



Fourth Quarter FY2015 Earnings Conference Call 29 May 2015

Speakers:

Mr. Rajiv Pancholy, Managing Director & CEO
Mr. Sanjay Bhambri, Chief Commercial Officer
Mr. Praveen Kumar, Chief Financial Officer



Moderator:

Good day, ladies and gentlemen. I am Sourodip, the moderator for this call. Thank you for standing by and welcome to the Fourth Quarter FY2015 Earnings Conference Call for OnMobile Global Limited. For the duration of the call, all participants' line 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. Rajiv Pancholy, Managing Director and CEO; Mr. Sanjay Bhambri, Chief Commercial Officer; and Mr. Praveen Kumar, Chief Financial 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. Please be advised this conference is being recorded today. Now without any further delay, I would like to hand over the proceedings to Mr. Rajiv Pancholy. Thank you, and over to you, sir.

Rajiv Pancholy:

Thank you, Sourodip, and good afternoon, ladies and gentlemen. My name is Rajiv Pancholy. And as it has been mentioned, with me today are my two colleagues, Sanjay Bhambri, our Chief Commercial Officer; and Praveen Kumar, our Chief Financial Officer. I will depart a little bit from our standard format and not only will I give commentary on the fourth quarter results but take the opportunity to go back and take a look of the year we just concluded and touch upon few points of what actually happened during this very, very eventful year. By all accounts, it has been an extraordinary year of change for OnMobile. We had restructured the company to get to a more affordable and appropriate cost base. We had sharpened our focus in energies and a fewer number of products that have global potential on each, and we have regained the confidence of our customers. As you may have noticed, our numerous wins during the year testifying to the fact that this last point (and a very important point) is definitely there and the momentum is building.

This year, we have also made a significant move forward toward introduction of next generation RBT (Ringback

tone) product which has seen much deployment in Spain. This happened as forecast in the month of March 2015. This is actually a different kind of product. It makes several new features available to the users of the Ringback tone service, greatly enhancing the user-experience and especially for Smartphone users that are able to use newly designed application to interact with the new service. Even as we were developing this new offering and others, we successfully grew our traditional business to a total addressable base of over 1.5 billion users globally with an equally astounding 500 million music plays per day. This is actually quite remarkable, and some of you might be tempted to compare to other companies which claim to do something but do not quite match the threshold of the performance.

Over the course of the year, we also greatly enhanced the balance sheet by making approximately 147 crores of cash, some of which was used to conclude the share buyback of approximately 5% of outstanding shares. Lastly, we have continued and will continue to enhance and strengthen our management team as well as the governance of the company. At this point, it is with pleasure that I want to announce that Mr. Sanjay Baweja, the Chief Financial Officer of Flipkart has joined the Board of OnMobile as an Independent Director.

Now let me offer some comments on the fourth quarter results. It is indeed disappointing to see the ill wind of dramatic currency fluctuations diluted our reported results. Apparently this is something that we do not control and cannot be easily countered. However, we derived some solace from the knowledge that these results do not represent a negative trend in the business. I want to confirm and affirm that our business continues to be in the growth mode notwithstanding the effects and turbulence created by currency fluctuations. We had chosen to write off the storm by remaining focused on what we had set out to do, that is to transform and grow our business through new products, new business models, new customers in a new style of doing things. As the current year progresses, many of these things will become self evident. I am anticipating a lot of questions regarding this but before we get to that stage of the call, I will ask Praveen to provide more elaborate

analysis of the fourth quarter and year-end financials. Praveen?

Praveen Kumar:

Thank you, Rajiv. Good afternoon everyone on the call. I will take you to the financial results for the Q4 of fiscal 15. But before we get into the results, I would like to highlight the impact of foreign currency fluctuations that Rajiv was mentioning that we had during the quarter. Two main currencies which impacted us during the quarter and negatively – one is Euro as you all know and the other one is Brazilian,, BRL as we call it. So Euro moved from Rs. 77 at the end of Q3 to Rs. 67.5 by the end of Q4, thereby depreciating by around 12%. And BRL moved from Rs. 23.76 at the end of Q3 to Rs. 19.3 by the end of Q4 which is around 18% depreciation. Now apart from these two, we have the Venezuelan currency which was devalued in February this year. This is the second major devaluation in just a year after the Fuerte devaluation that happened in March of 14, last year. So what happened is in February the Venezuelan government brought in a new currency exchange legislation where the Bolivar started trading at 193 Bolivars per USD as against the earlier rate of around 50 Bolivars per USD as per the previous exchange system which was called SICAD 2. And apart from the Venezuelan currency, we had few other currencies depreciating marginally like the Argentine Peso, Egyptian Pound, Mexican Peso which is business as usual for us. So to summarize the impact of these fluctuations on our financial statements, one is we had mark-to-market loss due to all these currency movements to the tune of Rs. 11.8 crores which is included in the other expenses in the income statement. When I say mark-to-market loss, this is the loss arising on consolidation of various subsidiary balance sheets at closing rates which is essentially a restating at different exchange rates.

