OnMobile Global Limited

Fourth Quarter and Full Year FY2014
Earnings Conference Call

May 30, 2014

Speakers: Mr. Tony Haight, Chairman
Mr. Mouli Raman, Managing Director & CEO
Mr. Sanjay Bhambri, Chief Commercial Officer
Mr. Praveen Kumar, Vice President – Finance

Moderator: Good evening ladies and gentlemen, I am Sourodip Sarkar, the moderator of this call. Thank you for standing by and welcome to the Fourth Quarter and Full Year FY2014 Earnings Conference Call of 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; Mr. Praveen Kumar, Vice President – Finance and Mr. Sanjay Bhambri, Chief Commercial Officer.

Before we begin, I would like to mention that some of the statements made in today's call may be forward looking in nature and may involve risks and uncertainties. For a list of such considerations, please refer to the Earnings Presentation. OnMobile Global undertakes no obligation to publicly revise any forward-looking statement to reflect future/likely events or circumstances. Now, I would like to hand over the proceedings to Mr. Mouli Raman. Thank you and over to you, sir.

Mouli Raman: Hi, Good Morning everybody and thanks for being here this morning. Before Praveen talks about the financials for the full year and the quarter ended March 31, 2014. I will give an overview of the challenges and opportunities we had in the year. Broadly, I'll talk about the opportunities and challenges in the operator business and I will also talk about the steps that we have taken for the future growth of the company. First, let's look at the challenges we faced last year in the operator business.

The first one, as we've talked before, was the regulatory mandate from TRAI in India, which mandated double confirmation for activation of VAS services across channels. While this had a sizeable impact on the revenues, most of the impact has already been absorbed by the business. Secondly, there was also an adverse impact on EBITDA due to one-time minimum guarantee payment of about Rs. 14 crores towards a contract in Europe. We discussed this in the last quarter. This quarter, we also had a foreign exchange loss in Venezuela. The Venezuelan Government announced a new foreign exchange management system called SICAD. The resulting impact of reinstating the financials in Bolivars at the SICAD II rate has led to a foreign exchange loss of Rs. 16.1 crores.

I will briefly touch upon Livewire (OLI) performance. As you know, we had acquired OLI with the purpose of getting an immediate entry in the North American market as well as to enhance our music and data products capabilities. While OLI served well in the areas of getting some good customers and enhancing our product portfolio, we also face some headwinds. Since the acquisition, there has been some rapid consolidation of operators in North America. For example, Public Mobile, one of OLI's customers, was acquired by Telus in October 2013. Cricket Wireless was acquired by AT&T in July 2013 and MetroPCS, which was acquired in May 2013 by T-Mobile, was subsequently integrated.

After these acquisitions, we are seeing that many of the operators are de-focusing on music and this is expected to continue, at least in the foreseeable future. So that's one headwind, that we have faced. The second one is relating to migration of systems around the time of acquisition, from an older system to OLI system for one large operator. Our forecast for the business plan was based on the assumption that the penetration level will not go down by a large degree, post the migration. This was based on our migration experiences around the world as well as the general trends in the industry. However, post the migration, the baseline numbers of customers went down. While we are seeing growth from those baseline customers, unfortunately we have had to start from a lower baseline number. Because of these two reasons, the levels of profitability and the timelines for achieving them have been negatively impacted. Initially, we had projected a breakeven after three to four quarters. Considering the above factors, we expect OLI to breakeven in the second half of financial year 2016.

While profitability from OLI has deferred, we continue to be optimistic about our business and prospects in North America. This is because, our large customers remain interested in our services and we are also working on some very interesting ideas specific to North America. We also integrated OLI's technology into our products and the traction for those offerings is very encouraging. That's the reason why we continue to be bullish on OLI.

While these were some of the challenges, several opportunities also opened up for us. Number one, international business is continuing to do well aided by Latin America, Europe and Africa. Broadly, international business is growing around 30% year-on-year, excluding OLI and about 44%, including OLI.

During the year, we made significant strides in becoming a dominant player in RBT globally. Over the last couple of years, we have replaced about 12 vendors with 13 customers in 21 countries. With these wins, we would add 30 to 35 million new users to our RBT base after full deployments. Just to highlight some of the key wins that we had last year, one was MTN in Africa, which is the largest RBT replacement project in the world by a wide margin. Second was a contract from a large operator in Brazil, which has helped us grow beyond Telefonica and deployment is in progress for this. Third, we also replaced RBT for a very large operator in Bangladesh, which has gone live. Fourth, we have gone live with about three operators in Europe. Fifth, we also won an RBT contract with a very large operator in Nigeria. All these contracts will go live over next few months. So, we have done fairly well and are consolidating our position as a leader in RBT.

The next one is football, while we have been focusing a lot on RBT last year, we launched the football service in Africa about seven to eight months back. We did a fairly detailed study about the African market for football and concluded that there was a strong international football club following in Africa. Based on this finding, we re-packaged our product and re-launched it. After re-launching, our customer base in football services has gone up to about 3.2 million users over the last few months. Also, there has been about 50% growth in the user base and we are now seeing good traction for this product with other operators, both in Africa and around the world. So that's about football.

