



**“Second Quarter 2012-13 Investors Conference  
Call of OnMobile”**

**November 8<sup>th</sup>, 2012**



**SPEAKERS: Tony Haight, Chairman, OnMobile  
Mouli Raman, Co-Founder and MD, OnMobile  
Rajesh Kunnath, CFO, OnMobile**

**Moderator:**

A very good morning, ladies and gentlemen. I am Souro dip Sarkar, the moderator of this call. Thank you for standing by and welcome to the OnMobile Investors' Conference Call for Second Quarter 2012 and 2013. For the duration of presentation, all participants' lines will be in the listening-only mode and we will have a Q&A session after the presentation. I would like to now hand over the conference to Mr. Tony Haight. Over to you, Sir.

**Tony Haight:**

Thank you. I would like to welcome everyone on this Second Quarter Conference Call. We are going to divide the presentation into three pieces. The first piece will be business highlights and Mouli will lead us through that. The second part will be corporate developments, which I will address and the third part will be the operational and financial presentation and Rajesh Kunnath, our CFO, will do that. Followed by that presentation we will have Q&A. So, Mouli, could you start?

**Mouli Raman:**

Thanks, Tony, and welcome everyone. On the business front, as per our strategy, our international business is continuing to make increasing contribution to our revenues. In Q2 FY2012, international business contributed to about 42% of total revenues compared to 59% during the current quarter. Latin America is performing well and in line with our expectations. It is contributing about 23% of our overall revenues and we are seeing an RBT penetration of about 7 to 11% in various markets. We are live in all the 14 countries in Latin America now. Most of the revenues that we are seeing in Latin America today are primarily from RBT and we are also in the process of rolling out more services.

In Africa, we continue to be bullish on the market. Again, we are seeing our revenues primarily from RBT and M-Radio. While we continue to push the penetration on the exiting products, we are also launching more products. For Telefonica Spain, as you may know, last year, we had successfully migrated RBT which has shown about 50% growth in the next few months. After these results, we have won a VAS convergence project from Telefonica Spain wherein Telefonica has been providing some content-based services primarily on WAP. So, what we have got now is to take those content services and become an exclusive

partner for providing operator-branded content services. This includes increasing revenues on WAP as well as extending the content services to all the other channels. Basically this includes web, WAP, tablet and voice and so on and so forth. So, this is fairly a very good deal, and we are expecting to go live in Q4, and starting next year we should start seeing results from this deployment. We have also got a good deal from a large operator in East Africa. This is to roll out our sports services. On the OnCloud front, we have gone live with phase one of our OnCloud services in a large operator in North America and we are supporting about 8.2 million users. We have also gone live in four countries in Europe with a large operator.

Coming to India, the market scenario here continues to be challenging. Our revenues actually have dropped for two reasons in India. One is because of certain contractual changes as well as continued implementation of the regulatory policies. If you look at the operator VAS side, it is experiencing a moderate growth and that is primarily coming from data browsing. For all non-data browsing, messaging and other VAS, actually we are seeing a decline on the operator front.

Now I will briefly touch upon the TRAI and TDSAT rulings. Sometime mid last year, TRAI had come out with a directive for getting extra confirmation from the users on SMS, fax and e-mail. If you look at SMS usage in India, it is about 30 to 35% and hence if this is implemented as it is... and just to take an example basically it is not possible for a farmer in Bihar to subscribe to monthly alerts if that is the service they want. So, operators took this to TDSAT sometime earlier this year saying that this is not good for the consumers and also they questioned the authority of TRAI to enforce the directives on operators. TDSAT verdict came in last week and it has gone against the operators. Even as we speak, operators are strategizing on the next steps. Here, everyone including the operators, the regulator and the entire VAS fraternity believe that this directive is not good for anybody including the consumers and for the entire industry. We believe that, I mean, overall from over a few quarters the operators in the VAS industry have been taking a lot of initiatives to address the issues raised by TRAI and we are already starting to see a lot of

benefits from that. Hence we believe that if we are given few more months, there may not be a need for the directives given by TRAI last year. So, again basically we have given all our inputs to the regulator, to the operators, and we are working with them. While having said that what we are doing from our side, we are continuing to accelerate our initiatives on how to reach out to the consumer on alternate channels, how to improve our acquisition engagement using DI and also to deal with the operators. So, that is on the India front.

