

OnMobile Global Limited
Q2 11-12
Investors Conference Call

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SPEAKER: **Arvind Rao – Executive Chairman of the
Board, Chief Executive Officer and
Managing Director**

Rajesh Moorti – Chief Financial Officer

Operator:

Good morning, ladies and gentlemen. I am Anchal Rastogi, the moderator of this call. Thank you for standing by and welcome to the OnMobile Investors Conference Call for Q2 2011-12 presented by Mr. Arvind Rao, the CEO. For the duration of presentation, all participants' line will be in a listen-only mode. There will be a presentation followed by a Q&A session. Please be advised this conference is being recorded today. I would like to hand over the conference call to Mr. Rao. Over to you, sir.

Arvind Rao:

Thank you very much and good morning to all shareholders, potential investors, fund managers and analysts who are on this call. I am going to walk you through a little bit of the highlights and some of the parameters relating to the revenue line of the P&L and then I will hand it over to our CFO, Rajesh Moorti, who will take you through the details on the quarter earnings on the first versus the first half last year and on the rolling four-quarter financials that we have talked about. As we have said in the past repeatedly, when we run this company, our primary focus is on rolling four-quarter basis followed by year to date basis and then the quarterly basis because some of our projects, as we know, are very long term.

So very quickly, let me go through the highlights. The first thing is that the international revenues of OnMobile in the last quarter have grown exceptionally well. In the second quarter, they contributed 42% of the top line revenue and in the exit month of September international revenues were 47% of our top line. So in other words, based on this and on the trend lines that we are seeing from economies including Latin America, including Europe, including Africa, we see that within the rest of this fiscal year we will transition into a company where international revenues account for more than 50% of our top line and that percentage is going to increase from quarter to quarter. So that's the major inflection point change for this company. And as I have said on many other calls before that, we are extremely happy about this because overseas business has slightly different characteristics from the Indian business in terms of margins, in terms of the commercial terms, in terms of the longevity of the contracts and in terms of the operators that we deal with at a global level.

The third point I want to make on the highlights is that the large Telefonica Latin American project as you know

which is the largest project that we have undertaken in the history of the company continues to ramp up significantly month on month, quarter on quarter and as of today it is entirely on track. We have launched it in another country in this quarter which means that we are now addressing 94% of the addressable subscriber reach in that market. And the other main milestone on the Latin American project is that we have turned cashflow positive on this huge project within the first year of a five-year contract. Now as many of you know, in revenue share based contracts, the revenue keeps increasing year on year on year as the number of services that we launch in each market goes up. As the market gets educated, users become more familiar with our products and the usage increases year to year. So this is a very, very encouraging trend and a sign for us.

I will now come to the second point of the talking points that we distributed which is when I look at the revenue distribution by geography we see two interesting trends. One is that, on the international side, the emerging markets year-on-year have shown a 154% growth. That comes largely from Latin America and from Africa which are two extremely large continents where we have deployed services with Tier I operators in multiple countries which are firing extremely well and those projects are going exceptionally well. On the developed market side, in spite of you all may have heard in terms of economic recessions or crisis in Europe and stuff, we see that the market for our services is so under penetrated that we believe that achieving significant revenue growth even in those economies is eminently possible and I am happy that the results that we are seeing in individual countries and individual operators is actually attesting to that belief. So even though the developed markets year-on-year for the first half for us have grown at roughly 29% as opposed to the emerging market which are 154%. That 29% is starting from a much lower base and we are confident that that number is going to keep going up as we penetrate more and more into the large markets of North America and Europe in particular.

Now coming to the Indian market, today our dependence on the Indian market is reducing year-on-year, quarter-on-quarter and we see that in the first half of this year, the Indian business for us has actually degrown at 8%. Now this is a combination of multiple things. As we have said in

the past, there are factors regarding the actual value of the subscribers, the new subscribers that are coming onstream in India today are extremely low ARPU. Many of them use their cell phones only for emergency calls or they have multiple SIMS. So the quality of the subscribers ads that you read does not really translate materially into enhanced revenues. That's one factor. The second factor as you all know is with the TRAI regulations and all that. There have been restrictions on the promotions that are done by operators. Again since we are white labeled, we are dependent on the operators for promotion of bandwidth and for promoting the services. And many of the operators, as I have said before on earlier calls, are pretty consumed with rolling their 3G services as well. So the Indian market is going through a bit of a slowdown, we believe. And until 3G really ramps up and rolls out in a major manner, which we do not see for another at least one or two years with the increasing adoption of handsets and end user sophistication. There will be a slowdown in the Indian market in terms of value-added services top line. But one thing I feel good about is that we are more than offsetting that with growth on the international markets. And again as I said earlier, the international markets to us are far more attractive on all dimensions starting from the revenue line end user prices being higher, revenue shares being higher and stable as opposed to the Indian market. We get tax preferences for overseas income and since the software for the products have largely been expensed, the contribution margin from every international rupee or dollar is materially higher than the Indian business. So for all these reasons, the trends in terms of going more and more international are actually panning out well for us and I can see that only continuing in the ongoing quarters. So with that I am going to turn it over to Rajesh who will walk you through the financials.