Next is Content VAS. As we have discussed before, we won a deal in Europe from a large operator to run all their content services across all channels, including data. This has been showing very promising results and we are continuing to see robust growth with revenues increasing about 87% year-on-year.

So while these were the challenges and opportunities, we also worked on laying the foundation for a long term growth last year. This was done by focusing on consolidating and streamlining operator business as well as creating new growth engines towards mobile services beyond operators. To make this happen, we have taken two steps.

First one, we have tried bringing in more focus on the product side and bringing in more efficiency. Second one is investing in people, processes and technology. I'll quickly take you through that. Regarding focus and efficiency, we pruned our product portfolio and decided to focus on fewer products. We have simplified our product portfolio along the lines of what we call as Access, Connect and Express strategy. We will talk more about it over the next few months.

With the objective of focusing on our core business, we divested Voxmobili. It is a company that we acquired in 2007 and focuses on data synchronization products. We signed a definitive agreement to sell this unit for about USD 26 million with a payout of about USD 6 million towards IP settlement. The deal is expected to be closed in the next 30 to 45 days. So that's about Voxmobili.

The next initiative is about Telisma. We had invested in Telisma in 2008. We acquired this company primarily as it was a leading firm in speech recognition. Also, we wanted to make significant foray into emerging markets and speech was an important element of our strategy. We believed that the acquisition would be very helpful for us to get access into these markets which proved to be true. We did get a number of new customers in emerging markets. However, the outlook for speech centric products in emerging markets has deteriorated recently. As a result of these changing dynamics as well as due to a year-end impairment review, we have taken a Rs. 68 crore non-cash write-down charge of Goodwill associated with this acquisition.

So after completion of these initiatives regarding Voxmobili and Telisma, the Goodwill on consolidation that was being carried at around Rs. 205 crores on the Balance Sheet, will cease to exist. That is broadly on the focus side. On the efficiency front, we have invested a lot on technologies to reduce the cost on hardware and to do more automation. We are already starting to see the results in many cases. For example, there is already about 30% decrease in hardware cost for the new roll out in MTN.

Now I will come to the steps that we have taken to build on our core assets by investing in people, process and technology. First, I'll talk about people. We have strengthened the management team by creating new global roles. Sanjay Bhambri took up the position of Chief Commercial Officer and he's responsible for global sales and revenues.

We've also done some restructuring on the product side to be more innovative and much faster. As part of this, Florent Stroppa has been elevated as the Senior Vice President, Products and will head the products division globally across all product lines. Christy George, who has been with us since the beginning, has been promoted to SVP, Technology and would be in charge of platforms and frameworks worldwide.

We also brought on Board some senior executives from outside with relevant experience. Sandeep Shrivastava, who has previously worked with Microsoft and Yahoo, has been appointed as VP, Products. Jacks Sterenfeld, who was with Telefonica for about 11-12 years, has also joined us as VP, Latam recently. So these are some of the additions that we have done on the people side.

On the process side, while we have done well on the operator front, we wanted to learn some of the best practices on the product management from the leading product companies around the world. So we have implemented certain processes and have invested significantly in training lot of people towards them.

To summarise, we have had some significant challenges last year. We have tried to do our best to address these short-term challenges and have also done well to lay the foundation for future growth. This has been done by leveraging some significant assets built over a period of time such as operator franchise, RBT leadership, great work force and also a strong technology platform.

I had announced my resignation as MD and CEO on May 7th. Since co-founding OnMobile in 2000, it has been an integral part of my life. I have tried to do whatever was necessary, to the best of my abilities and with sincerity. Over the last few quarters as CEO, I have done my best to provide stability to the company in times of significant challenges and lay the foundation for future growth of the company. I am confident that we are on the right track and we have a wonderful team to take the company forward. I am deeply indebted to each and every one of you for your encouragement and support over the years and would appreciate your continuing support in the future. Lastly, I would request Tony, our Chairman, to welcome our new CEO. Tony, please.

Tony Haight: Thanks Mouli. I am very pleased to say that we had appointed Mr. Rajiv Pancholy as CEO of OnMobile in our Board meeting yesterday. Rajiv is a veteran in the telecommunications industry, possessing over three decades of experience in various roles. He has a proven track record of successfully implementing organisational transformation, conceptualising innovative products and marketing strategies, international business development, planning and policy development. He joins OnMobile after founding his own company, TTP Media, where he served as President. He successfully obtained three licenses for the launch of new commercial radio stations in Montreal. Prior to founding TTP Media, Rajiv was the CEO and Chairman of TenXc Wireless Inc., where he evolved the company from a start-up into a leader in capacity boosting antennas. Before joining TenXc, Rajiv was the President and CEO of Mitec Telecom, a designer and manufacturer of wireless network products. He was also the President and COO of Microcell Connexions, Canada's fourth largest national wireless operator. During his tenure at Microcell, better known for the brand name Fido, Rajiv revitalized the business to new levels of customer and business performance. He successfully led Microcell to becoming the first Canadian carrier to nationally launch commercial high speed wireless data services.