Now I will briefly touch upon the OPEX front. We are critically looking at our initiatives both on the product side and the market side. We are evaluating what are the areas, that we should focus on and what we should not be focussing on, number one. Number two is that whatever we are going to focus on, how we can make it more efficient. So, we are already working on that. We will start seeing the benefits from it in Q4. So, that is all from my side and the business highlights. With that, I will hand it over to Tony, for the next section.

**Tony Haight:**

This section is about corporate developments and to update you. Our search for a new CEO is ongoing and we expect the appointment to happen by March 31<sup>st</sup> of next year. Expansion of Board members is also underway with appointment of two independent Board members also expected by March 31<sup>st</sup> and we have specific people we are in discussions with. In response to the notice issued by the Registrar of Companies in Bangalore, all the necessary information has been furnished and feedback is awaited. Now, this is an important point. The Company is in the process of rolling out the transfer pricing policy in consultation with our advisors. This is very important to the standpoint of tax on the profits we are making in emerging markets and developed markets outside of India. The policy will be implemented from December of this year with a retrospective effect from the beginning of this fiscal year, i.e. April 1. The result should be significant tax savings from the International business that we are in. Now, I am going to turn the meeting over to Rajesh to lead us through operations and finance.

**Rajesh Kunnath:**

Thanks, Tony. Good morning, everybody. I will primarily focus on the financial highlights of the year-on-year performance. That is, I am comparing the September last year performance vis-à-vis the September performance of this year. But we will be happy to take questions on the sequential performance also. As Mouli told you, the revenue has increased by 16% primarily driven by the growth in the international revenues while India did see a decline.

Just to briefly touch upon the domestic performance, our revenues for the quarter were impacted marginally by certain reversals and certain changes in the commercial contracts that we closed out in Q2. These have an effect on the first half, meaning that some amount of the revenue that we had taken in Q1, we had to reverse part of it in Q2 on account of the changed commercial situation. As far as the performance on gross profit is concerned, we have been able to sustain our performance or actually improve on gross profit level despite a slowdown in the sales growth. So, if we take our performance, we have actually grown gross profit by 24% vis-à-vis a revenue increase of 16%.

Coming down to OPEX which has grown 31% over the previous year primarily due to increased manpower cost and one-off Forex loss that we have taken in the current quarter. The impact of Forex loss in the same quarter last year was only 4 million vis-à-vis 63 million we've taken in this quarter. This 63 million does not represent a cash payout. It is basically an impact on account of the restatement of the consolidated financial statement. So, it has nothing to do with any hedging or any fancy products that we've taken.

Coming down to depreciation which has grown in the current quarter vis-à-vis last year primarily on account of the amortisation of the upfront fee paid by us for the LatAm Telefonica contract. If you compare depreciation on a sequential performance basis, it is more or less in line with the previous quarter. Other income of the previous year 50.6 crore, had 46 crores pertaining to the VerSe sale. So if you exclude the VerSe impact, our other income, after factoring in this marginal drop in the earning or in the interest earnings, is more or less in line.

Coming to tax, the question of effective tax rate, the point which Tony highlighted, is something which we are looking at very, very critically. If you normalize the profit before tax for the Forex loss, our effective tax rate actually works out to be 37% vis-à-vis 54% that is today visible to all of us. We are confident that through a combination of the transfer pricing initiative and other structuring steps that we have taken, should result in savings in the effective tax rate going forward. The post tax impact of the VerSe sale for the previous year is 363 million. So, that is excluded from the profit after tax performance of the same quarter previous year. Our decline in profit after tax is 45%. This is broadly what I wanted to cover as far as the quarter's performance is concerned. We are now open for questions.

**Moderator:**

Thank you so much, sir. With this we are going to start with the interactive Q&A session. So, I would request all the attendees and the participants, if you wish to ask any question, please press "0" and "1" on your telephone keypad and wait for your name to be announced. I repeat, participants, who wish to ask a question, please press "0" and "1" on your telephone keypad and wait for your name to be announced.