A part of the mark-to-market loss amounting to Rs. 3 crores is included in the other income line item. This is more to do with disclosure. The mark-to-market impact of devaluation of Venezuelan currency is disclosed separately as an exceptional item. Now these are all the mark-to-market losses. But as you all know, the currency movement also impacts various other line items of the P&L as we recognize the revenue and cost which is the P&L of the

subsidiaries at different average rates. In this case, the notable impact is coming mainly from Euro and BRL. So the impact of Euro and BRL on the revenue line item is to the tune of approximately Rs. 0.3 crores, and on EBITDA it is around Rs. 2.2 crores.

Now with this in the background, let us look at our Q4 financial performance. In Q4, we achieved a revenue of 214 crores which is a degrowth of -5.6% over the last quarter and 4.9% vs Q4 of the last financial year. However, we should note that Q4 of last year had Vox Mobili revenue of around 18 crores included there. Normalizing for this and assuming a constant currency, the revenue would have remained almost flat as compared to Q3 and a growth of 11% as compared to Q4 of the last financial year. As mentioned in the last quarter, the gross margin percentage has marginally improved from 60.5% to 63% in Q3. Manpower cost has further reduced by around 5% from the previous quarter. The head count has come down from 1180 at the end of Q3 to around 1147 at the end of Q4.

Other OpEx, removing the mark-to-market ForEx loss of 11.8 crores, has marginally increased by around 8%. With this, the EBITDA as reported is 15.3% at 32.7 crores as against 46.5 crores and a margin of 20.5% in Q3. Now if I add that, the MTN loss included in the other OpEx line item and the impact of Euro and BRL that I just stated sometime back on our P&L, the like-for-like EBITDA as compared to quarter three would have been 47 crores with an EBITDA margin of 21%, which is what we had targeted as an exit EBITDA margin for Q4 when we gave our guidance in Q1.

On the operating profit, the reported operating loss is 2.7 crores as against a profit of 11.6 crores in Q3 with a margin of 5.1%. Again normalized for the ForEx the operating profit would have been 11.3 crores which is the same of 5.1% as in Q3.

Now on the taxation side, the tax cost for the quarter is higher than our quarterly average as we have had a one-time tax cost of 4 crores in one of our European subsidiaries because of huge ForEx gain arising out of an inter-company receivable that we had which was the

signatory in USD. So the net loss of 14.6 crores normalized for ForEx would have been a profit of around 5.7 crores as compared to 7.4 crores in Q3.

Now coming to balance sheet, our cash position continues to be healthy. Our gross cash has reduced marginally from 275 crores in Q3 to 271 crores in Q4. But our net cash has increased from 221 crores to 225 crores after deducting the net. This is after the outflow of 33 crores for the buyback in Q4.

On CapEx, we do not have any material CapEx during the quarter. And the last comment is our Board has approved a dividend of 15% for the financial year gone by. With this we are open to questions now. Thank you.

Moderator:

Thank you very much, sir. Participants, with this, we are going to start the Q&A interactive session. Should you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, Should you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. We have the first question from Mr. Prakash Rameshan. He is an individual investor. Your line is unmuted. You may go ahead and ask your question.

Prakash Rameshan:

Thank you for taking my question, gentlemen. Just a few questions around the growth on new products & new geographies.. Perhaps some guidance around the US operation in terms of the EBITDA stabilization to breakeven and the viability of the products to the existing OnMobile offering. And if possible, some guidance around the utilization of the cash.

Rajiv Pancholy:

Yes, good afternoon, Prakash. I am just trying to get things organized here. First of all, as I mentioned, the key step that we took in the last financial year was to basically come back to the next generation ringback tone product. This was a huge opportunity because as you know we had a very pervasive base of this product deployed in different geographies. First, we would upgrade that in the near term and is also a large opportunity. But in the process, we are recognizing that the world of mobile users is moving on. As you are familiar with OnMobile, you probably know

that most of our service users are using second generation phones today. That's what the majority use today. However, in all geographies, the unmistakable trend is towards powerful adoption and prices have come down to pretty much the same level. That opens up a door to a very different way in which users interact with the services including the ones that are offered by OnMobile.

So what you're witnessing is the first introduction that we have made is the transition of OnMobile away from a network-centric 2G service provider to an organization that generates applications in the smartphone space and today's mechanism. So this is the first transition and you will see more of these things coming about. What we will do is we will basically give more specific guidance on the numbers and growth associated with these new opportunities at the next conference call. And the reason is that having just introduced it, we are just going through the early learning curve and watching the trend. As you probably know, it takes more than a quarter for things to stabilize and for us to redeem the market trends more accurately. So at the end of our Q1 conference call, we will provide more accurate numbers in terms of what this means to OnMobile's future, not only for this first product but for others as well. They are in the pipeline.

Your second question was about the US operations and what we call OnMobile Live. We have succeeded, and I think this was achieved not now but I would say sometime back, an EBITDA breakeven performance of that unit. We are trying to see some interesting market trends in the US where some of our principal customers actually having gone through a stage of decline, we are seeing basically a turnaround of the business. At this point in time, it's modest. Nevertheless, the interaction of the revenues has changed in the US market place. The benefit of OnMobile Live is that it brought to us certain platforms that we are using to basically trigger growth particularly in Europe. If you look at the third quarter and the year that's gone by, it has become a big source of growth and a big growth engine for us in OnMobile. We have done extremely well in Europe. And I would say in large based on the successive utilization of the platforms, we have got through the Live acquisition. So having gone through the transition and the

integration of the Live subsidiary, we announced and to reap the benefits.

