division or product unit specific information. So in many cases, actually we have integrated these companies such that it's difficult to even track it. So, just to give you an example, we have an integrated sales force. So when we brought them, Voxmobili had their own sales force and the cost expansion of that manpower was embedded in their P&L. Today we are leveraging a common sales force across all our product line globally into customer. So today, it's very hard for us to actually make an apple-to-apple comparison and track it back to Voxmobili to do justice. On a revenue share basis, like I have said, key markets of Europe and North America, customers for the Voxmobili products continue to be on a CAPEX licensing basis just because that's the way the market is whereas in most of the emerging markets where we have signed up and deployed their products, it has been all in our revenue share.

Himanshu Shah:

Okay. Sir, just last thing to Rajesh, this impact of Rs. 10 crores in terms of recurring revenue, is that on a quarterly or an annualized basis, are we seeing 10 crores impact?

Rajesh Moorti:

It's on a quarterly basis.

Himanshu Shah:

Okay, fine. Thanks a lot. That's it from my side.

Operator:

Thank you, Himanshu. The next question is from Naveen Kulkarni. Naveen, your line is unmuted. Please ask your question.

Naveen Kulkarni:

Thanks. Most of my questions have been answered. Thank you.

- Operator:** Thank you, Naveen. The next question is from Nikhil Pahwa. Nikhil, your line is unmuted. Please ask your question.
- Nikhil Pahwa:** I just wanted a clarification on the Ver se number. I believe Rajesh said that the stake was sold for around 23 crores whereas your filing indicates 28 crores. So which one is correct?
- Rajesh Moorti:** Nikhil, when I say other income, other income is always excluding the cost of investments. So 23 crores is excluding the cost of investment.
- Nikhil Pahwa:** Thanks. Just wondering, do you have any data on your 3G deployment usage so far? And would it be possible for you to share some sort of an ARPU number for your services aggregated so that we can get a sense of how you are performing quarter-on-quarter operationally?
- Rajesh Moorti:** Nikhil, can you repeat the question again?
- Arvind Rao:** I'm not clear what you are asking.
- Nikhil Pahwa:** I was saying that is it possible for you to give something like an ARPU number for your services so that we can sort of track quarter-on-quarter to get a sense of operational performance and also just wondering if you could share some data on your 3G deployment and the usage pattern so far?
- Arvind Rao:** Yeah, so, on the ARPU number, it varies widely both by market and literally by market by customer and by product. So as a product mix changes, as the customer mix changes, you know, the ARPU will move around. So we don't believe it is a – while I agree a segregated level, it makes sense. So there are too many moving parts to disclose ARPU for us because then we will have to disclose ARPU literally by product line and by region because in many cases they are materially different. That's the reason why we don't do it.
- On the 3G deployment, obviously overseas we have deployed in many cases, you know, the Dilithium technology is deployed in many operators around the world. Are you talking about 3G deployment in India?

Nikhil Pahwa: Yes, specifically in India?

Arvind Rao: Specifically in India, like I said, we have signed with two, three large operators. The gateways are under deployment as we speak and we hope to launch our services in 2011.

Nikhil Pahwa: Just one last question. Could you indicate what is the level of dependency that you have with the telecom operators who have been given licenses in 2008 because they are going to talk of cancellation of those licenses? So I just wanted to get an understanding of your deployments with them.

Rajesh Moorti: We don't do business with any new operators who are in the this.

Nikhil Pahwa: None at all? Hello.

Arvind Rao: You know, we are not really – Nikhil, I am not sure what you are saying. We don't believe that any of this license canceling is going to have a material impact on us. We are working with some new entrants but the operators we are working with, they are not in the news, number one. And the revenue impact is fairly insignificant.

Nikhil Pahwa: Okay. Just wondering whether you have any plans to raise further funds for – maybe a parallel listing on NASDAQ?

Arvind Rao: So as of today, we don't foresee any need for funds. That's point number one. Point number two is that we don't really have debt in anyway compared to our ability to carry debt and debt being the cheapest form of capital. If at all we would require any additional capital, we would probably steer more towards debt than equity. It's my feeling. The only thing that would trigger a requirement for significant funds would be a material merger & acquisition or a project which is similar in scale, size and scope to the Latin American project. And as of today, we don't have any visibility into either of those two.

