



## **OnMobile Global Limited**



### **Fourth Quarter and Full Year FY2013 Earnings Conference Call**

**May 16, 2013**

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

**Moderator:**

Good morning, ladies and gentlemen. I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to Q4 FY2013 earnings conference call for OnMobile Global Limited. For the duration of the call, all participants' lines will be in listen-only mode. There will be an introduction to the results followed by a Q&A session. Joining us today on the call are Mr. Tony Haight, Chairman, Mr. Mouli Raman, Managing Director and CEO and Mr. Rajesh Kunnath, CFO

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

**Tony Haight:**

Thank you. Good morning, ladies and gentlemen. Welcome to the fourth quarter and full year FY2013 investor conference call. First of all, let me lay out the format for today's session. Mouli will take you through the business highlights followed by Rajesh covering the financial highlights. We will then open up for questions.

Despite a tough economic and regulatory climate both in India and many of our overseas geographies, the Company has performed reasonably well. We grew our revenues and improved cost efficiencies to deliver better margins after normalising the exceptional income that we earned last year and FOREX losses that were completely beyond our control this year.

We believe that the issues that plagued us last year on the corporate governance front are now a thing of the past. We have taken appropriate steps to improve our processes and governance mechanisms to ensure that such incidents do not recur in future. We will be shortly expanding our board of directors with the induction of independent directors who will further enhance the support and strategic guidance being provided by my fellow colleagues on the board. The board has, subject to the approval of the shareholders, recommended a dividend of 15%, which



represents an increase over the previous year despite our domestic business facing quite a few challenges including decline in revenues. Over the last two quarters, we have had quite a few requests from our shareholders for a buyback. I would like to inform you that the board has discussed this extensively. Given the likely investment needs of the company, both organic and inorganic, it was felt that our free cash can best be utilised for growth at this time. The Company's growth trajectory has been established and now I expect this to convert to a strong financial performance going forward as we execute our plans.

Thank you for your continued support and valuable inputs. I now hand over to Mouli.

**Mouli Raman:**

Thanks, Tony. Good morning, everyone. I will first give you an overview about last year and at the end of it I will touch upon the last quarter. So, overall last year was challenging but an eventful year for us. We have recovered well from the events of mid last year and have stabilised the company on all the fronts. In India, which was contributing about 55% in the previous year, we had a challenging year due to financial and regulatory pressures in the telecom industry. In line with industry trends, our revenues dropped by about 20% year-on-year.

And on the positive side, telecom and VAS industry have been implementing various policies, which are in the long-term interest of the industry. While revenues declined steadily over the last 8 quarters the last quarter has seen some stability in revenues. The contribution of India to our revenues reduced from about 55% in the previous year to about 39% last year.

Outside of India, I will start with Latin America. We have seen our investments in Latin America starting to yield significant results. We have seen incremental adoption of RBT across markets in Latin America from about 8 to 12% and the revenue growth of about 136% over the previous year. We continue to be bullish on Latin America due to the growth potential of RBT. We have launched new services in Telefonica, and are starting to see traction in other operators based on the success that we have shown in Telefonica. Latin America's contribution to our revenues has gone up from about 11% in FY2012 to 23% in FY2013.



Next, coming to Africa, last year we again saw RBT doing extremely well in Africa, with adoption of about 15-25% and the revenue growth of over 100% vis-à-vis the previous year. We also launched the football service across Africa for a large operator in the latter part of the year. We are also in the process of launching more services with the existing customers besides actively pursuing business from other operators.

In SAARC and Middle East, we have seen moderate growth. Bangladesh has been very positive. In fact, we recently got new business from one of the largest operators in Bangladesh for RBT and this will be coming online in the next few weeks.

On the European front, riding on the good traction for the data products, good consumer traction for RBT and our winning and going live with the converged VAS project wherein we are managing all the operator-branded content services for one of the large operators, we have grown the revenues by about 48%. We also had some good customer wins in Spain, Turkey and Italy and many of them will be going live this year.

In North America, we saw moderate growth and went live with one of the very large operators of North America with our data products.

On the product side, we are seeing significant traction for RBT around the world. We are also starting to see opportunities for RBT beyond music. RBT will continue to be a great focus for us on the product side.

Leveraging the success of RBT, the infrastructure that we have created for that, the team and the relationships, we are seeing very good opportunities for music download and streaming services because there is a lot of synergy here. And in the last few months we have won four new customers and see a good demand for this product line. We are focusing our efforts to make this big.

We are making a strong push for the data services as a company. We have extended our managed services offering to cover



operator data services where we manage all the data services and the customer portal for the operators. We have three customers for this offering and see a pretty good demand. Besides this, we are making all the key products of OnMobile, which are RBT, sports, contest etc, available on the data channel and many of them are already live.

While data continues to grow at a rapid pace for all our customers, the emerging markets will still have about 3 billion people who will not be using data even in the next two to three years. So, we have focussing on creating information utility services in areas like education and health that make a difference to these consumers who form the bottom layer. Apart from the telecom operators, we are working with new Go-to-Market channels like the social sectors and governments to take these services out to the consumers.

We are also expanding our customer base to cover new segments like handset manufacturers who will be critical for us to take the services out to the consumers. So, after concluding a review of all our key products, we have decided to focus on these products for the near future. And we believe that these products have significant growth potential over the next one to two years.