Rajesh Moorti:

Thanks Arvind and good morning everyone. In the quarter ended September, we did a revenue of roughly 155 crores with a gross margin of around 78% and EBITDA margin of around 21% which was better than the previous quarter. Some of the key factors which have impacted our numbers this quarter are – if you look at the split of our business between the core and investment, the investment part of the business which Arvind talked about is really the Latin America and African business have contributed very well to the overall result. Again if you go back to what we have been telling over the last few quarters is – I mean, this

really confirms our basic business. You need to incur a lot of expenses before you launch operations in one country but once you go live we have seen that typically 12 months from the date of deployment that business is EBITDA positive and we are more or less based on bulk of our investment projects and that's a very encouraging sign. As our Telefonica project got launched last year and we had been giving you a separate impact of that business on overall results, we would actually merge the two and give the combined results to you going forward. We do not really feel it's necessary to split it because the entire Telefonica business will move from investment bucket to the core bucket.

Some of the other developments, we have sold some stakes in a company called Verse Innovation Pvt. Ltd. and that has benefited us on the other income line to the tune of around 46.5 crores. The other significant development this quarter was – one sword which was hanging over the company about the VAT matter in the Karnataka state has been adjudicated in favour of the company. The Karnatak VAT Tribunal actually has heard the matter and passed the order which is favourable to us. The background to this was while we pay service tax on the entire revenue that we generate in India, the Karnataka state government was expecting that we also VAT on the same revenue and we had appealed against that order of the authority and the matter has now been adjudicated in our favour. So the amount of cash which was deposited by the company with the department and the bank guarantee that we have given, now those will be released in the coming quarter or so. Overall during this quarter, our capex was roughly around 13 crores and that takes the capex for the first half to around 25 crores. If you look at our depreciation line, as we have been explaining in the couple of quarters, the amortization of the marketing development and deployment fee that we pay is increasing quarter-on-quarter in line with the business projections. So this quarter, we had additional 2.5 crores of amortization and that's why the depreciation amount has gone up and the effective tax rate has been roughly around 25%.

If you look at the point number 4 in the talking point, we always give a feel of how the rolling four quarters number would look like and again I think that's what is trending in line with the first half results. The revenue has grown by

16%. The gross profit has grown 28% and the EBITDA has grown by 22%. So again, these are the right signs. It's a profitable revenue growth and that's we expect to maintain in the coming quarters. So with that, we can open the floor for Q&A.

Moderator:

If you wish to ask a question, please press "0" "1" on your telephone keypad and wait for your name to be announced. If you wish to cancel your request, please press "0" "2". And the first question is coming from Navin Kulkarni. Navin, you can please go ahead and ask your question.

Navin Kulkarni:

Congratulations on the good set of numbers. I have three questions. First is on the impact of TRAI regulation. I think it's almost one month since this regulation was implemented. So what kind of impact are you seeing with regards to this? Second is, last quarter you have indicated that the exit revenue rate from Telefonica, that is Latam operations was in the range of around 4 crores per month. So could you give us debt for September? Third is, we have seen that in the international business, revenues have grown by almost 6 crores on a sequential basis. Could you indicate how this strong growth rate is coming, where exactly it is coming from, referring to the core business in the international segment? Thank you.

Arvind Rao:

I will take your question and Rajesh can join as well. On the TRAI impact, the TRAI directive has just been rolled out. So the impact in reality that we are seeing in the second quarter is the early stages of the TRAI impact. Right now, there is still a lot of lack of clarity as to where it is going to end up. For example, you all have seen that when TRAI said that the limit for sending out SMSes from a single number was 100 SMSes and then in response to that people and other companies are making the appeal. They have increased that to 200. So, you know, this regulatory stuff is something that is extremely to predict for us. So while we prepare for it, it's very hard to give a number saying the impact of TRAI is going to be X or Y%. That's point number one.

Point number two is, this TRAI thing is something that we have seen and anticipated in some form or the other for the last two years. It's something new. From a product standpoint and from an operational standpoint, we have been gearing up for a while now. So as a company that has got

multiple product lines and deployed across all operators and today it's 50% dependent on India rather than 75, 80%. The exposure or the risk we have to any material TRAI adverse impact has actually been reduced significantly over the last one or two quarters. We will continue to see that going forward. It's very hard to figure out what the TRAI impact is but the point is that they are looking to solve a genuine problem and while many people in the industry have given them alternative solutions at doing it, these alternative solutions are going to take a bit of time to implement within the telecom operators. So there may be some additional impact in the initial part but that may be reduced as we go forward in the fourth quarter and the first quarter of next year.