Nikhil Pahwa: Okay. Any further investments of the likes of Ver se that you have made that maybe – I mean, could you just share how many companies are currently a part of your OnMobile developer network and anything that's reaching scale?

- Arvind Rao:** Let's separate the two. OnMobile developer network, we work with our six or seven companies but we do not have an equity stake in any of them. It's a pure contractual arrangement with their technology and products riding on top of our installed platforms. Okay. So that's a different play. That's basically to facilitate – it's like an open-garden to some extent where we are saying that because we have done all the heavy lifting and hard work of putting a platform, billing integration, NOC integration, customer care integration into the large Indian operators. For a small company to do all that would be prohibited. So they can ride on top of our platform. So that's the objective of the OnMobile developer network. While Ver se was a part of ODN, it also had an equity component to it. As of today, we don't have equity in anything else. The only company we have equity in is the 50-50 joint venture that we have announced with Madison for mobile marketing. And even over there the authorized share capital is a token amount.
- Nikhil Pahwa:** What's the status of that joint venture? It's a few months now. I think it's been over a quarter.
- Arvind Rao:** Yeah. So we are in the ramp up mode. We are in the process of hiring the team. We are in the process of launching the first two customers.
- Nikhil Pahwa:** Great. All the best for the next fiscal. Thank you.
- Arvind Rao:** Thanks, Nikhil.
- Operator:** Thank you, Nikhil. The next question is from Sowmitra Chatterjee. Your line is unmuted. Please ask your question.
- Sowmitra Chatterjee:** Good morning, gentlemen, and thanks for taking my question. Just to ask more on that contract renegotiation. It is the same telco with whom you are active only in the southern circle and remaining circle is with the captive centre. Is it the same telco? Could you just highlight that?
- Arvind Rao:** As we have said before, we don't talk customer-specific or product-specific. So I will have to pass on your question.
- Sowmitra Chatterjee:** Okay. That's fine. Just to understand – sorry, if I'm repeating again and again but this 1333 million was a domestic revenue this quarter after adjustment of 160

million. Next quarter, Rajesh, could you just highlight what will be the impact? 100 million?

Rajesh Moorti:

Yeah, that's what I said earlier. Roughly in that range.

Sowmitra Chatterjee:

100 million and it will go on for another four quarters, eight quarters, I mean, that will be recurring.

Rajesh Moorti:

This is a new base, yeah.

Sowmitra Chatterjee:

Okay. This is a new base. Secondly, could you just give me what was the cash flow from operations for the whole year?

Rajesh Moorti:

I will give you the information a little later but cash flow from cash profit was roughly 80%. Just give me a second. I will answer your question. So our cash from operations was around 75 crores last year.

Sowmitra Chatterjee:

And CAPEX?

Rajesh Moorti:

CAPEX was around 62 crores last year. I stand corrected. The year before was 75 crores. Last year was around 100 crores.

Sowmitra Chatterjee:

Okay. That is helpful. Whether all the telcos with you are operating right now have been shifted to this new model where they will have to directly contact the content owner for the content part of it or do you still have few more telcos where the content has been routed through OnMobile platform?

Arvind Rao:

There are basically only two or three left and they are not very material. In fact, if I take a snapshot and compare it with five years ago, five years ago we had almost about six or seven telcos where the content was flowing through us and we have been able to convince them, each of them, you know, slowly, slowly, slowly to migrate. So today we are left with literally about two or three. Actually, out of two or three, only one – I wouldn't even say it's material but you wouldn't even notice it. Everybody else has migrated to the other model. So that's a very healthy and positive change for us.

Sowmitra Chatterjee:

Okay. And just to understand this more clearly, now suppose our RBT user is paying Rs. 34 as monthly rental and say Rs. 15 for the song download, when the content

was flowing through OnMobile's platform, you were getting a revenue share in the Rs. 30 as well as Rs. 15, but now because the content is directly done by the telco and the content owner, you will be getting only a share in the Rs. 30 and not in the Rs. 15. Is that incorrect?