We are also focused on improving efficiency, which has been touched upon before. It is overall our belief that given the stabilising trend in India, the growth in international markets, the scope for launching new services with existing customers besides many of the last year's customer wins coming online this year we will be able to show good improvement in the current year both on the revenue and margin side.

So, with that I will briefly touch upon the Q4 highlights. I am referring to slide three of the presentation that we sent out. On the India front, we have witnessed stability on the revenues. On the international front, business has overall posted a 26.1% year-on-year growth in revenues in Q4 and 55% growth for the full year. In Latin America, we recorded a strong growth. Revenue increased by about 64.5% year-on-year in Q4 and 136% for the full year. Based on the results we have achieved in Telefonica, we have won a RBT contract with a good-sized operator in Mexico.

We have also seen steady growth in other emerging markets. In Africa, we have seen our revenue increase by about 40% year-on-year in Q4 and 105% for the whole year. European revenues increased by about 40% y-o-y. Again, we went live with a converged VAS project from an operator in Spain for powering operator-branded content services. As Tony touched upon before, we have increased our dividend payout to 15% from 10% last year.

Going to the next slide, broadly, if you look at the revenues by geography, we see the India revenue contribution has come down from 55% to 39% this year. LatAm has increased from 11% to 23%. Other Emerging markets and developed markets are in the same range. For revenue by products, as we said, we are seeing significant traction for RBT. And hence, we have seen RBT increase its contribution from 49% to 58% and there is a marginal reduction in data products over the year. So with that I will hand it over to Rajesh for taking us through the financial results for the year and the quarter.

**Rajesh Kunnath:**

Thank you, Mouli. I will give you all a quick snapshot of the key highlights of the financial performance before we open up for questions. Mouli has explained the various parameters on which we reported revenue growth. As far as the margins are concerned, when you normalise the EBITDA for two significant cost heads - one pertaining to rates and taxes, the other FOREX loss for the year - we have been able to report an EBITDA margin of 22% on a revenue of Rs. 725 crores for the year. If you go down, as far as the net profit is concerned, even without it being normalised, we have reported a 6.5% margin on our revenues. It does appear to be lower than the previous year, but we have to remember that in the previous year, we had the benefit of Rs. 46 crores gain on the VerSe stake sale, which was a one-off. So if we eliminate the impact of the VerSe sale, we would have grown our net profit vis-à-vis the previous year.

The performance is almost mirrored in Q4 which if normalised for the impact of FOREX loss that we have taken in the quarter, stands at 23.5% with normalised net profit margin at 10.4%. I also need to inform you that if you go by the balance sheet, the net

cash position as at 31<sup>st</sup> March 2013 is Rs. 151 crores. It is down 9 crores vis-à-vis the previous year, but we have to note that we have reduced our working capital debt by Rs. 31 crores during the year. , We have had some challenges in pruning down our working capital. While our overall working capital remains flat vis-à-vis the previous year, we have had a significant build-up in the unbilled revenues for the year. I will get into the details as we get into the Q&A. Besides this, as we have also had to face the challenge of not being able to get the concessional certificate from the Income Tax for lower deduction of tax. As on date, an amount of Rs. 47 crores is reported in our loans and advances as recoverable from the IT department. In effect, it is cash but it is receivable from the department nevertheless.

If we normalise our working capital for the impact of Rs. 47 crores which is receivable from the IT department and also our ability to prune down our unbilled revenues by about Rs. 50 crores, we should be able to get almost Rs. 70 to 80 crores of cash released in the next three to four months. Unbilled revenue is going to be our focus for the next three to four months where we have three pockets of concern. These are being addressed on priority and we have a reason to believe that they would be addressed by July 2013. With these comments, I now open up for questions.

**Moderator:**

Thank you so much, sir. With this we are going to start with the Q&A interactive session. So I would request all the attendees and the participants, if you wish to ask any question, kindly press “0” and “1” on your telephone keypad and wait for your name to be announced. I repeat, participants, if you wish to ask any question, kindly press “0” and “1” on your telephone keypad and wait for your name to be announced. And the first question is from Mr. Prakash Ramaseshan from Kotak India Focus. The line has been unmuted, you can go ahead and ask your question please.

**Prakash Ramaseshan:**

Good morning, gentlemen. Thank you for permitting me to ask this question and congratulations on normalcy returned to the business. I have only one question, which is actually around the utilisation and distribution of the cash that you have with you. Our recommendation as a long-term investor has always been the Company considering buyback of shares if possible as compared



to dividend the investors. We do see that the dividend amounts have gone marginally up which is encouraging. But the Company still has a very large cash position and we would like to know what you are going to do with this cash. As a long-term investor, I will say as clinically as I can that we would be very averse to large inorganic opportunities while the existing Telefonica transaction is still weighing on us as amortisation write-off and we would like to see the business go back to complete normalcy before the Company considers any of that. So in the absence of that, what is the plan for the cash is the key question? We do understand that if some of it is still not completely in hand and you will need another quarter or two quarters to do that, it is understandable. So if the decision to buyback is delayed, that is understandable. If the utilisation of cash is inorganic, we would like to request caution on that front. We would like to have your comments on that, sir?

**Tony Haight:**

Let me see if I can give you some comments on what we would do about cash with respect to buybacks, inorganic growth, organic growth and so on. Until we have good clarity on what kind of growth we are going to fund and when, we are going to reserve the distribution of any cash for purposes of a buybacks. It doesn't mean to say that we are opposed to buyback, it is to say that we want to know what our alternatives are very clearly and make decisions that we think are in the best interest of the company. Mouli, you want to comment on this?