Your question was in Latin America. We have talked about the exit run rate. I want to sort of be careful about giving out numbers because of customer confidentiality but what I can tell you is that there is material growth of at least 40 plus percent on that number that you talked about in terms of exit run rate. So we are seeing sort on a sequential quarterly basis. Again, it goes up and down based on when a new country comes onstream or when a country introduces a strong promotional campaign for our products because they were early in the process. But we feel fairly comfortable that on a quarter-to-quarter basis we should be able to grow our revenue from Latin America today at at least 20 to 25% quarter-on-quarter. That's the second part.

Rajesh Moorti:

Navin, your third question was sequential international revenue growth in the core business. That is really contributed by different countries. We have businesses in Europe. We have businesses in Asian countries over the last few years. And again if you go back to the first level, we have talked about the emerging markets and that's really where the bulk of the growth is.

[Technical Difficulty]

Arvind Rao:

We can't hear the person who's asking the question clearly at all. So you may have to repeat the question.

Moderator:

Navin, can you hear me?

Navin Kulkarni:

Yeah, may questions have been answered. Thanks a lot.

Moderator: Thanks, Navin. The next question is from Gaurav Malhotra from Citi Group. Gaurav, you can go ahead and ask your question please.

Gaurav Malhotra: Sir, maybe just two, three questions. Firstly, on the TRAI adverse impact, if you could just give little more detail as to where all you feel that impact is coming. Secondly, on the domestic business, should we assume that this business will continue to slightly trend down over the next two, three quarters before settling down and there's no impact and get the benefit of 3G? Thirdly, we see that your content cost and the employee cost has been moving up over the last two, three quarters. If you could just provide us some explanation on that.

Arvind Rao: Gaurav, I will answer the first question. Again, I will repeat what I have said before which is on the TRAI impact – we are a company which is present in many operators with several products. So the TRAI impact largely has to do with the how the services are promoted to the end user in different channels like whether it is SMS or outbound dialers etcetera. So, the impact really is not in any one specific product or any one specific region or any specific operator. It's more or less across the board and it's not just affecting us. It's going to affect all of the players in the vast ecosystem. Now based on the product mix and the size of the customer, the size of the ecosystem player, the impact of TRAI is going to be more or less. The point that I'm trying to make to you is that we have taken various king steps for the last two years. So we believe that while there could be an impact over the next probably two, three, four quarters because it's still very early in the process. We are de-risking pretty well ahead of the foe. I am not really that worried about it. We are still having a constructive dialogue with TRAI, with industry association, with operators on this. It's a common collective problem but it's very difficult at this point to actually pin a number down as the policy has not really been frozen and the snag of the directive is still being sensed out.

The second point you made was, what are the trends in the Indian market. Over here like I said before, I really feel that the Indian market will really take off with the next wave of growth when 3G really becomes far more cohesive in terms of headsets active users, in terms of services like video sharing, interactive video, video chat. Until these services

really take off , we do not have an option. We are not going to see the historical growth rates that were there in the Indian market. Actually, this is one of the reasons why in the last two years we have spent so much money and time and management effort focusing on international growth and planting the seeds so that if there is a slowdown in the Indian market, we are better positioned than anybody else to ride that slowdown through.

Now regarding the third one in terms of content cost and employee cost, let Rajesh answer that.

Rajesh Moorti:

Hi Gaurav. The content cost as we were explaining in the note is a function of really where the revenue comes from, which geography and what's the product mix. I will take a simple example. Cricket, while we all love this game but there is a concentration of cricket match in certain months or certain quarters of the year and the revenue mix affects the content cost. So it's very difficult to really put a number but broadly it will be in that range, 75 to 80% of gross margin. In terms of people cost, there are two things. Again, one aspect where we explain where is really the salary revision effective from first July. That has affected the people cost. And the second one is we continue to hire people in certain new areas like enhancement in North American markets. It is transitioning of some of the product teams and to put us on the range of products and feature. So that investment continues to happen. That's why the people cost is higher.

Gaurav Malhotra:

Okay. Thanks.

Moderator:

Thanks, Gaurav. The next question is from Vinayak J. Singh from Morgan Stanley. Vinay, you can go ahead and ask your question please.

Vinayak Singh:

Thank you so much. Firstly, congratulations on the good set of results. I have a couple of questions. You know, one of your comments in your note suggests that from Q3 you would not be differentiating between investments and core business and you gave a reason out there. Just to understand right, so going ahead in the future quarters, you would just have two breakdowns, domestic and international revenues and one EBITDA margin, is that right?