As I said, I'm particularly glad we have been able to attract Rajiv to take this position. He will formally start on June 2nd but he is here now today and listening to this call. I am hopeful that you will all give him your full support as we go forward.

Now I'm going to turn to Praveen to discuss our financial results.

Praveen Kumar: Thank you, Tony. Good morning everyone. As Mouli was talking, the last financial year was a challenging one and Q4 has been no different. While our core business has grown marginally, we have had major one-time costs including the non-cash impairment charge during the quarter, which have impacted our margins significantly. While we will discuss this in a while, I will summarise the financials to start with.

During the quarter, our revenue was Rs. 225 crores – flat as compared to quarter three. It was Rs. 184 crores in the quarter four of the last financial year, which is a growth of around 22%, essentially coming from our international markets. In terms of revenue split, our domestic revenue was 28% of the total revenue and international was 72%. For the full year, domestic revenue was 27% and international revenue was 73%. The revenue mix has significantly changed over FY13, wherein our domestic revenue was 39% and international was 61%.

Regarding profitability, excluding OLI, normalised EBITDA for the quarter was Rs. 36.7 crores representing 18% margin and a growth of 9% over quarter three. Normalised Operating Profit also grew by 8% over the last quarter. The net margins, however, were affected by one-time and exceptional costs, as Mouli explained earlier. Part of these costs is on account of the Telisma impairment charge of Rs. 68 crores. Under our year-end closing process, we have done an impairment analysis of all the Goodwill and Intangible Assets related to our past acquisitions. As a result, we have had to take a non-cash impairment charge of Rs. 68 crores for Telisma. Mouli gave a background of this when he spoke.

We were carrying a total Goodwill on consolidation to the tune of Rs. 205 crores on our Balance Sheet. After the Telisma impairment charge, it has come down to Rs. 136.6 crores at the end of March'14. Once the Voxmobili deal is closed, this amount will go down to zero and that should optimize our Balance Sheet to some extent.

The second one-time or exceptional item is the IP settlement cost. The IP settlement that we entered into with Synchronoss was for USD 6 million. Out of this, USD 3 million was paid in March and the balance is to be paid at the close of the deal, which is expected at the end of June or beginning of July. However, since this is a known liability, we have made a provision in the books at the end of March 2014. The total impact on account of this is Rs. 35 crores.

The third significant one-time expense is the forex loss. The total forex loss for this quarter was Rs. 32 crores and almost half of it pertained to devaluation of Venezuelan Bolivar, as Mouli was speaking earlier. The Venezuelan foreign exchange system is a bit complex. They had an official exchange rate of 6.3 Bolivars per USD, which most of the companies were using for consolidation. They also had a SICAD I rate, which was applicable to only specific industries and was over 10 Bolivars per USD. However, the grey market was very prominent where the currency traded at 50 to 60 Bolivars per USD. So the

Government wanted to curb the grey market operations and brought in a new currency exchange system called SICAD II on 24th March, 2014. Consequently, the currency started trading at 50 Bolivars per USD, almost 88% depreciation. Therefore, we had to restate our financials at the new rate, which has led to a loss of almost Rs. 16 crores. We also had other currencies such as Argentinean Peso and Egyptian Pound contributing to a significant part of the rest of the forex loss.

Just to give clarity on the forex loss, it is included in multiple line items of the P&L this time. Rs. 3 crores of forex loss is coming under the 'Other Expense' line item while Rs. 13.1 crores is included in the 'Other Income' line item. This is because, for year till date (YTD) December 2013 period, we had a forex gain, so we have to reduce the forex loss to the extent of forex gain in this line item. That's why it's coming there. The forex loss specifically relating to Venezuela and Bolivar devaluation is disclosed as a part of the 'Exceptional Items'.

Coming to cash – at the end of December 2013, our cash was Rs. 213 crores and borrowings were Rs. 132.5 crores, so the Net Cash was Rs. 80 crores. At the end of March 2014, the Gross Cash has reduced to Rs. 124 crores because of one-time pay-outs and repayment of borrowings. The total borrowings have come down to Rs. 88.3 crores, so the Net Cash is Rs. 36 crores.

To summarize, the Net Cash has come down by around Rs. 44 crores, which is on account of major pay-outs. One is the IP settlement payment of USD 3 million to the tune of Rs. 18 crores. We had spoken about a charge on account of minimum guarantee payable to one of our customers in Europe in the last quarter. We have made that payment in this quarter, which is Rs. 17 crores. Further, the impact of Venezuelan devaluation has reduced our cash balance by Rs. 11 to 12 crores.

Coming to Receivables and DSO – we had shown a significant improvement in our collections in quarter three and had brought down our DSO from 177 to 138 days. We have further improved on this in quarter four and our DSO has reduced to 124 days. We will continue to work on these areas to bring in cash faster for funding our Working Capital.