The third part question you had was on cash utilization. This is something again, like we said last year, we have introduced new products, sometimes put demands on CapEx and spending. When we come back to you at the end of July and talk about Q1, we will talk about what this new opportunity means and we will be able to outline what it means in terms of revenues and profitability and also the associated costs. And I think at that point, we will make a call in terms of what do we do with the cash that we have. The good news is that if we look at basically our offering plan over the next 12 months or this current financial year, we will generate a significant amount of cash. So our balance sheet will start to grow and obviously we will explore all options in terms of what to do with the cash. The first priority obviously will be to use the cash to fuel our business, but other options will always remain on the table.

Prakash Rameshan:

Very well. Thank you so much, sir. Thank you, and all the best.

Moderator:

Thank you very much, Mr. Rameshan. We have the next question from Mr. Amar Mourya from Indianivesh. Your line is unmuted. You may go ahead and ask your question.

Amar Mourya:

Thanks a lot for the opportunity. Congratulations Rajiv, for turning around the company and showing such fantastic numbers. Rajiv, first question is, if you can elaborate more about this next generation RBT and how it is different from the older one. And what kind of prospects will we see in this new version of the RBT. Then I will have a follow-up one.

Rajiv Pancholy:

Okay. This is something which I could spend an hour on but let me try and challenge myself to see if I could answer your question in a few minutes. When we actually try to take a look at the key assets of OnMobile and what parts we play, there were many ideas on the table. But one thing that this company has been known for is its ringback tone products. The ringback tone product which was conceived many years ago is not keeping pace with the current trends

in terms of mobile services consumption, and efforts was to understand what the issue was and why. Something became startlingly evident in which we had not put that much attention immediately. Let me give you an example. Here is a product or service which fundamentally the person is paying for, but never gets to see the benefit. It is for the entertainment of somebody calling you. So it's a very unusual kind of a thing, and that in many ways limit the benefits the payee is actually getting from the service. You can call it a fundamental flaw. We also went beyond and we said, "Let's try and understand what ringback tone really means." Really, the name itself is a description of what actually happens, not really the intent of the services. When you look at it from the end-users' perspective, we realize that this is actually the way for people to express their identity or the mood. It's not about the piece of music. When you look at it from a very different perspective, it shows you what needs to be done to make this a more enjoyable experience for the end user.

So one action that we took was, we said, "Okay. We have a fantastic and a huge base of RBT." Accept that overall penetration rates are low, and it's all because the service by itself is limited because of two reasons. It has been mis-positioned. And also because of the poor and inefficient 2G phones, people are not able to do what they really like to do with this stuff. So that's one thing because of the next generation RBT product. Now the second fact we are taking is we are saying we have actually an even more richer asset in this company which is we have the ability to leverage 8 to 10 seconds every mobile call by 1.5 billion people every day. This is a huge amount of space. One way to exploit that is to basically use it in the form of the ringback tones and that you are familiar with the service, but that's not all. So what we have done is we have basically redefined with OnMobile and said "ringback tone today is not a service, it's really a platform. It's a platform that allows us to exploit 8 to 10 seconds." I just want to reinforce that this 8 to 10 seconds is monopolistic space. It's not like the internet when anybody can access that. So you're looking at, based on today's statistics, 1.5 billion addressable base of OnMobile on average 6 to 7 calls per day multiplied by 8 to 10 seconds. It's a fantastic amount of real estate in which we can create a whole bunch of

experiences and a whole bunch of services. So what used to be known as a classic RBT service suddenly became a platform and an opportunity for us to create many different services, many different products, many different experiences.

On top of that, we are exploiting the space that we understand well. So we are not leaping off into a space that we don't understand. I don't know if I have answered your questions but I think in the parameter of this call, this is the first question.

Amar Mourya:

I got a little bit. I mean, correct me if I am wrong. What I understood here is that we have RBT as a platform. We obviously enjoy that space and time when somebody is calling or somebody is hearing, right, for a certain period of time. Now in that space and time, we can utilize that particular space and time for various other offerings rather than just the music. Right? Is that a correct assumption?

Rajiv Pancholy:

That's absolutely correct. Perfect.

Amar Mourya:

Now, sir, my second question is on a pretty different angle. Now what I understood here is the way telecom dynamics are changing, basically all telecom players are trying to be something else than the telecom players and others are trying to be a telecom player. So in this context, I mean, how OnMobile as a telco service provider can bring a lot of value to the telecom player in terms of maximizing their revenue? If you can add a little bit angle to this. I will tell you where I am coming from. I think in the past we attempted to do something on that line in the e-commerce space. It is not exactly e-commerce but we attempted to do that. I mean, we were not successful in that. So are we trying to relook that angle again?

