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Q4 FY2017 Investors Conference Call

May 26th, 2017

SPEAKERS: Mr. François-Charles Sirois, Executive Chairman and Chief Executive Officer
Mr. Sanjay Bhambri, President and Chief of Operating Officer, India, Asia, Middle East and Africa
Mr. Praveen Kumar K J, Chief Financial Officer

Moderator:

Good evening, everyone. I am Harpreet Kapoor, the moderator of this call. Thank you for standing by and welcome to Q4 and Full year FY17 Investors Conference Call for OnMobile Global Limited. For the duration of the presentation, all participants' lines will be in listen-only mode. There will be an interaction to the results followed by a Q&A session. Joining us today on the call are Mr. FC, Executive Chairman and Chief Executive Officer, Mr. Sanjay Bhambri, President and Chief of Operating Officer - India, Asia, Middle East and Africa 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 or likely events or circumstances. Please be advised that this conference is being recorded today. So without any further delay, I would like to hand over the proceedings to Mr. F. C. Thank you and over to you, sir.

François-Charles:

Thank you very much. First of all, I want to start by telling you that I am not satisfied with the Q4 results. They are not that good. They come from, you know, the impact of the focus on ONMO versus the business-to-business sales that were put on the side for the last year. As you know, for the last months I've been telling the team that although we have a B2C initiative with ONMO, we remain a B2B company that we've been acting for last 17 years and that, you know, it's very important that we have a B2C initiative that leverages from our B2B and that, we were not jumping from B2B to B2C there, so it's very important what we do create a new sales. We have brought back focus in the last months and we are already seeing an interesting pipeline. We will see in the coming quarters certain new contracts that we will be signing, but keep in mind that obviously signing new contracts takes time and implementing new contracts and also seeing the results in the revenues line will take some time too. Implementation normally takes 3 to 6 to say to 9 months in some cases as well. So that's the first point I want you to keep in mind.

The second thing is that, you know, we are launching with Sprint, as we always planned to. Sprint has signed up with the app. We have signed up with all the content providers. So I am happy that from next week till September will be our phase for validating all the assumptions that we have on our business case. As I have been very clear on that front, our goal here is to be able to get to a million subscribers with Sprint. It will take, obviously some time to get to that base, but I want to put all the efforts necessary to make sure that we get to that base as fast as we can. So the next 4 months, just

to be clear, by September we will validate the assumptions that we have in our business case. Once we've done that from October till March, we will invest important dollars in marketing to build this base. So we will see in the next quarters an increase in the OpEx to be able to get that deployment done, so that's something that we have to see. And one thing I want to make sure I come back to you is that by the second quarter results, when we do the second quarter call, that we give out clear KPIs that we will be tracking from that point on. So in the call that we will do in October after the Q2 results, we will be able to clearly tell you the KPIs that we've achieved during the trial and what we are expecting to be able to track on a quarter-to-quarter for the US market.

As for India, the launch of ONMO is still planned by the end of this year and we are working on it. As you know, the telecom situation in India is quite challenged this time. So the main challenge that we have here is getting the right attention span from our telecom partners on this front. But we are clear that we are launching the ONMO initiative by the end of the year in India. And the last point I want to tell you as a wrap up is that I remain positive on our mid to long-term plan and, you know, we have three growth plans that are totally independent. The US market which is one leg, the Indian market with ONMO which is another leg and the third is global B2B sales which is the core business that we've been having as the base business that will be continuing on the growth plan for the next years also. So what I like about this plan is that I see interesting growth and they are independent. So, you know, we can do these three legs as separate, but as a combined business it looks attractive in the coming years. So that's my intro-statement to you. I am going to pass it on to Praveen for explaining the results.

Praveen Kumar:

Thank you, FC. A very good evening to all of you and welcome to our fourth quarter Earnings Call. On the financial performance in Q4, we did a revenue of rupees 164 crores as compared to 180 crores in last quarter which is a drop of around 9%. We have outlined the reasons for this in the presentation, but let me also explain you details on the same. So out of the 16 crores drop, around 10 crores is coming from the Europe region and out of this around 2.7 crores is because of the Euro rate, while the rupee strengthened in Q4. Our average realization of Euro was around Rs. 73 plus in Q3 which dropped to around Rs. 70 plus in Q4, so that's one of the reasons. And the rest of the drop is mainly attributed to the drop in volumes in this quarter in our CVAS business in Europe. That's about Europe and we hope to pick that up in the future quarter. And of the balance, India has contributed to around 2 crores. This is mainly because of the Jio effect where the Operators have either lost the subscribers or because of the bundled packs gaining prevalence.