Regarding taxes, our Effective Tax Rate is negative because of the exceptional items mentioned earlier. However, if we normalise for all these exceptional items, the Effective Tax Rate would be 36 to 40%.

Regarding headcount, at the end of March 2014, it was at 1,690, this is down from 1,721 at the end of December 2013. Coming to Capex for the year FY2014, we incurred Rs. 145 crores. Excluding the OLI assets that were acquired earlier in the year, the core Capex is Rs. 36.4 crores.

Finally regarding Dividend – while we had a challenging year, we considered it right to continue the track record of dividend announcement that we started 2 years back. As we are optimistic about the future of the company, we have declared a dividend of 15%.

With this, we open up for questions and answers.

Moderator: Thank you so much, sir. Participants, we will now begin the Q&A session. I would request all the attendees to press "0" and "1" on your telephone keypad if you wish to ask any question. We have the first question from Prakash Ramaseshan from Kotak Mahindra. Your line is un-muted, you may go ahead and ask your question.

Prakash Ramaseshan: Thank you for taking my question. I will address the question to Mouli and then he can direct it to the relevant person on the call. Mouli, thank you so much for your contributions to OGL and for taking care of our interests while you were with us. We are hoping that you continue to stay with the Board so that you can help handhold the new CEO who's taking over. That's one clarification I'm seeking.

Secondly, we understand that there are certain impairments made on Telisma and there were certain pay-outs to be made for the Voxmobili divestment. I think we have been making only two small comments for several calls. Firstly, whatever cash has been allocated so far to new acquisitions and new investments etcetera is done, but going forward we are requesting a far greater focus on Return on Equity. This is to ensure that shareholder returns and their maximisation become a priority. Regarding doing business, I think the greater priority has got to be doing profitable business. This is because, I think a lot of the one-time impairments, one way or the other, are finding their reflection on the market cap of the company and are making shareholders quite uncomfortable with the business model of the company. We do understand that there will be exceptional items now and then but that has to stabilise at some point. Request quick thoughts on these issues and the divestment of Voxmobili. After the divestment of Voxmobili, we hope some of the capital can be used as a return on capital to shareholders, either by buyback or dividend, as you consider appropriate. If you could have your reactions on those three/four comments please?

Mouli Raman: Sure, thanks Prakash. Regarding the first one, needless to say, I will ensure that the transition is very smooth and I handover all the things properly to Rajiv. You need not worry about that at all.

Prakash Ramaseshan: Would you continue to be on the Board of the company, sir?

Mouli Raman: I am continuing to be a Director and will ensure a smooth transition, Prakash.

Prakash Ramaseshan: Fair enough, sir.

Mouli Raman: Regarding the actions, I would hand it over Tony to comment.

Tony Haight: I think you're asking what we are going to do with this big pile of cash we're going to get in a short period of time. I think it's only fair to say that we have a new CEO starting on Monday and he will be spending the next several weeks getting up to speed on all the various programs in process and programs we are contemplating to put in process. Then, he can make his own determination regarding which of those should be accelerated. Therefore, he can decide about the available cash resources to foster the growth of the company with the chosen programs that we are going to pursue diligently. So the answer to your question cannot be given today. It would be very unfair for us to try and ask Rajiv about what he's going to do, given he came here just minutes ago. We will come back to you in due course after he's had a chance to decide about the programs –whether he wants to accelerate them, which ones he wants to de-emphasise and which ones he wants to add. Then we will have a better idea of our cash requirements.

Prakash Ramaseshan: Thank you for that, Tony. I think you've addressed the specific question of Voxmobili and the general question of allocation and return of cash to shareholders. If you could give us a chance to meet with the new CEO at an appropriate time once he's comfortable and has settled down in the operations, then we, as shareholders, can express some of the views we have expressed to you and Mouli over the past few weeks. Those issues can then be taken into consideration while the decisions are taken. Thank you.

Mouli Raman: The idea, Prakash, is that over the next three to four weeks, Rajiv will spend time in understanding the business and soon after that, I think Rajiv will come over and discuss with you.

Prakash Ramaseshan: Thank you so much. As long as we are given an opportunity to express our inputs on what we've been saying over the past six/eight quarters and Rajiv takes that into consideration when he takes his decisions, that's fair. Thank you.

Moderator: Thank you so much, Mr. Prakash. Before we move on to the next questions I would like to repeat, participants, should you have any question, you may press "0" and "1" on your telephone keypad please. We have the next question from Mr. Srini from Deutsche Bank. The line is un-muted, you may go ahead and ask your question.

Srinivas Rao: Hi, thank you very much. Wanted your comments on OLI. Firstly, how much money was spent on that and secondly, what has happened in terms of A – consolidation and B – the fact that the baseline numbers post migration are low? I think, these apprehensions were suggested by the analyst and the shareholder community when the acquisition was going through. So just wanted know what has been the due diligence around that given a fairly large capital is allocated to that acquisition. Secondly, will there be any change in the payment terms on account of the changed scenario or whether that's not feasible under the current contracts which you have signed?