Rajiv Pancholy:

We have a very clear vision of who we are. We are building upon on what we do well versus leaping off into a space that we don't understand. E-commerce and mobile commerce is one of those spaces where frankly there is no core competency within OnMobile. Anytime an organization takes a big leap, so often we hope and we dream that we can do something but we don't really understand that. I think the chances are we are not going to

succeed, and the victory will go to somebody who understands the space. So for me and for OnMobile, it is very important to basically stick to what we do understand and build upon it. And I think even more so because the space I just defined to you is so vast that choosing the space is in no way limiting our growth opportunity. On the contrary, that's a huge space and a huge opportunity for us. So there is no reason then to go and experiment with the things that we don't understand.

Amar Mourya:

Okay. Praveen, I have a last question for you. If you can guide what would be the CapEx and the tax rate we should assume for financial year 2016?

Praveen Kumar:

CapEx, we will be in the range of probably... So let me actually answer your question slightly differently. On the running business, current business, without including the new product strategy, we are discussing that we are going to come out and give you information in Q1. The CapEx will be pretty muted. We will have probably about 3 to 4 crores per quarter as we had in the past. If there is any one-time major CapEx that we are planning, we will come out and talk about that.

Amar Mourya:

But tentatively, what would be the range into that, in a ballpark quantum?

Praveen Kumar:

With the new product strategy, I think it will be too early to probably comment on that. We will come back to you definitely when we have a clear picture on that.

Amar Mourya:

Why I'm asking this thing because we are not innovating something extraordinary. We will be obviously extending the line of RBT, and we also alluded in the past that we will not be spending something very much on this, our new product strategy also. So that is the reason. I mean, internally we decided some quantum probably, it would be helpful.

Rajiv Pancholy:

Maybe I can correct your perception. When you said we are not inventing new things, I think on the contrary I would say we are inventing a whole bunch of new things. Secondly, that's the reason we are not giving the CapEx figures right now. We do expect the tax rate and utilization

of the services to be dramatically higher. And the amount of hardware we are putting into it which is one of the elements of CapEx is greatly linked to the capacity. I think as the volume build up, we will require CapEx to basically support those volumes.

Amar Mourya:

Okay. There will be a lot of deployment of hardware which will be going if new services pick up.

Rajiv Pancholy:

Exactly. Right. What we have done internally is kind of bifurcate the thinking into two parts. We look at basically the business as the usual part and around that we have some predictable idea that was required. And then as a whole of new set of initiatives, around which what would be the precise revenues going forward in the next couple of years, what would be the OpEx implication and the CapEx implication. That will come back probably around July 30th at the end of Q1 call.

Amar Mourya:

Okay. Fair enough. Praveen, if you can give me the tax rate?

Praveen Kumar:

Before we go to the tax rate, I just wanted to correct one of your statements when you said that the new product basically we are going to have different kind of content type beyond music, I think that statement is not correct because it is more on experience than just the content. Over the next few quarters, you will start to understand what Rajiv said and I think you just need to hold on for a little time and you just see.

Amar Mourya:

Okay. But it was a good overview about the overall outlook on the business part. Thank you, sir. So if you can give me the tax rate.

Praveen Kumar:

Amar, on the tax front, today our quarterly average of tax is around 5 to 6 crores as the tax that we have on the P&L. And we should not deviate largely from that in the next financial year.

Amar Mourya:

Okay. Fair enough, sir. Thanks a lot.

- Moderator:** Thank you very much. We have the next question from Mr. Deepak Poddar from Sapphire Capital. Your line is unmuted. You may go ahead and ask your question.
- Deepak Poddar:** Thank you very much for the opportunity. Just a follow-up on the tax rate, in the next 2 to 3 years, our tax rate can come down to about 30, 33%?
- Praveen Kumar:** Today, our ATR is higher because of the way the P&L is structured. We have an EBITDA but we have an operating loss because of the very high depreciation that we have. Also, the other issue we have is that in India we operate under ACV and we don't have a tax code. So what happens is most of the foreign taxes that we have outside, we can't take credit in India and in that case tax off reduced the effective tax rate. On a long-term basis, I think around 35 to 40% is a good number. In the short term, it will remain what it is today.
- Deepak Poddar:** 45%?
- Praveen Kumar:** No, I said in the long term, 35 to 40% is workable solution but in the short term it will remain at what it is today, about 5 to 6 crores irrespective of what the PBT will be.
- Deepak Poddar:** Okay. By long term, we need about 3 to 4 years, is it the timeline?
- Praveen Kumar:** It should be around 2 years.
- Deepak Poddar:** Okay. Around 2 years. I understood. And sir, in terms of our vision overall, how do we see our company is like if I look at a little longer term over the next three to four years? How big we want to grow or what kind of new innovative or products you would like to launch? Just to give an example, like a Paytm type of product that has gone so big. So anything on those lines or some other lines that we are thinking of where we can grow very big?
- Rajiv Pancholy:** When we started this journey in terms of trying to decide the strategy of the company, I am going back over the last 9, 10, 12 months. We asked ourselves a question and the many different ways of looking at this. In my opinion, before you pick up product strategy, you ask yourself some