Now of the balance, around 2.7 crores is coming out of our Asia region. This is because of one of our large customers in the region implementing double confirmation for service activations. We had talked about this in the last investors call as well. That impact is hopefully fully factored in Q4 and we hope to stabilize over this in the future quarters. That's on revenue.

Now, coming to the content cost and gross margin, since a large chunk of the revenue drop is because of the CVAS in Europe, the corresponding content cost is also lower and as the COGS is lower by 9%, the gross margin is also lower by 9%.

Manpower cost and OpEx – Manpower cost is lower by 3% from the last quarter and the operating expenses have also come down by around 8% as compared to Q3. With that, we have an EBITDA of around 19.7 crores and a margin of 12% which was 14% in the last quarter. Depreciation remaining almost flat, our operating profit is at 6.6 crores with an OPM of 4%. On the other income, the negative amount is mainly because of the FOREX loss arising out of the rupee appreciation against the USD in Q4. I think this has impacted fairly a large number of companies and us as well. But the number is small, as you see. Coming down, our PBT was at 4.2 crores, tax of 2.5 crores and a net profit of 1.6 crores.

Now of the other data points, our cash balance has seen a significant increase from 255 crores to 306 crores in Q4 on better working capital management this quarter. And we did a CapEx of around 8 crores in Q4. Our headcount remained broadly unchanged from the last quarter at around 1050 employees. These are some of the key data points that we all track. So with this we open up the call for questions that you may have.

Moderator:

Thank you so much, sir. With this, we will open the floor for Q&A interactive session. Participants, if you wish to ask a question, you may please press "0" and then "1" on your telephone keypad and wait for your name to be announced. I will repeat. To ask a question, you may please press "0" and then "1". The first question of the day we have from Kamal, individual investor. Your line is unmuted.

Kamal:

Yeah. Hi. Thank you. So a quick question. I've been attending most of the conference calls over the years and it's been more than a year since we've been hearing from the team here that Sprint is in the pipeline to be activated next month, next quarter within 6 months and today again I am hearing another 6 months by September you hope to see the validation of the model. What exactly is the scene at Sprint, is it implemented, is it technically linked, is the model in place, is the subscription opened on the new platform, so if you

could please elaborate your developments and engagements with Sprint, that could help. Thank you.

François-Charles:

Yeah. You know, just to be clear, we had signed Sprint in June of last year. We integrated the platform by November, we did some fixes, we signed with the content providers. Every requirement that was asked by Sprint was done and now just to be very clear everything is completed and signed off. So by next week, you know, we are going live. The goal is that the next 4 months is really testing in the market, you know, now what we have to prove is, the marketing strategies that we have, is to activate as many subscribers as we can with the lowest cost of the marketing. The big variable here is we believe that we can get to the one million subscribers at Sprint. The question is how much marketing will we have to invest to get to that mark and I want to make sure that, you know, before we throw up too much money that we prove the assumption that we have in our financial models. And before I can confirm to you that these assumptions are the ones that we should track, I want to make sure that we take the real numbers that we can deliver on, so that's why, you know, the next 4 months is important. When I say 4 months, it's definitely the plan but by next quarter when we do the call, you know, we will be able to give you information on how the app reacted and all this just before we commit to more KPIs and that's why we are talking about announcing the KPIs along with the Q2 results.

Kamal:

Okay. My second question pertains to the disruption within the industry from Jio and the way I look at it I don't think Jio is something that would use the services of OnMobile or ONMO on their platform. So what exactly is the percentage customer shift that you believe within the country would move from the other Operators to this and therefore it impacts your revenue for India by how much, do you have a projection for that?

Sanjay Bhambri:

All right. Hi. This is Sanjay this side. So fundamentally if you look at it, already you would have seen – so as I always said, we are a subset to the whole ecosystem and if you look at the ecosystem, everyone has been in over the last few weeks people have come out with the results and you would have see an impact of between 8 to 15% is the impact which the industry is seeing based on their strength vis-à-vis Jio and that I would say is the kind of boils down and reflects to us also. So I think we would be in the same zone or range of that and that is what is the playing out over the last quarter that you see a little softness in India revenue which was primarily because of we getting impacted by some of the base moving to Jio.

Kamal:

Okay. Thank you.