Arvind Rao:

Vinayak, the main reason for doing this core and investment split, which I think is something that I don't think I have seen any other listed companies really do this anywhere in the world, was because of the very large Latin American project investment where we invested literally 150 to 200 crores. The main reason for doing this analysis was to break that out and explain to investors how that is being treated and the impact on core business was in the investment. As Rajesh said, in the next quarter, that entire large project is going to move from investment to core. So it doesn't mean that we're not going to invest. We're going to have a lot of investments but as I have said before investments that OnMobile makes fall into two buckets. There are country- or customer-specific investments. So for example, if we launch in Vodafone Egypt or if we launch in AT&T USA or if we launch in Vodacom Tanzania or if we launch in Telecom Malaysia in Malaysia, there are what I call as organic investments which we can easily absorb from our existing business cashflows, margins and these investments should not have any sort of adverse effect on our business results and we can absorb them in our stride. The only project that really did not meet that criteria was this Telefonica large Latin American project because it was the first time we have taken. The parameters and characteristics of that were quite different. At this point, as I have said before, we do not see any such large projects with the same upfront investment requirement in our radar screen as of today. We do have a couple of similar size large projects but we do not have the same quantum of upfront investment that is required. We will do this analysis internally for sure but if we find that it is not meaningful going forward, then we will discontinue it.

Vinayak Singh:

Sure. Arvind, actually the reason I asked is probably it was very simple. What do we expect next quarter to see in your disclosures because interestingly in this quarter the question I have in my mind is, what surprised me very pleasantly was the investments losses have come down to a mere 26 million, down from 99 million last quarter of 161 million the previous quarter which is fantastic. But what also surprises me unfortunately for the negative is the core business EBITDA margin is down to 22.6% or 351 million in absolute terms. So I feel something is happening really good in the investment business possibly. It's coming to breakeven in a couple of quarters and going to be moving up higher levels. But something seems to be wrong on the

domestic front. Some problem seems to be emerging either in the domestic front or in the core international business. So will we be getting this kind of breakups in the future of your EBITDA and if you could explain to us why is this happening for this quarter as well on the margin front and the core business doing a bit worse of the last quarter and new business and the investments are doing much better off in this quarter.

Arvind Rao:

So here is the situation. If you really look at any particular large deployment of us, Telefonica Spain or AT&T USA or Vodafone India or any of these things, the margins on these customers typically increase over the contract duration before they stabilize. So what is happening is, on your core business you have revenue streams which are at a high degree of maturity and two-tiered revenue stream at high maturity and therefore decent margins will pick up from investments which are still in the early stages. So even if it's one year old and we are broken even. The EBITDA on that is going to be lower than the EBITDA on your existing core business average. So when you take any project from your investment bucket and put in into the core business, you are going to see a slight hiccup in terms of downward trajectory on the margins because you are putting in something that is lower than the average. But the key thing over here is whether it dips or if the core business dips a bit due to the addition of this investment, that doesn't bother me per se because I know that a project that is only at one year maturity on a five-year contract, over the period of the next year and the year after that when the margins come back and get closer to the long term margin potential, that one will reflect in the core business margins going back up. It doesn't bother me per se. okay?

Rajesh Moorti:

Vinayak, a couple of other things which I explained to another question is the cost increase as well. So we had a salary revision in this quarter which was not there in the earlier one and the content cost mix as a percentage of the – because of the revenue mix, it's also something which is negatively impacting this quarter but again it is in the broad range that we talk about the gross margin about 75 to 80% during the quarter.

Arvind Rao:

I missed the question for the organizer. Can you figure out which line this is on and cut that line or call that line?

Moderator: Sure, sir.

Arvind Rao: Okay. It seems to be clearer now. Sorry, Vinay. You were saying?

Vinayak Singh: Sorry, Arvind. Rajesh, I did understand when you were trying to say that this could be a quarterly discrepancy and our core investments are doing better, so you will merge it into the overall business. Last quarter, you had given us future guidance as Rajesh suggested earlier. Last quarter's guidance was for the year as a whole wherein we are talking about 20% year-on-year revenue growth and 22.5% EBITDA growth. Now what would be the number would you be giving to us for the next 12 months? You did mention the 6-month number but would you be giving to us for the future again or you would just maintain that number?

Arvind Rao: I think right now we would maintain that number. The only reason I say this is because we are fairly bullish based on the visibility that we have today. I have no qualms on the international dimension which is roughly 50% of our revenue today and growing. On the Indian side is where I have some, what shall I say, I am not as bullish because of all the reasons that I talked about whether it's TRAI or what's going on. The Indian telecom sector is still – what shall I say? – it's not very stable given that we have this core structural problem of overlicensing. I mean, until that problem is solved, the telecom sector is not going to be stable. It's not going to be stable for the telecom operators and therefore it's not going to be stable for any of the ecosystem that deals with the telecom operator as well. That's to do with the structural problem of overlicensing even over and above whatever has to happen with TRAI. So on that front, obviously if it pans out that whatever negative could happen does not happen, then obviously the Indian side should show a offside compared to – we are just being conservative on the Indian side. And hence, what I would say is that for the entire basis I want to stick with the original what you call estimates or whatever we have discussed because I feel that those are something that I feel comfortable saying that we will, as I said, meet or exceed.

Vinayak Singh: Sure. Very quickly, one small question. You have mentioned that you have launched in another country. Is it with the same operator or is it with a new operator?