fundamental questions. Number one is, what do you really know and understand today as a basic competence of the organization? Second thing is, if you have ideas about growing the business, how big is the space? And number three, do you really believe you can actually occupy the space, are you really clear in that space? First things first. I can tell you categorically. When I speak to other people and I describe our opportunity space regardless of what may be very lucrative and the latest buzzword in the market, I get to extremely promise that OnMobile is a player in the space in which the way we look at it today it is a very, very vast space. Nobody comes close to the space, and I think what is important about this space is it is a semi-monopolistic space. Unlike the internet we can have five people doing the same thing. In 8 to 10 seconds of space, once we are connected to a specific operator's network, we are the only one who can provide that service in the space. That is very important in terms of the opportunity size. Leave it at that. I won't even bother to try and parametrize it right now and at least think of this as an extremely huge opportunity space.

The second thing I will share is, we are not, as a company, working for 5 to 10% month-over-month, quarter-over-quarter stuff. We have big bills. I will leave it at that. And the reason why we are confident is in this space, we are single. This amounts to self-congratulatory thing but customers tell us that we are back. So when you have an organization that is working in a very vast space and which is seen as a leader in that space and we have the ability to execute, which I think we demonstrated over the last 12 months our success.

Deepak Poddar:

I got it. I understood. Basically, considering this vast opportunity that we have, what do you think would be our kind of CAGR revenue growth that we should be able to comfortably achieve over the next 3 to 4 years?

Rajiv Pancholy:

Like I said, wait for a few months, and we will come back to you with more accurate guidance.

Deepak Poddar:

Understood. Even in the margin guidance, you will not be giving in today's call?

Rajiv Pancholy:

No. I think the issue we are facing right now is a very technical issue. We have two things going on. If you asked me to comment on our business growth and trajectory, it is growing and very positive and you will see over the next few weeks and months many things happening in the business, all positive. We have been in the growth path. No question. What will happen in terms of the reported performance as you have seen the exchange rate is playing havoc with us. So in this scenario, till we have some stability and some visibility of what is going to happen in the exchange rate, it is very difficult to give any accurate guidance. You know, as Praveen mentioned, why fluctuations over a very short period of time, that is making it difficult. We as a company get 75% of revenues from outside of India. So we are particularly vulnerable to swings in exchange rate.

Deepak Poddar:

That I understand. Just as in this case, on an adjusted basis we had about 21% EBITDA margin. So going forward on an adjusted basis, is this the EBITDA margin that is sustainable going forward if I take aside currency fluctuation part? Or is there any scope for further improvement if I keep aside the currency fluctuation part?

Rajiv Pancholy:

What we said at the end of Q3 was that in a traditional business, the end of Q3 represented the kind of the baseline. That's around the 20-21% EBITDA margin, and that is sustainable and will hold notwithstanding the effects of foreign exchange. And then we have an overlay on that which will impact the new business both in terms of the opportunity of the revenues and also the cost. I think that part will come back and give you guidance.

Deepak Poddar:

Okay. Understood. Sir, in the last call you mentioned that our debt appreciation could reduce by more than half in FY17. Is it fair to assume that our depreciation will reduce from 145 crores to 65-70 crores odd in FY17?

Rajiv Pancholy:

Yeah, definitely. That will come down by 45 to 50% in the next financial year.

Deepak Poddar:

Okay. I understood. All the best to you, and thank you very much for taking questions.

Moderator: Thank you very much. We have the next question from Mr. Pritesh from MK Global. Your line is unmuted. You may go ahead and ask your question.

Pritesh: Thank you for the opportunity. Sir, based on your comments on new product developments and the efforts that you are putting, in your opinion or in the best guess, when do you think that the growth for the company should start?

Rajiv Pancholy: I would just say and perhaps correct your perception, I think we have been growing over the last three or four quarters. So we are in a growth mode even on a legacy business. I think the growth will only accelerate as we introduce new products.

Pritesh: Is there a big gestation period post these new product developments, post which you would start accelerating or the process... your comments on that?

Rajiv Pancholy: First of all, I am having some difficulty hearing you. It is extremely low in terms of the audio level. But I think I understand your question. There are two different kinds of gestation periods. If we approach it using a conventional model, we actually provide the service to an operator and the operator then takes it to market, then the gestation period tends to be longer because it's just another step, another organization, another set of dynamics, another set of priorities that come into play. We are also exploring at this point in time an alternate model where we take these offerings and products directly to the consumer. And the dynamics and the gestation period in that model are very different and short. The first instance that we have done is actually through the old model of going with an operator to partnership with an operator. But you are likely to see within this financial year OnMobile reaching out directly to the consumers. You will see a faster cycle.

Pritesh: Okay. That's the straight B2C?

Rajiv Pancholy: Yes.

Pritesh: Second, on the LatAm contract, what is the status and when it is up for renewal?

Sanjay Bhambri:

LatAm contract is up for renewal over the next quarter because that 5 years is complete and we are in the process of discussing with Telefonica. I think over the next 45 to 50 days, we should be able to come back to you and give you an update as to what is the status on the final negotiation.