**Mouli Raman:**

To add to what Tony said, definitely we will not be looking at any investments as large as Telefonica, but we want to keep our options open for some of the investment plans that we have in the near future and that is one of the reasons why we believe that we would like to defer the buyback. Tony?

**Tony Haight:**

I think that covers it.

**Prakash Ramaseshan:**

If I might just add a comment as an investor, I do understand that the business is just coming back to normalcy on the domestic side and the growth in the overseas market we might like to see as the company has continued for a certain period of time, which is a good thing. Reserving an option on the buyback or any distribution, actually it is absolutely acceptable as an investor





because you should take that decision only when you are 100% sure, you understand that as a long-term investor. Our only request and possible concern and flag-off is that if at all any inorganic initiatives are looked at by the Company, the quantum of the inorganic should be clearly laid out to investors because we would be very averse to seeing large outlays on the inorganic side. So the decision to distribute cash on a buyback is reserved. That is absolutely fine. We understand that this is a great long-term decision to be taken with a lot of caution. But we would request reservation on the inorganic side till the business is totally settled down. And if at all there is an inorganic opportunity, it should be cautious and small. Thank you for taking my question and all the best, sir.

**Mouli Raman:**

Thanks, Prakash.

**Moderator:**

Thank you so much, Mr. Ramaseshan. The next question is from Mr. Gaurav from Citigroup. The line has been unmuted. You can go ahead and ask your question, sir.

**Gaurav:**

Yeah, hi. Thanks for the opportunity. I have just two, three questions from my side. Firstly, in terms of your Latin America revenues, while they are growing, but the growth seems to have slowed down quite considerably. I just wanted to get your thoughts on it, are we seeing some peaking out of the revenues from this segment over the next two, three quarters. How should we look at it? Secondly, in terms of your employee cost, yes, you have been talking of the fact that it has been some rationalisation and that seems to be showing up. So just wanted to understand, are there any one-offs or should we look at this number as more of a sustainable-basis number? And thirdly, in terms of depreciation, if you can just break it up between how much has been amortised for Telefonica and how much is the general depreciation, which is going through the P&L? Thanks a lot.

**Mouli Raman:**

I will answer the first question. After that I will hand it over to Rajesh. In Latin America, overall on a yearly basis we have seen good growth. Following are the drivers of growth in Latin America. One is that we are live with RBT in various countries with Telefonica and we have reasons to believe that the growth will continue for the rest of the year. So that is one driver.

The second driver is that we are in the process of launching newer services which are going live in the next few months. That will drive the revenues and the third one is that we already have started seeing traction with new customers in Latin America and we had a recent win in Mexico. All these factors are going to drive revenue which is the reason for being bullish on Latin America. With that I will hand it over to Rajesh.

**Rajesh Kunnath:**

Gaurav, on your first question as to whether you can assume Rs. 66 crores of employee cost as the run rate going forward, I think, we will have to look at it in the context of the increments and other employee benefits that would get rolled out for the current year. So that is something that we will have to keep in mind as also the fact that we will be looking at selective recruitments in the geographies that we are setting up shop because we are expanding in a few overseas geographies. So I wouldn't take Rs. 66 crores as the run rate going forward, but it will definitely be lower than the run rate that we saw in the previous quarters. So I would put it somewhere between Rs. 66 and 72 crores for now. That is the answer to first question.

Your second question is pertaining to the break-up of depreciation and amortisation for the current year. Depreciation was at Rs. 61 crores and Rs. 37 crores pertained to amortisation. For the previous year, depreciation was Rs. 59.6 crores and amortisation was Rs. 24.4 crores. So amortisation has gone up in line with the higher revenue that we are earning from the LatAm geography.

**Gaurav:**

Okay. Thanks for this. Just one more, in terms of CapEx, any guidance for next year?

**Rajesh Kunnath:**

Our CapEx for the current year has been Rs. 59.8 crores. If you remember, when we had discussed this previously, I said our run rate for CapEx will be in the region of Rs. 55 to 60 crores for the year. We don't see it being any different in the coming year as well.

**Gaurav:**

Thank you so much.

- Moderator:** Thank you, sir. The next question is from Mr. Srinivasan from Deutsche Bank. The line has been unmuted. You can go ahead and ask your question.
- Srinivasan:** Yeah. Thank you very much. My question actually relates first to your margins and then to the cost on your consolidated side. Is there some sort of a reclassification, which has happened with respect to content fee and admin expenses? I noticed that the percentage of sales that has come down quite dramatically for this quarter. And obviously, your admin expenses have gone up. So could you throw some light on that?
- Rajesh Kunnath:** I don't think there has been a reclassification. If you look at the cost of sales and services as a percentage of revenue, it has been declining for three or four quarters. So that trend continues. So there is no reclassification on that account. I think, you are referring to Opex and not COGS.
- Srinivasan:** Yeah.
- Rajesh Kunnath:** Other expenses have gone up in the quarter for the two reasons that we mentioned at the outset. One of them is the FOREX loss of Rs. 8.3 crores, a catch up on rates and taxes of about Rs. 8 crores and a Rs. 2 crores increase in legal and professional charges. So if we consider them together, that would explain the increase because if you look at Q3, Opex at Rs. 37.5 crores had Rs. 4.2 crores of FOREX gain which when normalised becomes Rs. 41 crores. The build-up from Rs. 41 crores to Rs. 60 crores is what I explained.
- Srinivasan:** Okay, understood, fair enough. And the content and royalty expenses have been coming down as you said in a more secular fashion. But does that reflect the changes in your contract terms particularly for RBT where the cost of content is taken care of by the telcos?
- Rajesh Kunnath:** No, I think, it is more a function of how we evaluate our content cost on a quarter-to-quarter basis in terms of what we have negotiated and settled with our large content providers. It is purely a function of negotiation and how we are able to control

our content cost as a percentage of revenue. I can't see anything more than this.