- Arvind Rao:** It's with the same operator.
- Vinayak Singh:** Okay. Thank you so much, sir.
- Moderator:** Thanks Vinay. The next question is from Srinivas Rao from Deutsche Bank. Sir, you can please go ahead and ask your question.
- Srinivas Rao:** Thank you very much. This is Srini here. Arvind and Rajesh, hi. I wanted to ask on two things. First is, any colour on RBT project to which you have been I think pursuing for sometime? So is there any kind of an update on that? And second, if you can throw some light on, as I said, the Dilithium which is acquired probably with the eye on the 3G business. So any kind of update on how that is progressing?
- Arvind Rao:** On the RBT project, that thing continues. I mean, again I don't want to release numbers or anything specific to that. So that's going on and that has been also served as a very useful reference case for us for some of the discussions that we have had overseas on similar projects. So that project is proceeding on tract. On the Dilithium asset purchase that you talked about, we have two businesses over there really. One is the international business where we continue to have discussions with operators in North America, Europe and with the internet service providers and continue to deploy the equipment there. In India, what's happened is we have deployed the technology platforms in several of the Indian operators. So that sort of if you want to call it – has validated the superiority of the technology and the fact that we can marry it with our business model and our account management and wrapping content and services around those platforms. So those are in place today. So from a standpoint of are we positioned to capitalize on the takeoff on the 3G in India once it happens, the answer is yes. Today, are we seeing the results? The answer is no. Because on 3G, the services are still in a very early stage of ramping up.
- Srinivas Rao:** Sure. Sir, I just wanted to check with you. The number in your breakdown as you provided, international and core, the international right now which is non-core would be completely mostly your Telefonica project. Would that be correct?

Rajesh Moorti: Not entirely, Srin. Telefonica is a significant part of that. We have Africa. We have other projects which went live six to nine months ago.

Srinivas Rao: Yeah. In fact, that's what I also wanted to check. There have been some other projects with some of the Vodafone affiliates. Any colour on how those are progressing?

Arvind Rao: That's easy because it can be said in two words. The answer is 'very well'. The main deployments that we have had with Vodafone using Vodafone India as a reference case have been in the emerging markets. So like we have said before we are live in several countries and Africa. And I must say that the results are tracking exactly like what we have demonstrated in many of our stuff. Year-on-year growth is not of 40-50% year-on-year. So we are very happy with the results and so is the local Vodafone operator. And the good thing about it is that it's getting now visibility at a much higher level in the Vodafone system and we are now working with them and we are hoping that something much larger happens.

Srinivas Rao: Finally, I just wanted to ask, as you have mentioned the Telefonica project is cashflow positive practically within a year of the launch. Is that something which is ahead of what you have anticipated or this is typically what would be a typical launch for an operator because this is the first time we do have granularity in how the business model works for OnMobile. Is it a good template to kind of go by whenever you would get new client wins or the existing projects which are ramping up?

Arvind Rao: These things depend on a lot of factors. For example, if we have to launch a new operator or a new product line in a market where we are already present like India, then on an incremental basis we can breakeven much faster. The reason why this project was watched so carefully by us is because it was a far away entire continent, we were not familiar with the continent, we had no presence in the continent. Before we started we paid a lot of money upfront. So there was a lot of risk that we were taking on. So that's why it has pleasantly surprised me that even under all those adverse circumstances we were able to cashflow breakeven in less than one year. So in most markets where we are familiar and we are adding a new operator as a

customer or we are adding a new product line to an existing customer, we can achieve this point much faster than a year.

Srinivas Rao: Fair enough. Thanks. I will come back again.

Moderator: Thanks, sir. The next question is from Ashi Anand from Kotak India Focus. Sir, you can please go ahead and ask your question.

Ashi Anand: Good morning, Arvind and Rajesh. Congratulations on a good set of numbers. It's good to see the way Telefonica is ramping up. I have a few questions. Last quarter, we have spoken of a high margin contract we have from Pakistan. I just want to understand, any kind of update in terms of being able to get that contract back?

Arvind Rao: No, I don't have any update on that.

Ashi Anand: Fine. Secondly, in terms of Telefonica Spain, I just want to understand the progress.

Arvind Rao: Progress is doing extremely well. We have gone live and the results are extremely positive. Unfortunately, I cannot give – like I said, in the case of Telefonica Latin America, we have given the size of the project and said that it's a multi-country deployment. We have been okay giving out some results. In the case of either single operator or single market deployments, we are bound by customer confidentiality. We can't give out results. What I can tell you is that they are entirely in track with some of the trend lines that we have been telling you on our international growth.

Ashi Anand: Arvind, would it be possible to share the ARPUs in Telefonica Spain and how they compare with India?

Arvind Rao: No. That means you are asking for something that is the competitors of Telefonica Spain would love to hear. I'm sorry but I'm loyal to our customers and I can't give that out.