The first question is from Mr. Soumitra Chatterjee from Espirito Santo. The line has been un-muted, Mr. Chatterjee. You can go ahead and ask your question, please.

**Soumitra Chatterjee:**

Yeah, thanks and good morning to everyone. I have basically three questions. First is on the domestic business. India business is still about 42% of total revenues but if I see the recent RBT contracts are being renegotiated at very low revenue share as low as 5 to 6%. In that business, would it be fair to conclude that your domestic business would remain under pressure for the foreseeable future? Two, I think we are now into the third year of the international operations and that contract was for six years where we are paying these exclusivity fees. Would it be safe to assume that once the contract ended, you will have to pay the exclusivity fees again? And third is on tax rate. How should we model this for FY13 and FY14? At full tax rate of 33% or because of transfer pricing, it could go down even lower?

**Mouli Raman:**

On the first one: yes, I mean, there are some players in the market who are willing to give RBT at a very low price, but based on what we have seen as part of the recent contract negotiations, we are definitely not going anywhere near that revenue share at all because of the value that we are adding. As a result of our performance we are able to command a higher premium. So, that way we don't see a risk of going down to those levels. But definitely, I mean, domestic revenues are under pressure. Basically there is a regulatory pressure and again there has been negotiations of contract and it is not going down anywhere near the 5-6% revenue share range.

The next one is about Telefonica. The way it is structured is that the exclusivity period is from the date of going live. Okay? While it is a bit too early to talk about what is going to happen three years hence. We are showing excellent results, we are seeing very good growth and we have a very good sort of mind share with the operators. At the end of the period, we believe that we will be in a position to talk on equal terms... I mean, I don't know whether it is going to be here for long or not, but we would have shown the results and our system is already in place and we will be negotiating from that position. And coming to the third one, I will hand it over to Rajesh.

**Rajesh Kunnath:**

Soumitra, I think, it would be reasonable to expect the effective tax rates to normalize in the region of 33 to 35%, but not anything below 33 because we have to remember that most of the countries that we are in have very high tax rates and they have stringent rules around repatriation. So, our immediate effort is to try and see that we come closest to the maximum marginal rate that prevails in India.

**Soumitra Chatterjee:**

Okay. And one more question, if I may. I think of the total unique users that you handle per month that is 126 million as I could see from your website. Is it possible to give a break-up of how much would be the domestic, i.e. the Indian market and how much of it is coming from the Latin American market?

**Mouli Raman:**

I think we will get back to you with the data later.



**Soumitra Chatterjee:**

Okay. Fine, thanks.

**Moderator:**

Thank you, Mr. Chatterjee. The next question is from Mr. Vinay Jaysingh, from Morgan Stanley. The line has been un-muted, Mr. Singh. You can go ahead and ask your question, please.

**Vinay Jaysingh:**

Thank you, thank you everyone for the call. I have a couple of questions. I am going to actually ask three now. My first question is, you know, you all started by saying the international business has done well, contribution has become 59% of top-line this year. But if you look at the sequential trend, the international business growth and revenues has been just 2% this quarter. Much lower than what it has been historically. Any thought about that? If you could club that up and just give us some guidance about your 18 to 20% growth in revenues and profits over the next year. So, that's my first question. Let me stop here.

**Mouli Raman:**

So, on the international business, if you look at it there are two segments. One is on the licensing revenues and the other one is the revenue share business. So, on the licensing front, again it is lumpy. In the previous quarter, we had licensing revenues coming in because of the kinds of deals and based on the deliveries and all that. That we did not have in this quarter. So, that way, I mean, over the next few quarters we will continue to have that. So, it is more because of the lumpiness in the licensing revenues that is reflecting on the international revenues this quarter.

Coming to 18 to 20%, I mean that was given before. Right now, there is one uncertainty which has come in now, I mean, which will be cleared in the next about six to eight weeks or so. Again we have to see how the TDSAT ruling is going to play out. The operators are strategizing on it and we are giving all the inputs. I think based on that we will have a better sort of visibility of the revenues for the rest of the year. So, that is the answer to your questions. Anything else Rajesh? Would you like to add?