**Srinivasan:**

The reason I asked is that's almost halved over the last one year from a level of Rs. 248 million to just about Rs. 119 million.

**Mouli Raman:**

Yeah, I think, on that front, Srinivasan, on a yearly basis, yes. Rajesh was saying more on a quarterly basis. Some operators have started dealing with the content providers directly and that is one of the reasons why as a percentage, the content cost has come down. Yes, that is what has happened in the market.

**Srinivasan:**

Thanks. Just one more question I have is that you mentioned that RBT in terms of your growth for the medium-term, will remain a focus and you are seeing a fair amount of traction on that. In LatAm, now that you have kind of rolled out RBT for the last almost over 12 months now, how has that trend been relative to what RBT was in India, let's say six years back? Is the ramp-up similar in nature or is it different?

**Mouli Raman:**

Actually, India had seen a huge spurt in penetration in the first couple of years. To the contrary, what we are seeing in Latin America is more a steady growth pattern. For example, today, we have reached about 8 to 12% penetration in many markets. And as per the trends, the quality of the customers that we are acquiring is higher and the longevity of the customers is more in the service and the marketing practices followed in Latin America are more conservative. So that way, the growth is much steadier in Latin America than what we saw in India.

**Srinivasan:**

And the same holds true for Africa or it is different, Mouli?

**Mouli Raman:**

Africa, what we have seen is that, from the regulatory standpoint it is much stricter than what India had at that time. In Africa, the adoption has been much faster. That is, in a short period of time i.e. in less than two years, adoption that we have seen is much faster. I think that we can attribute this to the fact that there were not too many alternatives, and hence, the adoption has been much faster in Africa.



- Srinivasan:** Fair enough. And just one final question, if I may take. You mentioned music download and streaming as future opportunities. Given the kind of push we are seeing from companies like Google, do you think there is an opportunity for a company like OnMobile to make a success of download and streaming?
- Mouli Raman:** Right now, the focus for us is on powering operator-branded music services. What we are seeing both in North America and Europe is that when operators are able to bundle music along with their core service, they are able to make a compelling offer to the consumers. We have seen significant traction in some other markets. So that way we are focusing on powering the operator-branded portals. That is what our focus is at this point in time. We are also seeing significant traction for these services in the emerging markets through the operators. So that way in the emerging markets too, there are quite a few opportunities on the music side .
- Srinivasan:** Okay, understood. Thanks a lot. Thank you.
- Moderator:** Thank you so much. Sir, the next question is from Mr. Sanjay Parekh from Reliance Mutual Fund. The line has been unmuted. You can go ahead and ask your question please.
- Sanjay Parekh:** Thank you to the whole team. I just wanted to congratulate Mouli. From the time he has taken over, you know, it is really transited quite well. My colleague also alluded on the buyback and I will just throw you my thoughts on that, at today's price which is actually 10% of the peak market cap i.e. the market cap right now is Rs. 450 crores and Rs. 150 crores is the net cash. So Rs. 300 crores is the net value (net of cash) and EBITDA on a historical basis is Rs. 160 crores. So essentially it's 1.8 times EV/EBITDA.
- From my perspective, the best use of cash up to Rs. 1,000 crores market cap should be only buyback. And you can retain the current cash and at least the incremental cash flows should be used for buyback because you would imagine that the capital structure is quite misaligned and this is not for one month or three months, it is now for a one and a half years that the market

cap is at 10% or 12% of the peak market cap. Then we are giving a signal that we believe that the current value is the real value and we don't want to buy back. I will just give you an example of HLL doing a buyback at 35 times price earning and EV/EBITDA of 20 times plus at 2% dividend yield and they have put in 6 billion dollars. So I am just alluding to the point that in capital allocation the best allocation could be to buy back up to a point of market cap and then at later stage you can always look for inorganic acquisition and again I am saying the current cash need not be disturbed, but the future cash flow at least could be used for buybacks. So that's a suggestion.

Second question is on your outlook for revenue growth and operating margins for the next year?

Third question is, we are looking at employee cost as a percentage of sales coming down and this was discussed in the past. So what is the outlook there?

Fourth is, do we have an internal target of cash flows also, in the sense of free cash flow? So for the Rs. 150 crores free cash today, do we have an internal target of that moving up over next few years? And regarding two data points, in the balance sheet we have long-term loans and advances moved up to Rs. 107 crores, why has it moved up? And the second is, the other current assets moved up from Rs. 111 to 167 crores. So if you can guide us.

And the last question is, on improving return ratios of ROC/ ROE. If that can be in terms of increasing the capital efficiency of fixed asset turns and the working capital turns and if you have some target there that will help to augur the market value of the Company. Thank you very much.

**Mouli Raman:**

Thanks a lot, Sanjay. We really appreciate your input. On the first one, definitely we have heard it loud and clear and it will be one of the key considerations for us for the usage of cash.