Pritesh:

Okay. Last question, I have been on your calls for the last couple of quarters. On the cost side, you have given some comments in terms of reduction and right sizing and redundancies being addressed and gross margins being looked at. So have we gone through that or there is anymore juice left? This quarter specifically we have a fairly better gross margin. Is it one we should look at incrementally, if you could give some reply on that side?

Rajiv Pancholy:

I think in terms of the rising operating efficiency from the organization, we went to fairly address this programme. And you may actually look back at the financial results over the last few quarters, what we actually did was we regained a lot faster than anticipated. So we got the job done faster, and as a consequence, actually what we said we would do in Q4, we actually achieved that in earlier in Q3. So, no, this is not a case where indefinitely and indiscriminately start to cut cost because at the same time we are investing in the new things and we cannot not invest in new products. In terms of the gross margin, in the last call, we had given very clear guidance that the gross margins we had hit in Q3 was kind of the inflection point and beyond this point the gross margins start to go back up again. And I think you will feel that in Q4 results that the gross margins have to go up again. And I think the view is that yes, it will continue to go up. By what quantum? I won't specify right now, but I think you will really look forward to a growing trend on the gross margin.

Pritesh:

There is a growing trend on gross margin combined with new products bringing in some cost...

Rajiv Pancholy:

Could you repeat that please?

Pritesh:

Growing trend on gross margins, improving gross margins with some addition of cost on account of new product development, is that the assessment which I should take?

- Rajiv Pancholy:** I think, like I said, the impact of the new business is going to be treated separately and we will give some more sort of parameters around that. But at this point in time, on a conventional business, the best way to model that is to assume a growth in gross margin. That is what I am saying.
- Pritesh:** Lastly, I just want to take one data point. What would have been the cash flow to EBITDA conversion or EBITDA to cash flow conversion this year, and what is the operating cash flow that you would have generated?
- Praveen Kumar:** Pritesh, what happens is our depreciation... essentially our entire EBITDA minus the taxes that we pay out is what is the cash that we have... minus the CapEx. But if you see typically the CapEx has come down over the course of this year. So essentially, EBITDA minus the taxes payout is the cash that we generated, and it will continue to be the case for the next financial year.
- Pritesh:** EBITDA minus the tax payout?
- Praveen Kumar:** Yes.
- Pritesh:** So about 120 crores ballpark?
- Praveen Kumar:** Yeah, that is right.
- Pritesh:** Operating cash flow post which you would have done your capital expenditure post which you would have done a buyback and repaid the debt?
- Praveen Kumar:** Yeah, that is right. That repayment we have a million dollars per quarter which will go out as a standard for the next two financial years.
- Pritesh:** Okay. Thank you very much. All the best.
- Moderator:** Thank you very much. We have our next question from Mr. Raj Mohan. Your line is unmuted. You may go ahead and ask your question. He is a professional investor.
- Raj Mohan:** Thanks for taking my call. First on the Converged VAS segment, the success of the Converged VAS segment in the

developed markets has been the highlight for the company in the recent past. In this background, could you give us any information on any new customer which could potentially expand the revenue stream of the segment in a material way? On a sort of short to medium term basis, what can incrementally expect both through deeper mining of existing customer as well as acquisition of new customers probably in this fiscal and the next?

Rajiv Pancholy:

The Converged VAS product is an engine of growth especially for us in Europe. I cannot give specifics but we are indeed looking at both the initiatives expanding the reach of the product into new geographies as well as going back to the traditional customers who are using RBT but not Converged VAS and introducing them to OnMobile Converged VAS product. So both the activities are going on. I think as we see success, you will read about that. We will be announcing and sharing that information.

Raj Mohan:

Okay. But are we sort of fairly close to achieving success because the customer that you are having in that segment contributes significantly in terms of your incremental revenues? So are we on the anvil of seeing another customer with probably not that kind of size, probably material enough size around the corner?

Rajiv Pancholy:

First point, it's multiple customers on this product. Without giving details because we are in the process of discussion and there are confidentiality issues, yes, we are engaging many new customers with this product offering.

Raj Mohan:

Okay. Coming again back to the product initiative on the next gen RBT, based on the proliferation of smartphones which we see even in developing economies like India, does the management expect a significant transition to happen at a faster clip both in developed as well as developing economies for this next gen product?

Rajiv Pancholy:

Yes. I think, certainly you will see the adoption cycle of change... it's not just about RBT but in general about services. The smartphone migration, if you look at the countries where this has actually happened, you do see a change in the behaviour. Having said that, you really have to try and understand what does a smartphone really mean?

Let me give you some examples of how it's not just a smartphone issue. We do indeed in the developing economies where a lot of people use smartphones but they don't have data plans. So they end up owning a smartpone but they are not able to exploit or the capabilities in terms of interacting with services. So that is an issue and a challenge. On the one hand, you can give them a much better experience; on the other hand, they must have attractive data plans to be able to exploit it to its fullest.