Ashi Anand: That's completely sane. Just coming to the domestic business, we have been speaking of the TRAI impact. Now there are two sets of regulations which have been coming out. One is, those related to the 'do not dial' which actually

impacted the marketing of the product but the other regulation which is in relation with the active confirmation. I just want to understand, in terms of the impact that we are currently seeing, is this currently primarily related to 'do not dial' or has it been some kind of action on the active confirmation part also by operators?

Arvind Rao:

I think, the action is being taken on both fronts. The action is still being implemented in all the operators across all circles and all that. Which is why I said that the impact still remains to be seen as to how severe or how much it could really impact things. Now the good thing being that when I met TRAI people and through both directly and through the industry associations, they are actually extremely reasonable people. While they have the right intent, they have also told us very categorically that "Listen, we see value-added services as an essential industry doing a lot of value to consumers and it's a sunrise industry in the Indian telecom sector and we don't want that to be really hurt badly." So like I'm telling you, they do something, they try with good intent but then in some cases they either back off or they make the necessary modifications. So like I said, we have just seen. It happened from 100 SMSes a day. They wanted 200 SMSes a day. So I have that level of confidence in the TRAI that at the end of the day they are reasonable people and they will be responsive. Their question today is, the directives may appear stringent because they are still waiting to see credible responses from the industry in terms of alternative ways of tackling the problem of some consumers being served the wrong content or some consumers receiving calls or promotional messages that should not have been sent out. So when there are better controls and policies and technology from the telecom operators and their vast eco players to sort of solve their problem in a more holistic manner rather than just across the board fiat. I believe that they would be more than happy to adopt that.

Ashi Anand:

Excellent. Just a couple of other questions. We launched RBT Light with a couple of operators, any progress on that? How the progress has been on RBT Light?

Arvind Rao:

I don't have the initial results. I will be able to give that probably next but RBT Light again is nothing more than a new price point for RBT in reality.

- Ashi Anand:** In a way, it was one of things which we believed could help us increase penetration of RBT which has been plateauing.
- Arvind Rao:** Yes. We have actually launched it. I don't have the results with me. You can call me tomorrow, day after or whenever, I will get those results out.
- Ashi Anand:** Perfect. Excellent. Just one bookkeeping question. The 46 crores that we have got Verse, how much of the stake have we sold and do we have any stake less than that?
- Arvind Rao:** We have a small slug of about 4 or 5% left.
- Ashi Anand:** And how much did we sell to realize 46 crores?
- Arvind Rao:** About 9 to 10%, I think.
- Ashi Anand:** Excellent. Thanks a lot and congrats on the numbers once again.
- Moderator:** Thanks, Mr. Anand. The next question is from Nehar Shah. Please go ahead and ask your question.
- Nehar Shah:** Good morning, sir. Congratulations on the encouraging results from the international business. My question to you is just in terms of understanding your margins going forward, as the international business sort of becomes a bigger proportion of your business, how do you see margins going forward? I just want to understand what's the level of operating leverage that you see in the business come FY13, FY14 from the current 23% odd margins? Do you see operating margins increasing significantly or not?
- Arvind Rao:** Like I have said, the margins in the international dimension are higher than sort of the domestic business. This is one of the main reasons why we are going overseas as well. The challenge for us on international is what is the level of investment that you make. So I will come back to the analogy I have used before. How hard do you step on the accelerator? So if we step very lightly on the international revenue growth accelerator, no operating margin could increase significantly from today's level. Right? That's one thing. On the other hand, what's happening is, we are seeing that as our international results become more and more evident whether I look at Africa, whether I look at Latin America, whether I look at Europe, the success story

is that we are generating from our initial deployment. They spread because typically customers and telecom operators tract one another from a competitive standpoint. They know what the other people are doing. As it spreads, our opportunities also increase in terms of being either contacted by the telecom operators or new doors opening. Now the challenge for us is, do we trade lightly on those opportunities or do we go whole hawk? So far, while we have said, obviously we can't go whole hawk just because resource wise we are not geared up to do it.

There are so many opportunities we see internationally that it's a crime for us not to really chase several of them. So it's a delicate balancing act where we try to manage our investment on the international dimension to capture the most attractive opportunities while not allowing the margins to drop further. So I believe that there is significant upside in the current blended average margins as we go international. In the long run – when I say long run, meaning let's say five years from now, when we are well entrenched in almost all international markets, the margins will be significantly or materially higher than the current levels. Absolutely yes.

Nehar Shah:

Okay, fair enough. My second question was on the double confirmation recommendation by TRAI. I am not sure if we have covered this earlier but what do you think is the possibility of that coming to fruition in India, for the operators, VAS providers such as yourself sort of going to deal with it?