**Rajesh Kunnath:**

Yeah, I think, what Mouli is effectively saying is 18% would hold if we don't expect any downside on the domestic business. But as things are playing out today if the TDSAT ruling and various other regulatory issues come



into play, then we may see a rapid decline in the domestic business. I don't think the International business or the growth in international business is really under threat or there is any reason for concern there. It is only to do with the volatility of the licensing model. So, you would have a significant upside in one quarter and also have a slowdown in the following months. And that's exactly what happened between Q1 and Q2.

**Mouli Raman:**

So, I think adding to that, and just coming back to the TRAI thing, everybody including the regulators, the operators and the entire VAS industry believe that this directive is not good for the consumers. Hence, we believe that at the end of the day, what comes out will be in the interest of everybody. So, in the absence of how that is going to pan out is the reason basically why we are not able to comment further on this.

**Vinay Jaysingh:**

Sure. Sir, let me move on to my second question. You know, you have shown in the presentation that 68 million on account of Forex, which is a non-cash item. My question here is, how is this 68 million calculated because, you know, we have seen the exchange rate fluctuation across the quarter. It has not been very significant. So, you know, some thoughts out there as to how this number has come up. Also where have you put this breakdown into, is it just part of your other expenditures?

**Rajesh Kunnath:**

I will answer it in two phases. I will answer your last question first, it is grouped under OPEX. It is today reported under total OPEX that you have seen in the presentation that we shared with you. As far as the methodology is concerned, when you consolidate the financial statement of the subsidiaries into the consolidated balance sheet, income statement, you have to convert the currencies at which the subsidiaries record their financials into the Indian rupee.

So, if you look at the situation as it plays out in India, we have 36 subsidiaries all over the world and many of them record their financials in the local currency. So, it's not just a movement between the dollar and the rupee. It is also a movement between that local currency and the dollar which also gets factored into the calculations.

So, of the 68 million, almost 40 million of that pertains to movement in currencies or unfavourable movement in currency between the situation that existed as of 30<sup>th</sup> June and 30<sup>th</sup> September, and the balance 20 odd million pertains to our subsidiary in Singapore where we had a different movement, an adverse movement in the Singapore dollar vis-à-vis the Indian rupee. So, it's primarily to do with restatement of the subsidiaries accounts in Indian rupees.

**Vinay Jaysingh:** And this would go on every quarter, I assume incrementally?

**Rajesh Kunnath:** Exactly. It would go on every quarter depending on how the basket of currencies behaves vis-à-vis the dollar. So, if you take Q2 of last year, it had an impact of only 4 million on this account.

**Vinay Jaysingh:** So this has been the highest ever quarter change in terms of...

**Rajesh Kunnath:** Yes, in the last six quarters, this has been the highest.

**Vinay Jaysingh:** Let me just frame this question the other way round. If I add 68 million to your EBIDTA, your EBIDTA goes to about 418 or 420 million, which should be your normalized EBIDTA from equity. Now what that means is that despite you are losing domestic revenues of about 10%, the margins you have lost in the domestic business is virtually zero.

**Rajesh Kunnath:** Yes, that's because if you look at the way the gross profit has played out for the quarter, we have had the benefit of a favourable product mix. Also what we have clarified in one of our calls earlier that for most of our contracts we are moving away from the minimum guarantee model to a pure play revenue-share model. So, upsides on that have also flown through in the quarter.

**Vinay Jaysingh:** So, simply put, going back to the questions, which Mouli made, and this is my last question. Even assuming a 10% decline in domestic revenues for the next one to two quarters, assuming TDSAT judgement remains the way it is

and it doesn't go in our favour, this EBIDTA should see the growth coming in from the international business and the base more or less assuming no FOREX spend should be about 418 to 420 million. Is that a fair comment to make?

**Mouli Raman:** Yeah, I think that's a fair comment to make. Again, I mean TDSAT is a wild card in this, okay.

**Vinay Jaysingh:** Sure but the margins there are not very high especially on the businesses you are losing.

**Mouli Raman:** Yeah, so, given that wild card, what you are saying is right. Yeah, that's right.

**Vinay Jaysingh:** Thank you very much.

**Moderator:** Thank you, Mr. Singh. The next question is from Mr. Gaurav Malhotra from Citi Group. Mr. Malhotra, you can go ahead and ask your question, please.