Moderator: Thanks for your question. Next we have Girish from TCS. Your line is unmuted. I will repeat, Girish from TCS your line is unmuted. Please go ahead and ask your question.

Girish: Hi. Good afternoon, folks. So my question is on Q3 results as opposed to Q4 because I wanted to ask a question on the other call as well and unfortunately I couldn't get a chance, but seeing the kind of your results which projected for Q4 are more or less in line with Q3 I would like to pose a question right now, so this is with regards to what you showed in note 4 in your Q3 results where you mentioned that there was a receivable from Egypt in which due to the devaluation for EGP you had encountered a loss of 17.2 crores, so the question here which I wanted to ask you is so, I mean, how could that be, I mean, a loss to OnMobile because whenever there is a devaluation with regards to a foreign currency, right, I mean, so shouldn't it be a loss which is indicated in Egypt's, I mean, OnMobile Egypt's accounts rather than OnMobile India's. I mean, are you able to understand my question or do you want me to elaborate a bit more?

Praveen Kumar: We understood your question. I think your question more relates to what happened in quarter 3 rather than quarter 4, right? So I will just give you an example, this is more financial in nature. We do an X amount of revenue in Egypt, right, and collect the money and keep it there. Now that X amount of money is worth, say, at those exchange rates pre-devaluation era, a million dollars, I am just taking an example. India is the holding company for all the subsidiaries that we do business in all these geographies. Now, after the devaluation, the amount that holding company can collect will get devaluated; it is not worth a million dollars anymore; if it is devaluated by 50%, it is worth only half-a-million dollars, so that's the loss that we will recognize in the books. In the Egypt books there will be no such loss because the Egypt entity will continue to collect the money in Egyptian pounds which is in the local currency. There will be no loss in the Egypt books but the amount that India will have to receive is lower because the Egyptian pound is not worth the same thing anymore as it was the pre-devaluation era, so that's impact. I don't know if you understood this.

Girish: Yes. I mean, this is where the exact confusion is because, I mean, say, I mean, just what you mentioned since if the currency is devaluated by half, right, shouldn't Egypt be the one to bear the expense because, I mean, it's the currency transaction happens, let's say, by a US dollars or, you know, the international, I mean, transaction medium, right, shouldn't Egypt be the one which should be spending twice the amount of money in order to pay India the exact

same amount, I mean, my point here is that India should receive 17.2 crores irrespective of whether devaluation occurs or not at Egypt side, right, because even if devaluation occurs, then it should be booked as loss under Egypt OnMobile's side and not rather on the India financials, right?

Praveen Kumar: No. That's wrong because India is the one which recognizes the receivables in USD, right, and this is as per the accounting standards. I think if you read the relevant accounting standards, you will understand that.

Girish: Okay. So you mean to say that India is the one who is going to bear exchange rate loss as opposed to Egypt?

Praveen Kumar: Yes.

Girish: Okay. So in that case does India issue a credit note on Egypt, I mean, how is, I mean, what happens to differential amount there?

Praveen Kumar: So it is written-off. Egypt will have a receivable from India. Now, what is worth now is much lesser and that gets disclosed as the loss.

Girish: Okay. So, let's say, okay, what is the exact opposite happens, say, Egyptian currency appreciated rather than getting devaluated, so would India stands to receive an excess amount in such a case?

Praveen Kumar: Then we will have a gain in the books.

Girish: Okay. Sure. So, yeah, this is what I just wanted to get clarified because, I mean, I wasn't able to ask this question during the last call. Okay. Thank you, Mr. Praveen and Sanjay.

Praveen Kumar: Thank you.

Moderator: Before taking next question I will announce it again. If you wish to ask a question, you may please press "0" and then "1". Next we have Prakash, individual investor. Your line is unmuted.

Prakash: Thank you, gentlemen, for the results and thank you for taking my call. I have 4 or 5 questions which I will list out upfront and then they can be answered by any of the people on the call. First on hedge strategies currency-wise because every quarter for the past 6 quarters we've been seeing some currencies or the other playing havoc just try to get an understanding on that. Secondly, Jio has clearly impacted India, but how large is the new business opportunity in India if you could give us some flavor on that? Thirdly, just trying to understand with a 3-4 year perspective from now the

new business versus the legacy B2B business how do you see the new business grow versus the legacy business, is it going to be the same scale as the legacy business? 2-3X of the legacy business, I mean, just the flavor on that? Fourth question basically what's going to be the cash burn impact of what's going to happen in the US over the next 2 quarters just if you could give us an indication?