Arvind Rao:

So there are active discussions going on with TRAI from everybody – the operators, VAS ecosystem player, industry associations. Basically, it's saying that some of the requests of the double confirmation are difficult to implement. Obviously to get people in rural India, to reply by fax or email is completely unrealistic and impractical. It's not going to happen. In fact, even a response by SMS in many cases from people who can't read and write is not easy. Right? So in some cases what we have said is people can call a toll free number, then can call a number and just speak into the system and that will confirm their requirement. That is one. The second thing that we have been doing from an OnMobile standpoint is that we have been focusing much more on using technology to actually generate pull-based traffic rather than have push-based

promotions. So in other words, the classic one is we have this technology called “press * to copy” which is “press *9” now. Right? Now that is a user-initiated action and it really minimizes the requirement for a separate promotional message to be sent out. So just like that we have got several other technologies and tools and software that we are rolling out in several operators which will increase the the amount of pull-based consumption of services and minimize the requirement for outbound and promotional messages. So we are basically focusing very heavily on using technology if you want to call it to make the services far more viral and pull-based so that we don’t need the push that has been done in the last couple of years.

Rajesh Moorti:

More and more smartphones get added. That is only going to increase. The pull-based services will only increase.

Nehar Shah:

Sure. If double confirmation comes in and you know even a diluted form coming in having a significant impact because getting a consumer or a customer, it creates an extra sort of decision point for him which might impact your penetration rate to a certain level. I just wanted to get kind of a feel for that a little bit.

Arvind Rao:

You are absolutely right in that there will be an impact for several players on that dimension but like I said today when I look at what percentage of either new subscriptions or content consumption download and stuff, for OnMobile it comes from pull-based stuff like “Press *9” or music search or other technologies that we have deployed, our search and development tools. That is getting to be extremely high. So our dependency on this push is much less than other players in the VAS ecosystem.

Nehar Shah:

Okay. Fair enough. My last question is just a little bit on the balance sheet. You have currently about 190 odd crores of cash sitting on your balance sheet while at the same time you have about 83, 84 crores of debt sitting on the balance sheet. I just wanted to understand why raised that when you have so much cash sitting on your balance sheet and pay that incremental interest cost?

Rajesh Moorti:

When we decide to raise that obviously it was a conscious call to really take advantage of the interest rate differential. We had significant amount of business in foreign currency and we can raise just to finance the international operations,

the buying of asset, so on and so forth which is available to us at a far cheaper rate even if you factor in the hedging cost.

Nehar Shah: Okay. Can I just know what's your interest rate in the international and [Unclear] [0:48:28] is all largely international debt?

Rajesh Moorti: Yes. Interest rate is roughly 5.5 to 6%.

Nehar Shah: Okay. Great. This includes the hedging cost as well?

Rajesh Moorti: Yeah.

Nehar Moorti: Okay. Great. Thank you and congrats once again.

Moderator: Thanks, sir. The next question is from Mayur Githani from OHM Group. You can please go ahead and ask your question, Mayur.

Mayur Githani: Good morning everyone. Sir, just wanted some update on Vodafone countries. We are currently live on six countries?

Arvind Rao: Yeah, more or less.

Mayur Githani: Okay. And any plan of adding up the next two quarters or we are just focusing on the existing LATAM and the current countries that we are running in.

Arvind Rao: No. See, we have separate teams for both what we call as hunting and farming. Right? So we have separate teams who are dedicated to revenue rampup, revenue maximization increasing the presence that we have in every market that we are present in and every customer that we are present in. That's separate from the prospecting or hunting teams which are focused on new business development. What we are finding very increasing and positive trend for OnMobile is that as we demonstrate more and more success stories within large telecom operator groups, whether it is Telefonica, whether it is Vodafone, whether it is T-Mobile, Orange, the numbers begin speaking for themselves. So it's just a matter of time before we believe we will actually be allowed to launch in multiple other countries. That could include completely new regions. So like I said, today we are very strongly present in Vodafone emerging markets. The next step is

really to take that presence into other entire regions of the world where that operator is there. So those are more or less, I would say with a high degree of certainty, bound to happen based on our discussion. It's just a matter of timing.

Mayur Githani: Okay. Sir, North America deployment, we will start from this coming quarter or...?

Arvind Rao: North America, we're already live with several operators. So the results are ramping up well and we should see that going forward quarter-by-quarter and on a yearly basis. That's a large market which is very early in the stage of development for OnMobile.

Mayur Githani: Alright. Sir, Verse stake currently, you said, is 4 to 5%. So do we plan to exit out by this year end or we still plan to hold on to them?

Arvind Rao: No, we will exit out. I mean, as we have said, our job was to incubate, grow the company, prove the case that we can actually incubate and nurture and next year we are launching a new ship. The real question is, we are fairly a large player in our space. How can we help entrepreneurs and other VAS ecosystem players also leverage of our distributions trend, our network presence on our platforms etcetera. So it has proved the case extremely well. So having proven the purpose, I think it's only reasonable that we are out. That's not the best use of our capital. Let me put it that way.

Mayur Githani: Okay. And a couple of other questions. Sir, what percentage of business would come from Pakistan? I mean, do we have only one client there which we have for security reasons we are out from there or do we have more customers as well?

Arvind Rao: Today, we have a very small business if at all in Pakistan today. It's very small.