The second thing is that they are those people who are using smartphones but who don't have data plans, end up using smartphones in the same way in using RBT services as they were using with 2G phones. It's through SMS, through IVR and things of that nature. In markets where there is proliferation of smartphones and there is a proliferation of data plans, we see a very different behaviour, which is a definite option cycle, and also a quicker rejection cycle for things that they don't like. So in that space, what we offer, what kind of experiences we provide to the end users, what kind of price range and how attractive we are not in the context of a limited suite of second generation services but all of the plethora of opportunities that a smartphone user has and all the apps we could download it takes you to a different scale of opportunity and also a different scale of challenges.

Raj Mohan:

Understood. So based on these points that you mentioned and based on the initial feel that you have after introducing the product in March, being two months into the product, are you seeing the responses to be what you had envisaged, what you had hoped? And in that sense, it will lead to a faster deployment into geographies which have both data as well as smartphone absorption at a higher level? So is your product currently based on the initial estimate success to the extent you had hoped for?

Rajiv Pancholy:

Yes. I will tell you exactly what we have learnt and what direction is taking us. I will talk about all the different learnings from the same issue deployment. First is about the fact that we grow into a smartphone universe. The way you interact with the end user changes. They have a problem. The smartphone user typically, they will not call the call centre. This is an online universe. Through blogs,

through chat lines, they communicate the decisions they take and features they like to see. So the cycle of responses to the suggestions to the desire is very different. The expectation changes. So it's not months to react to these situations and demands that if you want to retain the customer, you react in real time. So the relationship that used to go from OnMobile, to the operator, to the end-user, to a call centre suddenly gets transformed into an online relationship between the end user and OnMobile, not only OnMobile but the product development team within OnMobile. So there is profound ramification in terms of how we organize as a company and how we operate because this is a different universe now. And as a consequence, the cycles and everything change. The expectation is you will give me response within a day if not within hours versus weeks and months.

The second thing is that, as a consequence of this, the reaction time and the pace at which the product actually matures in the market is very little because you know immediately what these things are. Just to give you an example, the apps that we have created and the analytics built into them and we know even before we sort of collect the data through tertiary sources in terms of what is actually happening while using the service, and we are able to respond much faster to improving the product.

The other key learning is that it is one thing to create a great product but if you don't control the entire cycle and normally include the element of pricing you could have a great product but users will not take it because of the pricing. In today's business relationships, that is one thing OnMobile does not control. So, I just want to go back to the initial comment I made that one of the models that we will unveil in addition to our traditional B2B model is that we must be able to go directly to the consumer and control that very important element of not only great product but commence a great pricing.

Raj Mohan:

That was quite an enlightening explanation. Thank you so much for taking this much effort in explaining. One final question to you, Sanjay, to you. I wanted to understand how the deployment on MTN happening, and how does it look over the next two years?

- Sanjay Bhambri:** Alright. You have asking me that and I have been answering that. At the moment, we are deploying in seven to eight countries as you are aware of that. This year, in the first half of the year, we are targeting three more deployments and give a deck one up and down because as you know we had three-year and a three-and-a-half cycle to do that. So at the moment, we are on the track. And in the next quarter, when I come back, I will give you an update on which countries specifically we are working on over that we would have launched, and I will give you updates. At the moment, H1, we are looking at ballpark two to three.
- Raj Mohan:** Okay. I was just trying to understand whether it will quantitatively be making any material difference probably if not this year but next year in terms of contribution to the overall topline.
- Sanjay Bhambri:** If you remember, last year we said it would take around 24 months to get to a point where it starts making a material impact. So we continue to stick to it. So this year, it will not have that material impact, but next year, yes.
- Raj Mohan:** Okay. Thank you so much, and all the very best, sir.
- Rajiv Pancholy:** We will take one last question please.
- Moderator:** Sure, sir. Thank you very much, Mr. Mohan. And we will take the last question for today's session now, and that will be from Mr. Jarnail Zaveri from J&J holdings. Your line is unmuted. You may go ahead and ask your question.
- Jarnail Zaveri:** Hi, sir. Thanks for taking my question. Actually, the call really sounds interesting, and everything that you have promised so far, you have delivered. So congratulations to you and your team and really a great job. I just wanted to know. One thing I didn't quite understand is why would an operator let you go directly to their customer. You spoke something along the lines that you would directly be talking through an app tube. We will go to the customer but say if I am a Vodafone why would I let you do that?
- Rajiv Pancholy:** First of all, I have to congratulate you. It's a very insightful question because it is a question that we also ask "why we

would do it.” I think I will go the results first. The result is that when we start to explore this with some of our lead customers, we were actually surprised by their openness to the idea. So that is the end point. I think what it boils down to is a bit of what I said. You know, if you look at basically who in this smartphone universe is best positioned to respond and have the relationship, it cannot be an intermediary. The new generation of users wants that instantaneous connection, and you cannot have an operator immediate in that process. All the new successful apps that you see happen are built actually on the B2C model where the people offering the service have a direct relationship whether it’s a Flipkart app or whatever app. It is not a Vodafone app or an Airtel app or Telefonica app. I think that is the reality of the business today. If that’s the case, by pursuing an alternate model we can grow the business for everybody. Then I think you will see a lot of openness. And that is the essence of the conversation we have had with the operators. And we don’t want to use the word “bypass” because we are not. I think we are just changing the nature of the partnership that we have with the operator. So the operators will continue to be a very important part of our ecosystem. We will continue to have a very strong relationship system. It is just that, I think, the role a little bit in terms of who does what and also basically improving their topline and bottomline and improving our topline and bottomline.