The fifth is just a comment saying that if indeed the plans are so incredible and the cash in the books has gone up continuing with the buyback as you have done over the past 2 years actually makes extreme sense to us long-term investors. I rest my questions.

Praveen Kumar:

Thank you, Prakash. I will take the first one on the hedging strategy and then Sanjay and FC. will pitch in on the other questions. We do have a hedging policy in-house which largely covers the receivables that are there in the USD you know, actually fully convertible currencies. But the challenge that we have is and it's not only OnMobile but a lot of other companies is that some of these currencies in deteriorating economic situations where you cannot buy a cover or they are not hedgeable. In fact, in India today if you see, there are hardly a handful of currencies that you can buy a cover for. When it is Egyptian pound or Argentinian peso or, Venezuelan Bolivar, no one will give a hedge on these currencies. And unfortunately our business model is such that we have a local operating entity in all these countries and we cannot avoid transactions in the local currencies in these countries. As opposed to, you know, any other managed service company which does billing from India and it's easier for them because they can fix the rates in USD or Euro or any other convertible currency, but we can't do that because we have local operating presence in all these countries.

Prakash:

Fair. So basically you are saying that the hedge will remain a challenge going forward also?

Praveen Kumar:

Yes. As long as it is outside of these few currencies like the USD, Euro or the likes.

Prakash:

So the only way to correct that is that the USD, Euro revenue should go up significantly compared to the others?

Praveen Kumar:

Absolutely.

Prakash:

Fair enough. Thank you.

Sanjay Bhambri:

Hi, Prakash. Sanjay this side. On the second question you said that with the impact of rather, the Jio coming in what is the impact on

new additions for our new businesses is like data penetration and the usage, it is growing up drastically which is basically the great factor for us to help and launch new products, so I think it's going to be positive for us. That was on a second, if that was the question, Prakash.

François-Charles:

Yeah. Let's just keep in mind I just want to touch base on the ONMO plan, the ONMO plan obviously leverages the RBT base, but ONMO is larger than RBT, you know, in the sense of the opportunity, so it's not limited to what's happening with the RBT, so that's it.

Sanjay Bhambri:

And it requires data, which is what Jio is.

François-Charles:

The third question which was how should we see the legacy base, the B2B base that we have today grow worldwide and I just want to come back to that. As you know, we are doing B2B sales worldwide, we are doing also CVAS pushes pretty much - entertainment and lifestyle content that we manage for operators worldwide and this market is growing right now for the next 5 years. I want to say it again so that we realize that OnMobile offices, its 44 offices around the world, you know, we always complain that it's costly to maintain all these offices, but let's keep in mind that we have people in all these countries and that's a big strength that we have when we are talking about selling on the B2B front. So one of the initiatives that we are redoing is making sure that we give all the tools to the sales people so they can actually push the sales and I must say, in the last month where we started re-pushing on sales, we built a funnel faster than any other company that I have seen so far in that space. So that's the strength that OnMobile has. So now it's really for us to be able to grab this market. Now, how much legacy, you know, how much B2B sales can we add to our current base. I want to be more careful on giving numbers out, but I see that it can be an interesting market that's growing, let's say at a faster pace than just inflation that we can see in most of these countries. That's what I can say on that front, so I am hoping that we can have interesting great news. We are really a growing business on that front for the next years.

Cash burn in the US, again, the big variables on the millions and we are talking in millions to invest. Now keep in mind again one million subscriber mark that we've given ourselves is 2% penetration at Sprint for 50 million subs. The marketing dollars will be focused around the Sprint subscribers, as you know, today we just own Sprint in the US market. If that works, we might enlarge to other carriers, but for now it's only Sprint. One million subscribers at 3 dollars a month which is the retail price of the service, we are talking about, you know, 36 million dollars on the yearly basis of revenues, so that's 3 million a month. With the cost of the content and the

revenue share with Sprint, we are still left with an interesting amount of money. We will invest in marketing within that base and once we expand the base obviously it will be less costly to maintain. So I will be real honest with you, we have numbers here and I don't want to throw out the numbers. I don't want to anybody to be afraid, that's why we really want to make sure that we are very diligent on how we build this base, so we are not going to go crazy. We are going to be very smart about it, but, yes, we have to expect millions of dollars of impact in the coming quarters.