On the second one, you asked for the outlook for the next year. As I said, riding on the stability in India, the growth opportunities that we are seeing in international markets - both for the current services to the existing customers and new customers that are



coming online along with the efficiency measures taken, we believe that our growth percentages, should be better than where we are today. It will definitely improve both on the revenue and margin side. It will be higher than where we are today.

Regarding employee cost, in last year it was about 36% of the overall revenues. We are targeting to see at least about 10% efficiency improvement on a yearly basis. Coming to the next one, I will hand it over to Rajesh.

**Rajesh Kunnath:**

Sanjay, you had a query around what is our view on how the cash would build-up but I will come to that later. First, I will answer the other two questions you had. One is on the increase in long-term loans and advances. The increase in long-term loans and advances is primarily because of an increase in our TDS receivable from the Income Tax Department of Rs. 47 crores. We have not got a concessional certificate from the department in India for this fiscal.. Plus because of our expanding global business we have had quite a bit of repatriation from a few countries and the TDS that's recorded on repatriation is also reflected as recoverable from the department in India. This is because we don't pay significant taxes in India as we avail of the benefits here. There is a significant amount of money receivable from the department and the increase between the previous year and current year is purely attributable to the increase in TDS. So that's as far as long-term loans are concerned.

Other current assets have also gone up by about Rs. 50 crores. The primary reason for the increase in the other current assets is the increase in the unbilled revenues. Unbilled revenues are accounted or reported under other current assets. It is the billed revenue which gets reported under trade receivables. The other current assets have increased primarily in three pockets. We have Rs. 25 crores of unbilled revenues in the Telefonica Spain. We have about Rs. 18 crores of unbilled revenue in Tanzania, Uganda and Zambia. And we have about Rs. 6 crores of unbilled revenue in Argentina. All these are delta increases vis-à-vis the previous year and all these increases are primarily because we have had delays in collecting customer data which then enables us to convert them to final bills. So we are on the job and we expect that we should be able to address these sticky unbilled



outstandings between June and July of the coming year. That would straightaway release about Rs. 40 to 50 crores of cash for us into the system. Besides this, as and when we are successful in getting refunds from the IT department, we would be able to release an additional Rs. 40-45 crores.

So that's as far as those two elements of the balance sheet are concerned. Now coming to our outlook on cash, if we are able to address the unbilled revenues which I just discussed and also execute on our plans for the coming year, which is all about reasonable growth and reasonable profitability, we should be able to generate anywhere between Rs. 40 to 60 crores of cash during the year from operations.

**Sanjay Parekh:**

And the last one on return ratios, do we have a target on return on equity and return on capital employed? This is because our return on equity on Rs. 900 crores net worth, if we take even the operational adjusted profit, it is still very low at the lower teens. Even if I take a normalised profit, i.e. Rs. 55 crores, it is 5% plus, this ideally destroys capital. So as I told you, one way of aligning could be buyback so that the denominator comes down. The second is actually improving the return ratios in terms of ROC. So do we have these targets in our internal plan for the next one and three years, please?

**Rajesh Kunnath:**

I think the way we are looking at it, Sanjay, is that we have been through almost two years of global expansion and we are now present in quite a few geographies. We see 2013-14 as a year where we would actually be live with our deployments across most of our geographies. We also believe that we will be able to execute on our plans of good revenue growth and, as Mouli said, very good cost efficiency.

We are currently trying to see if we can hit a net margin of 8 to 9%. That's our primary target. Before we even get into the ROC, ROE bit, we are of the view that, if we are able target 8% return on a growing revenue base, that itself would translate to a very good improvement in our return on capital. We are first looking at seamless and efficient execution and the resultant improvement in profitability and we believe that it would logically extend to improving ROC. So that's the way we are looking at it.



We are, as I also mentioned, trying to prune down our incremental working capital requirements. So that would also obviously help us improving our ROC.

**Sanjay Parekh:**

Yeah. Thank you very much. Thanks a lot and best of luck for the coming year.

**Mouli Raman:**

Thanks a lot, Sanjay.

**Moderator:**

Thank you so much, sir. The next question is from Mr. Raj Mohan. He is a professional investor. The line has been unmuted. You can go ahead and ask your question, sir.

Mr. Mohan, your line has been unmuted. You can go ahead and ask your question. Before we move on to further questions, I would like to repeat to all the attendees. If you wish to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat anybody who wishes to ask any question, kindly press "0" and "1" on your telephone keypad and wait for your name to be announced.

The next question is from Ms. Priya Rohira from Axis Capital. The line has been unmuted. You can go and ahead and ask your questions please.

**Priya Rohira:**

Hi, good morning to the management team and congratulations on the good execution. My first question relates to the India business where you are seeing stabilisation and you are confident that growth should start kicking in. Could you just give us some ground reality on how it has been a month-on-month change, June over May or July over June? Which gives us more confidence that we can go to double-digit growth in India for this year?

Second question relates to the new RBT contract which you have won in Mexico. Are there any upfront investments involved? And if you could just give an idea on the likely subscriber base or the penetration rate you would want to target over here.

And the last question is on the tax rate assumption for FY14 and 15?



**Mouli Raman:**

Priya, on the first one, i.e. on the Indian front, all I can say at this point in time is that we have seen stability over last two-three months. We have stemmed the decline and we would like to monitor this for next two to three months to make sure that this trend continues and our belief is that this will continue. The growth should start kicking in after that, i.e. the latter part of the year. So that's our expectation at this point in time. I would not put a number at this point in time but all I can say is that we have stabilised and we will monitor over the next few months and the growth should start from then on.