Mouli Raman: At the time of acquisition, we did do an elaborate due diligence and talked to the customers. We had talked to Public Mobile, Cricket Wireless and MetroPCS and they were bullish. However, subsequent to the takeover and integration, things did change. The migration was one of the important milestones as part of the acquisition. As I said, there were some expectations on the baseline numbers, however, we are starting with lower baseline numbers because of certain issues. And in terms of whether there are some recourses through which we can recover some amount of money, right now, we are thoroughly reviewing the root causes of the higher estimates that we had at that time. We have actually formed a separate team to look into this matter in depth and we will consider appropriate action, as advised and deemed fit. Further, we have some money in escrow account. We will consider action as deemed fit as we go forward.

Srinivas Rao: Thank you so much. Mouli, here's wishing you all the best. I think, your contribution to the company has been enormous. So thank you so much.

Mouli Raman: Thank you very much.

Moderator: Thank you so much. We have the next question from Mr. Shailesh from Insys Securities. The line is un-muted, you may go ahead and ask your question.

Shailesh: Good morning, Mouli. Thanks for your contribution to the company. My observation is a bit critical. After having spent almost 15 years in the business, our returns are behaving like a start-up. I feel we have failed to find the sustainable business model. Return on Equity is in single digits. Where do you think we have gone wrong? Are we not able to assess the opportunities properly? Are we not able to view the risks properly? We were very bullish about India business, however suddenly TRAI regulations came and our business was significantly affected. We are very optimistic about Latin America and European businesses. We incurred our Capex, however we had to pay minimum guarantee to the operator. So I really fail to understand that where are we going wrong. That is the first question.

Mouli Raman: I think, if you look from the industry standpoint broadly, there are some overriding industry challenges in terms of telecom operators as a destination for mobile services. That is one challenge. Definitely, there have been some regulatory challenges in India, which was contributing significantly to our revenues and profitability, as we have talked over the last few quarters. However, that regulation was needed because there were too many players and not much control. While it is painful in the short term, we firmly believe that it is good for the industry in the long term and we are already seeing the benefits of that regulation now as a long term player. This is because, operators are wanting to work with a few, larger players. For example, recently we won a very large deal for RBT, replacing two other vendors in a large operator business. It's just an example and we're seeing much more consolidation. So while it has been painful, it is good for long term and we are already seeing the benefits, given we are a long term player.

Yes, we did make some business calls. However, Latin America has worked well for us. It has really given us a major entry into a new continent and a great customer. Due to that, we have got more customers in Latin America and are getting more customers in Africa. MTN Africa contract, for example, would not have happened without our Latin America business. So, I think, on a standalone as well as on an overall basis, Latin America has been a very good investment and we did a very good execution on that front. Yes, we did go wrong on some of the decisions such as the minimum guarantee front in Europe. We were optimistic about it but it did not pan out.

Therefore, there are some larger industry issues, however, we have tried to do our best, based on information available at that point in time. Regarding the way forward, we see opportunities in the operator business, that is the operator branded VAS and expect some decent traction over next few years. But a major point is how we can leverage the assets that we have created over a period of time in terms of technology, people, operator franchise and RBT platform. How do we start leveraging the assets and providing services to non-operators, it's going to be the key factor and that is the homework we have done over the last 1 year to make that transition. Hopefully, over the next few quarters, we will be seeing the results of these initiatives.

Shailesh: Okay. You acquired the company – Dilithium Networks some time back. I believe it is a fantastic company and has got great products. Recently Cognizant acquired a company in the similar space. How is the company performing? Are you monetising it properly?

Mouli Raman: We are monetising parts of Dilithium. We acquired it for two reasons. One, for delivery of video services directly and the other, for the technology behind this business to deliver media more efficiently. Regarding the first one i.e. delivering video services, the operator-branded video service did not take off at all in India. Hence, while we do have some services, they are not performing that well. However, we are using the technology for delivering media more efficiently but it is not an end-user service.

Shailesh: You have been talking about some new growth engines. However, at the same time, you have sought the shareholders' approval to raise the debt limit to around Rs. 500 crore. Are we planning to have more leverage in the Balance Sheet, while we are not able to utilise our existing capital? Please throw some light.

Praveen Kumar: Shailesh, the approval that is sought from the shareholders is more procedural in nature. Earlier, we had an approval from the shareholders, which was valid for 5 years and was expiring in some time. This is more aimed to renew that for the next 5 years. In the immediate term, we are not looking at taking any debt.

Shailesh: The point is we have been expecting a lot, as a company. We believe it's a path breaking company doing path breaking things. But somehow, it has not come up to the expectation. Thank you.

Moderator: Thank you so much. We have the next question from Mr. Ankit from Dalal & Broacha. The line is un-muted, you may go ahead and ask your question.

Ankit: Hello, thanks for taking my question. I had a question on Content Fee and Royalty expenses. The Content Cost has increased by 85% but the revenue is higher by 20% only. So can you throw some light on that?