And the last question was concerning a buyback, you know, we've done buybacks in the years before. For now I am not expecting to do a buyback. I want to make sure that we have a clear view of the investment dollars that we will be doing in the US market and Indian market for launching ONMO. Once this is done, then we will be in a better situation to assess the potential buyback.

Moderator:

Sir, we have a question from Miten from HDFC Mutual Fund. Your line is unmuted.

Miten:

Yeah. Hi. We sort of had a very small subscriber base in Sprint on the RBT side, how is it that we are going to approach the ONMO product differently from the way we have approached the RBT product and, you know, get to that one million which is a very large number relative to what we are doing on RBT there?

François-Charles:

The two products we have with Sprint, RBT and now the Sprint music plus product, you know, I must say, it's an old interface and old product that do not have any marketing or not that much marketing, let's put it this way, and not that much R&D. So now we are really leap frogging into a new product that's a way better one, has way larger content as we signed all the content providers. One more limitation we have solved is that they will be able to cut the music by themselves and we are planning to invest real dollars in marketing. So now really the base is around 100,000 paid subscribers with Sprint. So based out of the existing and new metrics we have our marketing plan and what should we expect and we feel that we have a case to build that one million, so that's about, you know, what we are planning to do. Also, you know, I must say that, next month we will be launching Discover in the US which is an app that is not linked to carrier, so we will be addressing 100% in the US market. So that will be a compliment to how Discover can drive our subscribers on express. So now, you know, those are other KPIs that we will have that we can see and then discuss about once we have the date on that front, so we have a double strategy in the US, let's put it this way.

Miten: Okay. And so on the Discover app, since you do not have a bottleneck in terms of the tie up with the telco that we need to do sort of what would be the deciding factor in the date of the launch?

François-Charles: We wanted to launch Express first before we launch Discover. Now that the Express will be launched we are going to work on the Discover launch in the month of June. So and again we are starting from the base of zero, but the key with Discover right now is not too contrary to Sprint where we have a key objective of getting one million paying subscribers. For Discover right now it's only, you know, the most important is to be able to get the user feedback and confirm the Discover stimulates Express so that if there is a clear link, do people understand the link between the Discover and Express and can we drive subscription for Express using Discover or not and keep in mind that the main reason why we did not launch Discover in India was not to jeopardize our base of 30 million subscribers in India. So this market metrics is very important for us to be able to evaluate how we decide to launch Discover in India.

Miten: Okay. So you are saying the Discover will predominantly be launched in markets where you are not large on RBT?

François-Charles: No. I think I want to validate that Discover can really be an add on to RBT and have an indicative impact on our base and once this is confirmed, my personal view is that Discover will stimulate the ONMO Express offering in that sense and not be confused or intrigued by any negativity. In India where we clearly have a big base we don't want to have any negative impact on that, so that's the plan.

Moderator: Once again, participants, I would request you if you have any questions, you may please press "0" and then "1". Next question we have from Brinda from Versatile Wealth. Your line is unmuted.

Brinda: Yeah. I had two questions and one observation, question is to FC. Given the fact that the businesses of B2B and B2C are quite different, in the sense, the focus what you need is quite different, are you at some point of time contemplating that to be a different company altogether in terms of because in a way the kind of people you need, the strategy what you need to have for driving a B2C business is completely different from B2B. So I would like to understand what would be that thought process, that's one. On the financials, tax on a consolidated basis we have about 23.5 crores, if I am right, and the tax payout and that seems to be a fairly large number, you know, if I have to work back and calculate the profitability, then the number looks quite different. So where is the gap coming from? And number three is that, you know, as the

observation that Praveen had mentioned that since you have operations across various regions you are not able to hedge, even though you have local presence in any of those local countries, you can actually hedge it against the US currency, right, so this is quite possible I don't know where is the gap coming from? Because it's very critical that a gentleman also mentioned for the last few quarters we've been hit by some swings on the currency and that actually had an impact. Thank you.