Arvind Rao:

No, that's not. See, we still get a component of the content download charges because we are using a content management system and we are using a merchandising systems and we are using algorithms for doing music search for content discovery. So we do get some revenue share from that bucket but it's not as large as we did when the whole of the content was flowing through us.

Sowmitra Chatterjee:

Okay. I got it. And just one question to Rajesh. In all the countries where you are operating in the Telefonica and even in case of Vodafone countries, does India have a double taxation avoidance agreement with all the countries so you don't end up paying taxes in both countries and you don't get a benefit of that? Just to understand.

Rajesh Moorti:

As you know, all these deployments are in developing markets and India does not necessarily have double taxation avoidance in all these countries. So there could be an element of double taxation. And that's what I said. Like when I said about tax component in these foreign taxes, this is precisely what includes.

Sowmitra Chatterjee:

Okay. So your guidance of 20% includes this amount when you calculate the tax that you would be paying in those countries where you don't have the double taxation avoidance agreement?

Rajesh Moorti:

That's right.

Sowmitra Chatterjee:

Okay. And just one small query. What is the guidance for this year if you could repeat it?

Rajesh Moorti:

60 to 80 crores.

Sowmitra Chatterjee:

Okay. Thanks, Rajesh. Thanks a lot.

Operator:

Thank you, Sowmitra. The next question is from Grishma Shah. Grishma, your line is unmuted. Please ask your question.

Grishma Shah:

Good morning. Just wanted to know if you could highlight again the growth drivers for the company in the new two to three years. I mean, what is the key we understand like Telefonica etc.

Arvind Rao:

Let me start with India. In the case of India, roughly growth drivers are going to be you know once 3G actually takes off, there are enough 3G users and they begin to consume value added services. So that's really one key growth driver. The second one, like I said, is launching large extensions of our current 2 and 2.5G VAS products like RBT Light which significantly enhances the market. We believe for example that even the existing 2 and 2.5G market has got significant growth left in it in India. So we need to tap that with future extensions and different price points of existing markets. That's the second key driver in India. Overseas, the key drivers for us, one is continued rollout of the Latin American project. That's going to be extremely material for us in the next, let's say, three to four years. That's three. And the fourth one for us is going to be, you know, if there are any large projects we have planned and customers that we actually managed to close in three markets which we are targeting, one is Europe, one is North America, and one is Africa. So these are three regions that we have been actively pursuing in a major manner.

Grishma Shah:

If you could just give us a sense of competition that you are facing even while you are now closing the bigger deals, what kind of – do you need to make an initial commitment, that kind of stuff with the operator, how does it work?

Arvind Rao:

Like I said, the only place where we were required to make a very large significant lump sum commitment was Telefonica Latin America and they have set up all that infrastructure and data centre in Miami, all that is done. So as of today, for all the customers that we are talking to and once that I have closed, we have signed but we have not yet launched. So we can't announce them as yet. So none of them we do require that model.

Grishma Shah:

Okay. As you said that, you know, the growth driver for the Indian market is the 3G VAS picking up and you also are in the process of finalizing the plans for 3G. So could you give us some sense on the incremental CAPEX that would be required over the next two to three years as 3G picks up for you?