Praveen Kumar: Ankit, content is a lot dependent on the revenue mix. In some markets, the Content Cost, as a percentage of revenue, is higher while it is lower in other markets. If you look at last eight quarters, the Content Cost on the India business has been much less than international markets, as a percentage of revenue. It is as high as 50 to 70% in some markets. This is due to the revenues from India business declining on account of TRAI regulations and the international revenues increasing. So with the change in revenue mix i.e. the India revenues coming down, our gross margins have come down. This means our content cost has grown much higher than our revenues.

Ankit: So can we say that the content quality is inferior in international business as compared to India?

Praveen Kumar: It has got nothing to do with the quality of content. It generally depends on the quantity of content we do on behalf of the telecom operator and the bargaining power of the content providers in terms of their fee in that market. So in some markets, the content providers command lesser while in some markets, they command higher. It has something to do with that and is not related to the quality of content per se.

Ankit: Okay, thanks.

Praveen Kumar: Thank you.

Moderator: Thank you so much. We have the next question from Mr. Raj Mohan. He's an individual investor. The line is un-muted, you may go ahead and ask your question.

Raj Mohan: Thanks for taking my questions. My first question is on this music business of OLI – when can one expect monetisation of this asset and some kind of material contribution from its roll out on to OnMobile's existing customer base?

Mouli Raman: Sanjay will answer this question.

Sanjay Bhambri: Hi, as Mouli said earlier, we are already seeing some traction happening in the emerging market base. For example, we had a large customer contract in Africa and we're starting to see some of the elements of these services being utilized in the European business. So we're already seeing the benefits of the music product, which we acquired through OLI, in some of the markets.

Raj Mohan: Will it be possible for you to quantitatively indicate the potential for this business over the next 2 to 3 years?

Sanjay Bhambri: We can do that offline maybe.

Raj Mohan: Okay. Coming to the Latam market, it seems to have hit a plateau over the last two or three quarters. In this context, you have also recently made an appointment of a client-facing Vice President. Is there room for deeper penetration on the RBT front in the Latam market? What kind of growth does the management anticipate in this fiscal year from Latam?

Sanjay Bhambri: I think, we have discussed this earlier also. In Latam, we have a contract with one of the large operators for multiple countries. As per contract, the revenue shares reduction happens based on particular milestones. We have seen the first set of revenue shares reduction happening this year, which we discussed in the last quarter call. That is why, if you look at the revenue as an outsider, it will give you a more stable or a static view. However, if you look at the KPIs, in terms of growth of subscribers, penetration in number of downloads and download per user, there is a growth in the business happening. But as you would understand, contractually we have had a decline in revenue shares based on the milestone. That is why you're seeing it as static. However, the market continues to grow for us from a KPIs view. From a revenue standpoint, it has been stable. You'll again start seeing gradual growth because the impact was the revenue share would have happened.

Raj Mohan: I do understand that. I was actually trying to understand the penetration in the Latam market currently and what is the potential penetrability of this market?

Sanjay Bhambri: It's quite a large market, so it would be more prudent for me to give the answer on a country or sub-geography basis. Actually most of the geographies in Latam continue to grow on a penetration basis at the moment. And I would believe that we'll continue to grow. Obviously the rate of growth is not going to be as fast as in the first few quarters of FY2014. At the moment, if you look at the average, I would say it will have over 10 percent penetration and I would assume that we would have 4 or 5% more to grow over the next few years. That is from the existing contracts we have. Growth will also start coming in from the new contracts or operators. The first new operator which we secured is in Brazil. As we go forward, you will hear us speaking about new contracts being secured in that market. Regarding Jacks being hired as a VP, obviously once we had a previous Vice President move from Latam to North America, we had a position open to be filled. So that's what we just did.

Raj Mohan: Okay. What I'm trying to understand overall is the internal assessments on the top line growth over the next 2 years. Further, obviously you have the MTN roll out, which will be largely driving it in the next 1 or 2 years. I'm trying to understand is the management confident of having seen the worst as we head into this new fiscal year. Whether we'll see some material quantitative developments happening right from this fiscal because finally what matters is the top line growth as well as your operating leverage. Operating leverage will play in the next 1 or 2 years obviously, after having divested the low margin data business and getting new revenue. But how confident is the management of seeing some serious top line growth in the next 1 or 2 years?

Sanjay Bhambri: I think if you look at the last few years prior to FY2014, we grew our revenues in double digit growth without any acquisition. Organically, we had a double digit growth despite having a tough year for one of our bigger markets – India. So I can tell you that management is confident about growing the revenues. Further, I have a new boss and I'll wait for four or five weeks till Rajiv is in completely in sync with what all of us are speaking here. And based on how we modify the next 12 to 24 months plan, it will give us a very good idea about the milestones we are looking at. But I think, we are all quite bullish even after having a tough last year in our main market – India. Domestic revenues were significantly reduced, however we were still able to increase the overall revenue by double digits. I think it is a decent job done by the team here.