François-Charles:

Let me start with the first one. I will ask Praveen to address the two other ones. My view between B2C and B2B is that, you know, today we have a real strength and a real base on the business-to-business and we need to leverage this on our B2C, instead of going on a pure B2C where principally we are starting from scratch. We currently have a base worldwide of 72 million paying subscribers on ring back tones and the premises for building ONMO was to be able to leverage that base and leverage what's the revenues and the reach today on the ring back tones to be able to build a base on our own brand with a lower customer acquisition than we would if we just launched from scratch. So that's the premise and I really believe in a model where it's a B2C and that, you know, we are building this way. So that's why when we deal with the mobile operators, there are customers on one hand and there are partners on the other hand and to be able to migrate that base and work on the base that they have so that we can build our own B2C offering, you know, they are gaining, we are gaining because they are actually partners in that sense. Today, if we would have the 72 million subscribers which are on their 60 different brands right now on one platform named ONMO and one price point, I mean, the value of this company would be totally different, so that's the goal. Obviously the challenge to migrate, each country has a different challenge as we know and to be able to launch this country-over-country that's a bit slowdown that we are now. Once we get the traction going and we get the base flowing, then we could decide, you know, we see a different business between the ONMO business and the CVAS entertainment and lifestyle subscription business and we want us to be in one business or the other, that could be a separate discussion. Once we've done that move over, although I must be honest with you that though right now we are focused on the entertainment and sound and I like the integrated OnMobile, one company altogether and I think I know the benefits of both and being able to work with mobile operator both as customers and as partners, I think it's a win-win situation. So my preference would be to keep them both under the same roof and leverage the strength of each on that front.

Brinda:

Yeah. On that think, well, I appreciate the point. I do agree that, you know, sort of you can leverage, you know, will any of those B2B

companies or the operators would they also see as a potential threat because right now it's their revenue stream and in future, the revenue, instead of coming to them directly if it is going to be routed through you therefore, you know, sort of will there will be some challenge, that is one. And the another point I remember you were mentioning that, you know, you were talking about a \$3 per month for a Sprint I was looking at the, you know, sort of average ARPU for Sprint on a quarterly basis and that's about \$50, so we are talking about \$9 on top of \$50, is it a reasonable number to expect?

François-Charles:

On the \$3, we've done some sensitivity analysis. We looked at all this in the US market and we feel that that's the right pricing. Obviously, if we see that, the pricing is wrong, that's obviously one of the key KPIs, and if that needs to be adjusted, then, you know, we will do that rapidly and that's part of the 3-4 months trial period to make sure that we validate this. But so far, we think we have the right pricing. I just want to come back on your point when you said, about being a threat to the operators and we are challenging them. Today, we really believe that the integrated ONMO offering is a win-win with the operators and it's still going to capture the top line on their revenues; we are going to capture more revenues on our side also because, you know, we are talking about the revenue share that's way different than just a service deal, but our plan is to make sure that we can grow that base. And our plan is also that we can make economies of scale on the content side and the way we manage the service, so they save cost on that front too. So, that's why I really view this as a partnership and not as a competition with our customer.

Brinda:

Sure.

Praveen Kumar:

Okay. On the tax front I think this is also something, that's coming out of our large presence in terms of various countries. So if you look at the structure, you are looking at the tax number coming in the consolidated financial statement. So what does this include, right. This includes the corporate taxes that we pay in various countries and this also includes the withholding taxes that we incur while bringing the money back from different countries to India. India's profit and tax should be justifiably higher to claim credits for these taxes. Now, for our size and complexity of business, I think, I've been mentioning this even in the earlier calls as well, there is a certain baseline amount of tax that I will have to pay because there are withholding taxes, losses that are incurred that I may not be able to take credit of in India. Also, there are profit making countries where we pay corporate taxes, but we also have loss-making countries but we cannot take the tax back from the government for these loss making countries. So, the tax is one number, but the effective tax

rate is another. For us to have a reasonable effective tax rate of anywhere between 35 to 40 %, we need to have a decent amount of PBT to absorb it. And that will happen only when we have a large profit, I mean, when our business grows and all the plans, you know, go live and then my revenues grow and my profitability grows and then the tax will not grow in proportion to the profitability. That's on the tax front.

Then on the hedging or the question on covering the USD leg of the transaction. Yes, when we say there is a ForEx impact whether it is a profit or a gain, what you said is right there are two legs to the transaction, one is the local currency to the USD or a Euro or typically it is USD and then the USD to INR. We do have a policy where we consider the USD leg of the transactions before assessing the exposure and covering it. Now, the ForEx loss does not occur only because of this. There are various other things that have to be factored in, say, for example, when we consolidate the balance sheets of various entities, right, if there is a currency devaluation or if rupee has appreciated against that currency, we will have an impact because you are just taking the financials of the subsidiary and consolidating at a lower rate for all the balance sheet items and the difference whether it is positive or negative, if it's positive, it will go as ForEx gain and negative, it goes as ForEx loss. Second thing is what is the visibility in terms of getting the funds from these countries to India. If there is a restriction or if there is a country where the visibility for the short-term is lower and for the long-term is higher, you can't hedge it for a longer period. For example, for some reason the central bank of a Country does not have sufficient foreign exchange reserves to cover the repatriation, then there is no visibility of repatriating this money, in which case even if I cover, it is only the unlimited payouts that go as premiums and I don't get any benefit. So there are multiple factors that we will have to look at when we look at the ForEx loss.