- Arvind Rao:** Whenever you have projects, the way we work is like this. When you put in CAPEX on our standard revenue share model, you won't have to put in a very large system. You put in typically a small system and then you watch as the revenues and the number of users grow and only then you put in incremental capacity. So by deploying our 3G Dilithium infrastructure and technology into two, three, four large Indian operators, we are not going to be taking on material CAPEX. That's not going to make any material difference.
- Grishma Shah:** There was a news earlier that you guys are looking to sell the entire stake on OnMobile. Is there any truth to it or it was a plain rumour?
- Arvind Rao:** That is a complete rumour as far as I am concerned. We have spent 11 years building this company and I see huge upside and we have market growth, customer demand, I am a material shareholder myself, you know, there is no way we are going to walk away from this thing. After putting in so much effort, we are going to take this with full potential.
- Grishma Shah:** Okay, fine. Good luck. Thanks.
- Rajesh Moorti:** Can we have one last question, please? Yes.
- Operator:** The last question is Sailesh Kumar. Sailesh, your line is unmuted. Please ask your question.
- Sailesh Kumar:** Thanks for taking my question. Arvind, this question is towards you. This is just an extension of the last question asked by Grishma. You are not willing to sell stake in company but what about the original promoter, OnMobile Global Inc., because what I come to know that there was some sort of lock-in period for the investment. Now that lock-in is over, so those guys want to get out of the company. I understand you recognize the potential of the company. So you are not going to sell but what about the original promoter, people who are holding 30-34% stake and if it happens how it is going to impact your business?
- Arvind Rao:** So a couple of things, I mean, original promoters, it's not OnMobile Global, it's OnMobile Systems Inc which is a US company in which the original Venture Capital from the US has invested. And Venture Capital funds have a

limited timeframe. I am sure they will look for an exit at some point but they are financial investors today. So even if they exit, it has no impact on the company, our business in terms of our prospects, in terms of products, in terms of customers. Now it would be different if for example – you know, let's say that 30-35% slot of OnMobile was owned by, let's say, Nokia or Ericsson or IBM, a large strategic investor, then there would be a reason for concern. In fact, the way I am looking at it right now is if this Venture Capital and holding company does exit, it frees up a significant block of shares which can actually be placed to bring in a value added strategic investor without dilution. So, in fact, from my standpoint, it's actually a great opportunity and you know I am happy to – when they are ready to exit. Actually, I have worked with them to actually make sure that their shares are smoothly swooped out with one or two very large strategic investors who can help us take this company to the next level.

Sailesh Kumar:

Basically, what I wanted to understand – in the new setup, will you be able to function as independently and will you be able to implement the vision which you are working towards? Basically, that's the only thing I wanted to understand.

Arvind Rao:

Well, so, let me put it this way. It's due diligence. So when we do the due diligence with any of these large strategic people or people who have chosen or want to come in, unless they can see the scope and the flexibility and all that, they aren't going to agree to it. No strategic investor is going to take a standpoint of coming into a company where management is not partial or agreeable to the entry. That's one. The second thing is you think about most of these large giants. They are actually looking for companies like us who are fast moving, innovative, coming out with new products and opening up new frontiers. So why would they want to change the model?

Sailesh Kumar:

One just last question on dividend note, how many years shareholders are away from the dividends of the company?

Arvind Rao:

To be very honest with you, I cannot answer that question but what I can say with some certainty is that we don't anticipate paying dividends in the near future just because we see so much opportunity for new customers, growth, investments all over the world. It will actually be a

disservice to shareholders in a real material manner by doing it. Otherwise what will happen is we will have to go out and then do an equity dilution or raise substantial debt.

Sailesh Kumar:

Great. Thank you.

Operator:

Thank you, Sailesh. That was the last question. I would like to hand over the floor back to Mr. Arvind Rao for closing comments. Thank you.

Arvind Rao:

Thanks. First thing I want to say is that I want to thank all of you for being on the call and asking these questions which actually helps us to focus our responses and also stay in tune with the key concerns and issues that are on your mind. And I welcome all of you to send us mails or call us and talk to us about specific details or concerns that you may have. We continue to remain optimistic and positive about the business. In my mind, it is a purely an executional challenge for us as we scale up. We are seeing continued demand and actually tremendous demand overseas all over the place. Now the dilemma for us is really to balance the growth potential with our executional capability because we don't really have as many skilled resources as we deploy in four countries. There is an opportunity cost. We are doing that. So we are very careful in terms of figuring out where we actually try to close with customers and actually launch our services. But going forward, you know, while we see a lot of challenges in the business, we are optimistic about it and we will continue to do what's needed to maintain our pioneering and leadership both in India and overseas. So thank you very much and look forward to seeing you in the next quarterly earnings call. Thank you.

Operator:

Thank you. Participants, that does conclude the conference call for today. I request you all to please disconnect now and wish you all a pleasant day ahead. Thank you.