Raj Mohan: Sanjay, what is the revenue that you anticipate for this fiscal year in terms of bookings for the MTN deal?

Sanjay Bhambri: It is a forward looking statement, as we had said last time, we would be looking anywhere between USD 80 to 120 million over the 5 year contract period. I will stick to that. We should be able to tell you about our progress on deployment, in the next quarterly update. We are quite bullish and may do better than USD 80 to 120 million.

Raj Mohan: Okay, thank you so much, Sanjay. Mouli, wish you all the best for your future. Wish you would have been there to see the growth in the company over the next 2 or 3 years but I believe you have put in your best.

Mouli Raman: Thank you, Raj Mohan.

Moderator: Thank you so much. We have the next question from Mr. Kartik from Strident. The line is un-muted, you may go ahead and ask your question, sir.

Kartik: The low, single digit Return on Equity over the last 5/6 years has resulted in a lot of destruction in shareholder wealth. Is OnMobile at the risk of losing employee interest? My specific question is that is there a risk that the smartest engineers do not want to work with OnMobile anymore?

Mouli Raman: Definitely we are going through a challenging period. There is no doubt about that. One thing that I can tell you is that in the past, we have been through significant challenges and a sizeable number of highly talented people has stayed with the company. Even today, while we have some attrition, there is a significant number of people who are determined to be part of the team which is going to deliver on the potential. Everybody believes in the potential of the company, the path that we are taking and they are determined to be part of the team. So yes, while there is some risk but there is good number of people who are committed to the cause.

Kartik: Because the start-up environment has never been better before, both globally and in India. This means you will have challenges retaining good employees if there is no wealth creation by the company.

Mouli Raman: I agree. I fully agree with you.

Kartik: My next question is to the Chairman, are there any financial targets, in terms of returns and margins, that you would like the new CEO to deliver? Has the Board put in place any financial targets for the new CEO?

Tony Haight: We had discussed it and have come up with ideas. However, I think it's more appropriate for me to have that discussion with Rajiv before I have it with anyone else. And I will do that very shortly.

Kartik: Also, is there any analyst meet planned in Bangalore so that shareholders can get to meet the new CEO and communicate?

Mouli Raman: Yes, we did think about it a few weeks back and yes, we are going to have an analyst meet in some time. Rajiv will decide on the timing however there is going to be analyst meet within the next two or three months.

Kartik: Thank you very much.

Moderator: We have the next question from Mr. Gaurav from Unilever Venture. The line is un-muted, you may go ahead and ask your question.

Gaurav: It's Gaurav here. I have couple of questions on the OLI business. You had guided for an EBITDA breakeven in FY14 and a half million dollars of EBITDA in year one. Do we expect the similar kind of burn that was in the last nine months to continue in FY15 or what would be your sense on that?

Praveen Kumar: Gaurav, I will take your question on EBITDA. Yes, we had guided for breakeven in three to four quarters. However, as Mouli has pointed out, this has got delayed by a few quarters and we now expect this project breaking even in the second half of FY16. Till then, we expect EBITDA burden of 750,000 to a million dollars per quarter.

Gaurav: We expect approximately USD 4 million of burden in FY15?

Praveen Kumar: Yes, that's right.

Gaurav: And we could see lower burden till the end of FY16?

Praveen Kumar: Yes. So, it will be a USD 3 to 3.5 million burden for FY15 and that will come down to USD 1 to 1.5 million in FY16. Towards the Q3 or Q4 FY16, we expect a breakeven.

Gaurav: Okay. And how realistic are these numbers? Are you accounting for all the risks that are there or could there be a negative surprise for OLI?

Mouli Raman: Right now, our plan is based on visibility on certain revenue streams. We believe that this is fairly realistic because it is based on certain revenue streams. We are also working on other revenue streams but we want to see the potential based on pilot projects, that we will run over the next few months. So, I think we are fairly realistic about the projections.

Gaurav: Okay, we have obviously been disappointed with these numbers at this point of time. So my question pertains to risk factors for these numbers. Also, instead of a USD 4 million loss, could we see suddenly a USD 7 or 8 million loss in the venture?

Mouli Raman: As I said, we have put in place a plan and we are working on some new pilot projects too. I think, whatever we have given now is fairly realistic and hopefully we will be able to surprise you positively.

Gaurav: My second question pertains to the USD 26 million that we are intending to receive from Voxmobili divestment. Is this excluding the USD 6 million litigation payment that we have to do?

Mouli Raman: It is 26 minus six. So USD 20 million would be the net inflow to us.

Gaurav: And in terms of our cash flow, it could be 26 minus 3, because you mentioned that you have already paid USD 3 million, right?

Mouli Raman: Yes, that is right. USD 26 million minus USD 3 million from a cash standpoint.

Gaurav: So we intend to receive USD 20 million this quarter itself?

Mouli Raman: We are expecting first week of July.

Gaurav: Okay, July first week.