Brinda: Yeah. On that point, Praveen, I completely agree. So on some of the items it is only balance sheet, so it's only a re-statement, so there is no actual cash loss, but in some of that which is, you know, ongoing business it could be a potential loss, right?

Praveen Kumar: Absolutely. Yes. So we look at that. In fact, all the ForEx losses are not necessarily cash losses.

Brinda: Yeah.

Moderator: Sir, next question we have from Sandeep from Fidelity. Your line is unmuted.

Sandeep: Hi, guys. Two questions, one is on if you could explain a little bit more decline in revenues in Europe quarter and when do you see B2B business coming back to growth?

Praveen Kumar: Okay. Sandeep, the decline in Europe partially I said is because of the ForEx, but I think I also explained a large chunk of it is because of the CVAS. So if you look at the CVAS business last year, we had a quarter-on-quarter increase in revenues. We peaked out in quarter 3 and in quarter 4 we had Operator side issues. I think they have their own specific focus areas for this quarter and the next two, so they reduced the marketing spend on the CVAS business. So in this market the way we work is we put in our own spend, the operator also puts in his spend and then we target consumers for acquisition. That activity declined in quarter 4 and that's why we have seen a dip in the revenue.

Sandeep: And when do you see the B2B business overall coming back to growth?

Sanjay Bhambri: Sandeep, Sanjay this side. I think we are just seeing the impact of all the things happening in different parts of the world especially India, Bangladesh, Europe. I think we would get into a stabilize mode by the end of this quarter and it would take few months to get to a growth mode. So I think in next few months we should be back on the growth with a reinforced focus on new acquisition of customers. All put together at least it should start playing out in H2.

Sandeep: All right. Thank you. And actually if you could sort of will it be possible to just give a broad contour of how do you see the opportunity in India for ONMO Discover kind of thing like you explained in US? I know US you are about to launch, so the strategy is much more clearer, but would it be possible to just sort of broadly what kind of an opportunity do you see in India?

François-Charles: Yeah. You know, I want to reiterate the fact that, because we want to protect our base in India because we are dealing with, you know, big operators that have been having challenges and we really wanted to have a partnership with the operators, we delayed any launch of free app that could jeopardize the base. And that, you know, in any model that's the worst thing because now you are just delaying and waiting on operators that have obviously many other things on the agenda. And I hate to wait for others, so that's why, you know, right now we have a clear plan on what needs to be done. We are very confident by the end of the year we will be live in India. It's very important for me and I am looking at the Indian market, especially even Jio, when Jio brought clearly a major change in telecom market, I think the beauty of this for India is that, India was

139 in terms of mobile data consumption ranking and after 6 months with the launch of Jio it's now number one worldwide. And we have a country that clearly is mobile data savvy, let's put it this way. And the opportunity for us is clear that we can get millions of subs on our apps and for me the strategy has to be two-fold. We have a base that we think we can migrate with real revenues, on the other front I really see that we can build the base of free subscribers and the ONMO brand has to be out there across the market, not just for the operators that will be migrating. So all I can tell you is that by the end of the year we will be live, you know with something that can touch everybody in India and our goal is to have this deployed with millions of subscribers. So impact on the P&L obviously is going to be more, you know, to be honest by the end of the year, so the real impact on the P&L is for next year as starting in, you know, April. But the foundation at least will be all clear. It's a very big year for deliverables for OnMobile. When you look at launching, the Sprint launch that we are doing this week, the Discover launch that we are doing next month, the launch of ONMO in India by the end of the year, we are revamping the whole CVAS platform that will happen also this year, the whole front of pushing the whole sales team worldwide to grow, it's really setting up the foundation so that by next year we have something significant. What I know right now is that, we are talking a bit in the blank because I can't tell you the KPIs for the US, can't tell you the KPIs for India and so on. All I can tell you is when I look at the 3-year plan as the main investor in this company and promoter I am quite happy now. It starts to deliver obviously and, you know, when I look at the first quarter performance, you know, I am not happy, but this performance has nothing to do with our plan in hand. So that's, you know, at the end that's the situation.