On the second one in terms of Mexico, there is no upfront payment at all. It is like any other classic deal wherein it is going to be just infrastructure and people that we are going to invest in and there is no upfront fee for this.

**Priya Rohira:**

Just one more question, which you alluded in the last quarter, with respect to all the new contracts signed, you would typically be going in only for contracts which involve no upfront payments, right? So I think is this on those lines?

**Mouli Raman:**

That's right. That's true.

**Priya Rohira:**

And what's the size of the subscriber base of this particular new operator win in Mexico?

**Mouli Raman:**

It is about 15 million users there.

**Priya Rohira:**

Okay.

**Rajesh Kunnath:**

Priya, on the effective tax rate, as we mentioned in the last call, our effort is to ensure that our effective tax rate is in the region of 33 to 35%. For the year, we have ended at 32.7% but that would not mean that our tax rate would drop further because we have to live with the reality of operating in various geographies especially in the LatAm zone where the rates are high. So I would say it would be in the region of 33 to 35%.

**Priya Rohira:**

Sure. One last question from my side is on the unbilled revenues which you mentioned at the start of the concall, that majority of



these are related to the Telefonica contract and would depend on the execution that's happening in the June quarter or do you see some spill-over there?

**Rajesh Kunnath:**

Yes, Rs. 25 crores out of the Rs. 50 crores is for the Telefonica contract that we are executing in Spain, which we are confident of collecting by end of June. Will this be a trend that will continue? The answer is no because we are trying to get to the stage of getting an acceptable format in which the customer billing reconciles with our data. So that's only the first step. That's a one-time hurdle and once we cross that, we expect our unbilled revenue to be in the realm of 45 to 60 days. Right now it is high and the effort is to bring it down.

**Priya Rohira:**

Sure, that's helpful. Wish you all the best.

**Moderator:**

Thank you, Ms. Rohira. The next question is from Mr. Ashi Anand from Kotak India. The line has been unmuted. You can go ahead and ask your questions please.

**Ashi Anand:**

Good morning to the management. This question is for Rajesh. I was just trying to reconcile the cash flows. There was a question early on the call. I think the answer was that you are expecting Rs. 50 to 60 crores of free cash generation in the current year. I was just trying to reconcile the numbers. There are two large cash inflows that we are looking at coming in from the unbilled revenues and the delayed receivables from the IT Department. There is a total of some Rs. 97 crores which is stuck in these two heads. So we are expecting a significant amount of cash to be released. And I think, as was indicated some amount by August, September. We then are looking at a CAPEX of Rs. 55 to 60 crores. The depreciation and amortization is likely to be significantly higher than that for the current year. So there should still be Rs. 50 to 60 crores buffer happening in terms of the distance between CAPEX and depreciation.

Over and above this, I am assuming there will be a certain amount of normal operational cash flow being generated from the business. If I am putting these numbers together, it seems like the free cash generation should be significantly higher than the Rs. 50 to 60 crores that you mentioned. Is there some cash outflows



which I am not taking into account or could the free cash generation be significantly higher? If you could just comment on that please.

**Rajesh Kunnath:**

Your reconciliation is more or less right, Ashi, but I think there are two things that you need to factor in. One is, a dividend payout – at 15%, that would be Rs. 20 crores for the current year. That's one.

Secondly, we have Rs. 47 crores receivable from the department. Now, it is our effort to see that we collect this money in the current year but when I gave you the incremental point to point increase in cash within a range of Rs. 40 to 60 crores, I have not been too bullish about collecting this amount in the current year itself. Maybe we will only collect a part of it. So if you knock off half of this amount, that is to say only Rs. 25 crores that we will be successful in collecting, and add back the dividend that we pay out of about Rs. 20 crores, I think our numbers more or less match.

**Ashi Anand:**

Okay sir, perfect. I am sorry. I just missed the outlook on tax rate for FY14 and FY15.

**Rajesh Kunnath:**

Between 33 and 35%, Ashi. Almost in line with whatever we mentioned in the previous quarters.

**Ashi Anand:**

Okay, that's it. Thank you so much and all the best going forward.

**Moderator:**

Thank you, Mr. Anand. The next question is from Mr. Anup from SBI Mutual Fund. The line has been unmuted. You can go ahead and ask your questions, please.

**Anup:**

Good morning, sir. It will be helpful if you could comment on the growth outlook for developed markets and whether you expect it to be softer than the other international geographies? And secondly, I don't know if you have already addressed this, but wanted to understand the reason for the FOREX loss considering that the Rupee-Dollar rate doesn't seem to have moved significantly in the current quarter.

**Mouli Raman:**

So I would take the first question and will hand it over to Rajesh after that. On the data products side, the growth is not too much

but we are seeing growth for RBT and as I said before, we are seeing significant opportunities with the operators for planning the data services and are riding on both of them. Hence, we are seeing good growth in Europe on an overall basis.

In North America, it is going to be moderate. With the current data products, we expect the growth to be in low single digits whereas in Europe it is going to be much higher. With that, I will hand it over to Rajesh.