Praveen Kumar: One more thing, Gaurav. Relating to cash flows, you have to keep in mind that about USD 2.5 million shall remain in escrow for a period of 18 months. So the cash inflow will be 23 minus 2.5.

Gaurav: 23 minus 2.5, got it. Do you see any chances of further improvement in the Working Capital? I do agree that we have seen some improvement but we have seen a deterioration before that as well. So do we see any improvement happening?

Praveen Kumar: There are a couple of key things that we are focusing on to reduce our Working Capital burden. As you have seen in the last six months, we have worked on closing out large pending customers, improved our collections and closed out large pending unbilled receivables as well. We have also been focusing on getting some of the money lying with the Government in the form of direct or indirect taxes. We will continue to work on these to improve our net Working Capital. I don't see this deteriorating too much going forward. Even if we have an increase in a quarter or two, it will be well within the limits.

Gaurav: What is your Unbilled Revenue as on March 31st, 2014?

Praveen Kumar: Unbilled Revenue would be Rs. 104 crores.

Gaurav: That is a major part of that Rs. 108 crores?

Praveen Kumar: Yes, that's right.

Gaurav: All right. Also, can you comment on the Rs. 236 crores of 'Loans, Advances and Deposits', which has increased significantly from Rs. 106 crores?

Praveen Kumar: Are you referring to Standalone or the Consolidated Balance Sheet?

Gaurav: Consolidated.

Praveen Kumar: In the Consolidated Balance Sheet, our 'Short Term Loans and Advances' has increased from Rs. 87 crores to Rs. 90 crores. And our 'Long Term Advances' has increased from Rs. 107 crores to Rs. 146 crores. So 'Short Term Loans and Advances' is flat. What has gone up is 'Long Term Loans and Advances'. This is essentially on account of advance tax that we pay to the Government. There is a time lag i.e. when we collect the money, a TDS gets deducted and paid to the government and then we have to wait for the refunds. This operates like a cycle. We try to obtain a concessional tax certificate from the IT department so that we don't have a large outflow on that front. Last year, we had a delay of couple of months in getting the concessional tax certificate. As you know, this is not in our hands, we have to depend on the Government official. We got the certificate in August with a rate of 0.5%. We are trying to get it much earlier this time so that we can reduce that burden. But as I was telling you earlier, we are focusing on getting refunds for one or two cases from the Government in the next quarter. If that money is received, this balance should definitely decrease.

Gaurav: What should be that number like?

Praveen Kumar: It will be in the range of Rs. 15 to 20 crores.

Gaurav: Is it part of the amount of Rs. 57 crores, which stood as balance with the statutory authorities, as per the last annual report?

Praveen Kumar: Yes, correct.

Gaurav: So would that have gone up during this year?

Praveen Kumar: That has increased by Rs. 10 crores. It also includes VAT that we have in some of these countries on cross charge and Content Cost. The amount I am referring to in terms of the income tax is under 'Long Term Loans and Advances', as a part of the advance tax.

Gaurav: Right, got it. Last time, you spoke on the product cycle that there are a lot of products that are under consideration which would be away from RBT. You are selling off Voxmobili and we have taken a write off on Telisma. So, first of all, are there any other assets which you would want to dispose off, including OLI or is there any possibility to dispose off any assets which are loss making? Secondly, would most of these new products be part of the standalone entity or would there be further acquisitions? Or would they be part of any ventures which we have earlier acquired and they are not doing well?

Mouli Raman: Overall, while we cannot talk specifically about the units, we are always looking to see how to bring in better focus and how to maximise the potential of units. I will leave it to Rajiv to discuss further on this later.

Gaurav: Okay, thanks and all the best.

Praveen Kumar: We will take one last question.

Moderator: Sure, sir. We have the last question from Mr. Prakash Ramaseshan from Kotak Mahindra. Your line is un-muted, you may go ahead and ask your question.

Prakash Ramaseshan: Thank you so much. This is a question just in reference to a previous question asked by an investor. It is around the fact that management retention in the company is critical in a difficult time and will get impacted by the fact that the ESOPs have no value. As minority shareholders, we would like very much to work with the company to revive the valuation appropriately but we would need considerable support from the management on a few issues. As we have said in previous calls, I will just raise two issues up here. Firstly, allocation of capital, return of capital to shareholders and Return on Equity are critical to valuation of a company. Secondly, taking into account the interest of all shareholders in big decisions – we had requested for a vote on the OLI decision and it got turned down. Now, when issues have happened in the acquisition, there's a lot of difficulty for shareholders in hearing bad news. So these are two things I would request management to take into consideration going forward. Whatever has happened has happened, we cannot change it. I am looking forward to meeting Rajiv and discussing this in person as and when we get that opportunity. Thank you so much.

Mouli Raman: Thank you very much, Prakash. Thanks a lot to everyone for being here on the call and we look forward to your continuing support.

Moderator: Thank you so much. Thank you everyone for joining us. With this, we conclude the conference call for today. Thank you so much for joining, have a good day.

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Note: This document has been edited to improve readability.