Mayur Githani: Sir, RBT, you said we are proceeding on tract. Is the revenue good from there or do we see more things happening, we are live with any clients in India and what's the focus there? We have been talking about this for quite sometime like there's a gap in this?

Arvind Rao:

In my mind, the whole concept of RBT is trying to prove a completely a new model which has never been done in the world before at a scale like this. It is going to take time. The way we are looking at it is we are not looking at this as a large revenue stream. The fact is that on that project alone, we have broken even a long time back. So it's not really shutting up money for us. It's actually contributing cashflow. On the other hand, the learnings that we are getting from how consumers are using it is far more interesting for us from an overall mobile advertising and mobile marketing perspective. So we are looking at it more as a test bait for large scale consumer [Unclear] [0:53:04] in terms of advertizing rather than a very high revenue stream coming out of that project. And we have a couple of these going around the world as well. So we do this all the time. We have some group of projects and products where we are really using it more as a dip stick to undertand a very large market or a very large way in which people can interact with mobiles. And so long as that is a way about cash breakeven and it's not sucking up any capital or cash, we are quite okay with the [Unclear] [0:53:35]. For me it's into other businesses that we have.

Mayur Githani:

Okay. And the last one sir, do we see Indian market growing let's say post one year from now or it's two years, what would your guidance be on that keeping all the problem that we have currently?

Arvind Rao:

Like I said, we are more than happy with sort of positive offside all the rest to it but for our planning purposes we are not factoring a lot of growth in the Indian market for us for the next one to two years.

Mayur Githani:

Okay. For the next one to two years. Okay. Thank you and all the best.

Rajesh Moorti:

We will take one last question at this time.

Moderator:

Sure. Thanks, Mayur. The next question is from Rohan Gala from Subhkam Capitals. Rohan, please go ahead and ask your question.

Rohan Gala:

Sir, I just wanted to clarify on the Verse part you had, 27% stake as of March, right?

Arvind Rao:

Yes.

- Rohan Gala:** And now is 4%. So like 13% has been sold, right?
- Arvind Rao:** We didn't have 20% at the end of March. We had 14% or so.
- Rohan Gala:** Okay, sir. One more thing, on your EBITDA on the core business, the core business has been coming down on the absolute terms or so. So any take on that? Order for the quarter has been coming down. It's going down.
- Rajesh Moorti:** What we explained earlier in the call is the function of obviously the revenue which is a major revenue contributor in the core business and that's a domestic market. And if you look at the last couple of quarters, we have had a stagnant or declining domestic market and that's one of the key contributors. Having said that, obviously the cost of servicing that market is predominantly the people cost, and the content cost is slightly on the higher side.
- Arvind Rao:** Largely driven by the increase in the manpower cost in the core business.
- Rajesh Moorti:** Yeah. Correct. That's what we are focussing on and obviously there are some plans to improve the productivity.
- Rohan Gala:** Okay. Sir, the last question. If you remove the money got from the Verse part, it has been degrown if you just remove the other incomes, the 46 crores which you have got from Verse, selling of that. So actually it has been degrown, right?
- Rajesh Moorti:** The reason for that, as I explained again in the earlier question, is that we do have some amount of debt. So there is the interest cost on that debt which has increased quarter after quarter and the total corpus of cash that we have had also has come down because of meeting all the Telefonica LATAM related investments. So it is a pure function of the cash corpus that you have.
- Rohan Gala:** No. Sir, what I am asking is for the quarter segment. Right now if you see the PBT was 64 crores but then if you remove the 46 crores which you have got from the Verse part, actually it has degrown on Y-o-Y basis.

Rajesh Moorti: Y-o-Y basis? Sorry, just one second. I am looking at the sequential number.

Arvind Rao: Which are you looking at? Year-on-Year?

Rohan Gala: The PBT number was 64 crores if you add the other income of Verse and everything. I am just saying if you just remove the Verse – that’s a one-time income which you have got from the stake sale – so actually it has been degrown. Right?

Arvind Rao: It was 16 in quarter one. What are you talking about? Year-on-Year or what?

Rajesh Moorti: Can you repeat it? Is it Year-on-year number?

Arvind Rao: Or sequential quarter?

Rohan Gala: It’s Year-on-Year.

Rajesh Moorti: It’s on the press release. Okay? So if you exclude 46 crores of Verse, it is 18 crores which is down from 26 crores of last year. This is what we keep explaining quarter after quarter. There was a significant number of investments that we had taken on our books over the few quarters and if you look at the depreciation line item also, if you look at it, that is really the amortization of the upfront investment that we made in Telefonica which was not there in the previous year. So you really need to follow the transcripts of the call over the last few quarters and you would have the answers for that.

Rohan Gala: Okay, sir. Thank you, sir.

Arvind Rao: With that, we will end the call.

Moderator: Thank you so much. That concludes the conference call for today. Thank you for your participation and you may all disconnect now. Thank you and have a great day.