Jarnail Zaveri:

Okay. So if I understood correctly, what you are trying to say is that then technically you will become like a little network where, say, every dollar that you earn or every rupee that you earn, a certain percentage would be going to the guy who gives you the music or certain percentage would be going to the operator who let you through to his customer and a certain percentage would be going to you.

Rajiv Pancholy:

Yess. I would say instead of a network, you can call it an ecosystem. That would be a better word to use. Yeah, we are envisaging a path where we are trying to become an ecosystem where operator relationships are critical element and a key pillar in this ecosystem.

Jarnail Zaveri:

Right. So even for them, it would be a hand job kind of a thing where they are getting a certain percentage of all the

business that you are pulling towards your app or your services?

Rajiv Pancholy:

Yes.

Jarnail Zaveri:

Wouldn't that be like a natural extension? I think Rajiv spoke a little about few seconds that we have and instead of listening to that mundane tone, you could basically push certain things over there. It could be ads for companies or it could be whatever else you had in mind. Is that thought process correct?

Rajiv Pancholy:

Absolutely. Without commenting on ads versus something else, the whole purpose of developing new services is exactly that, that they have literally 10 if not hundreds of different ways in which that space can monetized. Just imagine you had the right to all the advertising sites in a city. One of the different things you can do with it... Why somebody told you that was a monopoly. That is the way we look at our opportunity. We have these 8 to 10 seconds space. Different operators have different ideas in terms of what could be done. Our customers and end users have different ideas in terms of what could be done. Our own people have different ideas in terms of what could be done. In the past, what we have taken as an organization is that instead of saying that we have a single product, our philosophy is multiple products could exploit this space. Internally, we organize now in teams that are pursuing all of these things in parallel because they are indeed different opportunities. So it is actually a very, very profound change in our thinking and the way we actually conduct our business. And also in terms of what we offer, it is no longer just necessarily pure music. It can be a whole bunch of things. It's an audible space. So whatever you can do in terms of an audible space, you are limited by your imagination.

Jarnail Zaveri:

Okay. So then ads would be a certain thing. Discount Groupon kinds of things also could be a certain thing. Would this also be relevant to where the user is in terms of locations and you would have the idea of where this user particularly is. Now since you are using the smartphone, so would this also be a location aware?

Rajiv Pancholy:

You know, the good thing about smartphone is that smartphone is location aware, smartphone is status aware, smartphone is aware of many things, smartphone is aware of the fact that you are up in the air. So in terms of the input you can provide, this is what I keep saying, you can actually enhance your user experience in many different ways and take it to a level beyond what you could do with the second generation phones. In terms of models, I cannot give you a definite answer but yes, I think, some operators basically come back and say "Could I make the call free by making people listen to an ad?" Is that a good idea? It's not a good idea? That's debatable. But just to give you a flavour for what kind of things could be done with the space.

Jarnail Zaveri:

Okay. One last thing. So what happens when WhatsApp calling and Skype comes into play? I mean, you are obviously getting their space.

Rajiv Pancholy:

I think we have existing things. If I just mention basically the volume that we have today and the space we have and the voice calling, I don't think that what is happening in WhatsApp and other few IT players necessarily keeps me awake, and I think we have a long and big opportunity just in conventional stuff. Having said that, we are not exactly ignoring this segment. We are conversant of what's happening.

Jarnail Zaveri:

Okay. When in India would the services... whatever you are talking of, the next generation of your RBT platform, when in India would we be seeing that?

Rajiv Pancholy:

I would not comment on any specific market except that I think during this financial year we will see quite a few of the new services being introduced and it will probably happen in different geographies and there will be different services which are basically tuned to that particular geography.

Jarnail Zaveri:

Okay. I mean, it sounds really, really exciting and looking forward to hearing more details in the future calls. Once again, thanks so much and good luck.

Rajiv Pancholy:

Thank you.

Moderator:

Thank you very much. With this, we will end the Q&A session for today, and I would like to hand it over back to the management for any final or closing comments. Over to you, Mr. Pancholy.

Rajiv Pancholy:

Thank you again, ladies and gentlemen. Appreciate your time. It is a reflective moment in the life of OnMobile. We have two thoughts that I would like to share with you at this point in time. One is, looking backward at the year that we just concluded, it has been quite dramatic and extremely eventful. But I think there is one thing that we have to regain is the confidence and trust of our shareholders by simply doing one thing which is doing what we said we would do, and I hope we will establish our credibility on that front. The second thought I have is for me personally a sense of excitement looking at the opportunity before OnMobile and galvanizing and energizing everybody who is part of the OnMobile ecosystem to move as quickly as possible towards that new space. Please stay tuned, we will communicate developments as they happen, and I look forward to sharing more details with you in the next conference call. Thank you very much.

Moderator:

Thank you once again. I would like to thank all the investors for joining us today. Hope you all spent a useful time. With this, we conclude the investors call. Have a great day ahead. Thank you very much for joining.