**Rajesh Kunnath:**

Anup, on the query of FOREX loss and its relation to the Rupee-Dollar movement. I need to clarify that the FOREX loss that we have taken in the current quarter is primarily to do with two major developments. One is the Venezuelan Bolivar getting devalued which accounts for almost Rs. 2.6 crores of the Rs. 8.3 crores loss. Then the Egyptian Pound also depreciated vis-à-vis the dollar, which is another Rs. 1.7 crores. So if you consider these two together, they take up almost 50% of the FOREX loss. They have nothing to do with the India Rupee movement and the balance of the FOREX loss is primarily restatement or translation losses which is due to the Dollar's movement vis-à-vis certain African currencies and for a small part, the Singapore Dollar. So the Rupee-Dollar movement between December and March has really not impacted the FOREX loss. It is driven by our presence in all these geographies and our revenues being earned there.

We need to restate these numbers every quarter-on-quarter and the primary impact has been driven by devaluation in one country, a sudden movement in the Egyptian Pound in Egypt and an adverse variance between the US Dollar and certain African currencies.

**Anup:**

Sure, sir. If you could comment on our plan for protecting against volatility in these currencies, that would be useful and could we also talk about our current derivative position?

**Rajesh Kunnath:**

We follow a very conservative FOREX risk management policy where we primarily look at managing the risks that are within our control. So, for example, if you look at currencies which we can hedge using classic forward contracts, we are hedging 50% of our net exposures on a rolling 6-month basis. But revenues of some of the currencies that I had just mentioned to you, for example

Venezuelan Bolivar, cannot be covered, It is a currency that the banks refused to cover. If you take the Egyptian Pound, while that is a currency that cannot be covered given the recent political instability that the country is witnessing, the forward premiums are as high as 25%. So while the Egyptian Pound has devalued by 12% vis-à-vis the dollar, if I have to go for a classic forward cover, I will have to pay very high forward premium which may not be commercially prudent. So what we are doing is to balance our ability to manage risk that we can, i.e. currencies that can be hedged in a very prudent form by taking classic forward contracts. But for many of the other currencies that we are exposed to which cannot be covered, we are trying to handle those risks by either speaking to the customer and asking them as to whether we can bill them in alternate currencies or whether we can go in for selective price increases. So for example, in Venezuela we are actually in the process of closing out a price increase with the customer.

**Anup:** Sure, sir. Just one final question. What percentage of our revenue would be billed in currencies for which it's not possible to hedge the currency?

**Rajesh Kunnath:** Around 15% of our international revenue would be in currencies that we cannot hedge. Also the forward premiums for some other currencies are very high right now. If the forward premiums behave in a particular fashion which is say under 10%, then, yes, we can hedge those currencies. So I would say that, in the total revenue basket, about 15% is in currencies that we cannot hedge right now.

**Anup:** Thanks a lot, sir, for your answers.

**Moderator:** Thank you so much, sir. The next question is from Mr. Raj Mohan, a professional investor. The line has been unmuted. You can go ahead and ask your question.

**Raj Mohan:** Yeah, thanks for taking my call. Sorry, I got disconnected momentarily. Kindly bear with me for any repetition. Digging a bit deeper on your reasonably good revenue growth expectation, I just wanted to understand that we have been seeing international revenues grow around Rs. 150 crores incrementally in the last two



years on an absolute basis. With the outsourcing contract execution in Telefonica Spain starting to contribute from this fiscal apart from the other wins in the developed and developing economies for RBT, do you estimate international revenue growth to exhibit similar increments of, say, around \$30 million or 150 crores whereby you will be hitting an international revenue figure of around Rs. 600 crores for this fiscal?

**Mouli Raman:**

Raj Mohan, I am unable to share the exact numbers. As I said, we are pretty bullish due to the reasons I gave before, one of which is we are continuing to see good traction for RBT in the existing customers. The consumers are adopting more and we see that consumer adoption is continuing to rise. The second one is some of the new products are going online at this point in time with our existing customers. We are also seeing some new customers coming online that we have already won. So with all these happening, yes, we continue to see a pretty robust growth in international markets, but at this point in time I will refrain from giving an exact number.

**Raj Mohan:**

Okay. Talking broadly in percentage terms, you hit around 55% growth for this year in International revenues. So obviously on a higher base one cannot expect the same percentage number. But then when you are talking about robust growth, it will be much more than teens, right?

**Mouli Raman:**

Yes.

**Rajesh Kunnath:**

Raj Mohan, I just want to add on one bit. If you look at Q4, our international revenues were 64% and our domestic revenues were 36%. We expect, for the next year, international revenue and domestic revenue to hover around the same percentage or at best the international revenue to become a little larger. So I think you can draw your own conclusion, but a ratio of 70:30 is what it's looking like right now, i.e. our international revenues would be 70% of the numbers that we achieve for the coming year.

**Raj Mohan:**

Okay, which would...?

**Rajesh Kunnath:**

That's how it's trending right now.

**Raj Mohan:**

I understand. And looking at the Indian market stabilizing finally and seeing some improvement, in the next year you would expect it to continue in the same fashion which is the conclusion probably one should draw. Coming to the other cause, though you explained the differential, where do you see these rates and taxes of Rs. 8 crores from Brazil heading in the future? Are you engaging with the authorities for reaching some middle-of-the-road solutions and will the impact be seen in this fiscal?