Sandeep: Great. Thank you.

Praveen Kumar: Thanks, Sandeep. Harpreet, we will take one last question, please.

Moderator: Sure, sir. The last question of the day we have from name can't be recognized from J&J Holding. Your line is unmuted.

J & J Holding: Yeah. Hi. Thanks for taking my question. I had a couple of questions. The first one is are we going to have another CEO or are you as a promoter also be going to be the final CEO?

François-Charles: This Company has been live for 17 years and I see this plan is growing. It's not my ambition to be a CEO on a very, very long term. As you know, I have many other businesses also. So the reason why I dedicated my time to OnMobile is I really, really believe in this plan. That's why I am spending my time now. But, Keep in mind that the

structure we have put in place, with Sanjay and Ignacio both heading their regions, the east and the west, they are totally accountable for their P&L. So in one sense we almost have 3 CEOs here, so that's my view and normally, if everything falls like it should, we should be happy with the results and happy with our present CEOs, so at the end, that's the way we are trying to operate here.

J & J Holding:

Awesome. And one other thing. Do you feel like ONMO, the new app that we have is a bit late to the party, so I moved over to Jio, I am just giving my example I don't know how many others also feel that way, and I actually use the Jio play app where basically you have the music library and you can select whatever song you want straight from the music library to become your ringtone, so it's kind of like your Apple music app having an option to make whatever song you want as your ringtone, so do you feel like there's going to be a point in time where like, you know, say, ONMO comes next year it's still going to be a ring back tone only, whereas somebody like an Apple music can just have, you know, like any song being selected as a ringtone, do you see any of that happening?

Sanjay Bhambri:

Hi. Sanjay this side. No, I think, what you are comparing at the moment is the service deliverables today in a ring back tone service in any of the operators in India vis-à-vis what is there in Jio. So what is envisaged in ONMO is little different and that's why we are confident because, as you see, the base is moving, the expectation of the users is moving and you need to be on an open garden rather than a walled garden. At the moment the description you've given is on a close garden or a walled garden rather, whereas, ONMO is going to be an open garden where you could do stuff which if I am your friend and I am on Airtel platform for example, and you are in Jio, you could not do that on the Jio platform, for example, or Airtel platform for that matter. So fundamentally the service deliverables are different and that's the whole pitch we are taking to the consumer that, as they are moving forward, the new ONMO offering is going to be in line with their expectation.

J & J Holding:

Okay. And my last question is that are we looking for any other value added service providers, you know, as an acquisition target, since we do have cash, are we looking to acquire maybe another line per se other than ring back tone?

Praveen Kumar:

No. We keep evaluating opportunities based on requirements that we have whether they are for market expansion or product expansion or platform expansion. As a company we keep looking at these from time to time, but there is nothing concrete as of now that we can talk about.

- François-Charles:** And I just want to reiterate, you know, the strength that we have is selling. So it's less risky for us to have our own product line in sales than to start acquiring, so obviously if we find a company that's really a great deal that we can get at a good price with good revenues and the matrix makes sense, of course, we are not going to say no, but for now we are really focused on growing our own sales part.
- Sanjay Bhambri:** And only one addition is that you said ring back tones I think as the first part when FC was addressing was that there's a huge focus and push on the CVAS digital storefront, so it's not just the ring back tones, we are talking about. There's also a large focus in the organization on the digital storefronts, so this is the key message you got.
- J & J Holding:** Okay. So what are some of the new things? You said that you are going to revamp the CVAS product by the end of this year, what are some of the things or what are some of the changes if you could tell us a little bit?
- François-Charles:** If you don't mind, I would push that to maybe Q3, you know, when we are ready to announce the product. It's very important for me that when we announce something that we can do, we are live and not have the delay that we've been having. Like announcing ONMO and not still having it live, everybody expecting in order to see things, so from now on, when we announce something, it will be live.
- J & J Holding:** Okay. All right. Thank you so much and good luck for the next few quarters.
- François-Charles:** Thank you. So I thank you very much everyone for this call. I look forward to have some news for you in Q1 and Q2 and then moving closer to interesting matrix that we can discuss. Thank you.
- Moderator:** Thank you so much, speakers, for addressing the session. Thank you, participants, for joining the call. That does conclude our conference call for today. You may all disconnect now. Thank you and have a pleasant evening.