**Rajesh Kunnath:**

As far as some of the countries in LatAm are concerned, we are exploring a price increase in Venezuela because of the currency devaluation we are currently discussing a price increase. We will be also approaching Telefonica Brazil and possibly asking them two things. One obviously would be a price increase if it's possible. If that's not possible, we will have to look at alternate invoicing structures because the taxes there for us are too high. Brazil is a very high-tax geography. So rather than continuing with the current model of paying higher taxes and living with that, we are trying to see if we can either explore alternate invoicing structures where we can bill from, say, another geography and get the money repatriated to India in a far more tax-efficient form or look at a price increase because many of the other companies who are operating in that geography today are also pushing up prices on account of these two issues. One is the rates and taxes, the other is currency inflation. The real inflation on the ground is far higher than what it documented. So on both counts, we are trying to see what the best solution that we can get to is.

**Raj Mohan:**

And when do you expect a solution on this front, Rajesh, in the next one or two quarters?

**Rajesh Kunnath:**

Yeah, I would say one or two quarters is reasonable.

**Raj Mohan:**

Okay. Coming to operating margin, what kind of margin improvements can one expect with better mix of international revenues, developed economy business contributing more, rationalization of cost and stabilization of Indian business? Will the operating leverage generated out of these favourable combinations, push the margins beyond 25% for this fiscal?

- Rajesh Kunnath:** See the normalized EBITDA margins for FY13 was 22.2%. Our whole effort is to try and see whether we can improve this by at least 1 or 2 percentage points on a larger revenue base. That's our primary focus.
- Raj Mohan:** Okay. Thanks so much Rajesh and Mouli and wish you all the best.
- Moderator:** Thank you, Mr. Mohan. We will take the last question. That will be from Mr. Nikhil Pahwa from Media Nama. The line has been unmuted. You can go ahead and ask your question, sir.
- Nikhil Pahwa:** Yes, thank you. I was just wondering whether there has been any update from TRAI on the VAS norms. Mouli, you had mentioned last time that there was a routing billing through operator networks, i.e. through the operator billing engines, but there hasn't been an official statement from the TRAI yet as far as I can see. So what is the status of that situation?
- Mouli Raman:** One aspect is the deactivation side. The operators have already implemented what TRAI had asked for. On the activation side, the operators have been engaging heavily with TRAI. Even though there has been no formal directive, the operators have taken many initiatives on the ground to implement. And our understanding is that, there is a delay because they were pre-occupied on other important matters. But the operators have engaged significantly with the regulator and they are already implementing changes on the ground.
- Nikhil Pahwa:** Okay. So in that context what was the state of the RBT business in India over the last quarter?
- Mouli Raman:** As I said, overall, lot of initiatives have been implemented over the last few quarters and we have also been very proactive in implementing many of these initiatives from our side, whatever we could. And riding on that, the last quarter has seen stability in revenues on all our products including RBT.
- Nikhil Pahwa:** Have you seen an increase or have you seen a decline?
- Mouli Raman:** At this point in time, the decline has stemmed. That's all I can say at this point in time.



**Nikhil Pahwa:**

Okay. What's the state of VAS overall right now because you mentioned the area of focus in India going forward would still be launching services that are largely operator network-based?

**Mouli Raman:**

Okay. So there are two things. One is, the normalcy is returning now. Can I say that it has already returned fully? No, I think it's going to take a few more months. And from there on, we expect the consumers to start experimenting with the services much more than what they are doing today.

And the second one is that the operators themselves are looking at how to increase the pie beyond operator-branded services so what we are seeing on the ground is some of the operators are looking to engage the off-take model wherein other people do the promotions and they are willing to give a higher revenue share. And we are starting to see signs of that. And the third thing is that we are engaging beyond the operators. We are starting to engage for other services through government, social sector and so on.

The fourth thing is that, we are also seeing opportunities for taking some of our existing services to market beyond the operators. So, for example, we are running a trial with a very large company for M-Radio, which until now has been branded and marketed by the operator and paid for by the consumer. Right now we are running the trial wherein the company wants to provide this free of cost to the consumers and market their products as part of the service. So, we are starting to see opportunities for marketing our existing services through non-operators.

The fifth one is regarding data. We are doing two things. One is our existing services. We are making them all available on the data channel too. And the other one is new launches, for example, recently we have launched music download with one of the large operators. So, we are playing on data too. Therefore, broadly these are the four or five growth drivers that we are seeing in India.

**Nikhil Pahwa:**

So can you give a sense of what your long-term approach is going to be? Because the operators are backing on data revenues and seeing a significant increase in data customers and also in data



traffic usage and world over, there seems to be a shift from operator-branded services to independent services. So I know you explained some part of it but do we see a move where you would have OnMobile-branded services going direct to consumers and would you be looking at an OTT model over data? Where do you see yourself in the value chain going forward?

**Mouli Raman:**

We are looking at two things. One is, definitely, while there is a significant shift to the OTT players, we are witnessing very good traction for operator-branded data services particularly in emerging markets.

The second thing is that while we do not have a plan to go directly to the consumers, we are actively looking at how it is possible for us to market the existing services beyond the operators. This could be through, for example, tying up with handset manufacturers and embedding client in the handsets and so on. So we are looking at alternate ways of marketing data. Is it going to be our brand? It's unlikely that we will have a brand of our own, but it could be a co-branded service with the handset manufacturers and operators. It will have to evolve over a period of time, however we do not have a plan for going directly to consumers ourselves as of now.

**Nikhil Pahwa:**

Okay. Thanks for your time and all the best.

**Mouli Raman:**

So thanks a lot, everyone. Thanks a lot for your support and looking forward to the same over the next year. Thanks.

**Moderator:**

Thank you so much, sir. Thank you all the participants. With this we complete the conference call for today. Wish you all a great day ahead. You all can disconnect your lines. Thank you so much.

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