**Gaurav Malhotra:** Just a couple of questions. Firstly on the India business, which has been declining but the pace of decline used to be 2 to 3% in the last two-three quarters, which seems to have accelerated and now it went to 8% decline this quarter. So any sense on what is the reason for this sudden sharper-than-expected decline in the domestic business. Secondly, on the international business and profitability, if you can have any sense of what kind of margins are we experiencing in the LatAm operations we believe that they had been EBIDTA positive, say in the March quarter. Any sense on what's the margin on that currently? Thanks.

**Rajesh Kunnath:** As far as the domestic business decline of 8% is concerned vis-à-vis 4% in the previous quarter, I think that's your question, right?

**Gaurav Malhotra:** Yeah.

**Rajesh Kunnath:** The decline has been doubled what it was in the previous quarter. As I had clarified briefly, the revenue for the quarter took a reversal of about five crore for two reasons. I can broadly put it as the review of the commercial terms on the basis of which we had booked revenue in the previous quarter. So, if you normalise that five crores between the

two quarters, the decline will flatten out. That is from a pure arithmetic standpoint, but the larger point which is what Mouli had covered is that because of the overhang of the regulatory issue, domestic business had seen a decline and this is visible across the sector, visible even across the major telecom operators in the state. Everyone is talking of a decline, so it is not something which is unique to us and as a VAS player and as the market leader in the VAS space, we are bound to have an effect of that. That is as far as your first question is concerned.

As far as Telefonica is concerned, as you would know we don't give margins for our international and domestic business separately. I can give you this reassurance that the LatAm business is more than the breakeven. It is actually contributing even at the profit after tax level to the company.

**Gaurav Malhotra:**

Okay, just coming back to the domestic business, so the 18 to 20% kind of top-line expectation was based on the expectation that the TDSAT judgement will come in our favour or how do we look at that?

**Mouli Raman:**

No, it's not a TDSAT judgement again. TDSAT has given the judgement and after that everybody including the regulators and the operators believe that this directive is not for the consumers. So, basically the next steps, while people are working on it today, I believe that if there is a constructive discussion between the operators and the regulator on the VAS industry, it is possible for us to come out with a directive, which is in interest of everybody. Okay, so it is assuming that this is not to be implemented, that's what it is.

**Gaurav Malhotra:**

Okay, alright, thank you.

**Moderator:**

Thank you, Mr. Malhotra. The next question is from Mr. Viral Berawala from Reliance Mutual Fund. The line has been unmuted, Mr. Berawala.

**Sanjay Parekh:**

Yeah, this is Sanjay Parekh. A few questions. One is as highlighted in the previous call also that our return ratios are very weak. Our capital employed right now is 1,300 Crore and based on your first half EBIT excluding other

income we would be at 65-70 crores, which is an ROC of 5%. So, clearly for a business like VAS, these return ratios are very, very low. So, what are we doing to take it to a respectable return ratio over next three years?

Secondly, related point is our utilisation of cash. Today our market cap is around 480 crores and net cash as I see on the presentation is 173 crores. So, certainly some alignment in capital structure is required, which I think we would request to consider. Third is the employee productivity, clearly for a company of our size in terms of percentage of sales, all the absolute employee cost is significantly higher and while I don't understand the spread out all over the world, I think there are some possible clear productivity gains that can be done. Maybe there are countries where we are spending a lot but we are gaining enough traction. So what is our outlook there in terms of our employee cost to sales over longer period? Some of these questions are related, so if you can help me understand, that will really be helpful. Thank you.

**Rajesh Kunnath:**

Okay, I will start with your first question on the low ROC; I think it's a very valid point when you look at the way the cumulative H1 performance has played out. As a company, what we are doing is we are trying to tackle this through two or three initiatives. One of the key initiatives that we are looking at is obviously through expanding footprints in Europe and the US. We are getting into license deals where we believe that we would have a far more profitable and sustainable business model, that is one strategy.

The second is to keep a constant look at our expenses and how we can rationalise and possibly look at sweating our existing assets a little more. The third is what you have actually touched upon in your second question is to see whether through the capital restructuring route, we can actually do something whereby we improve the effective return on a reduced capital base. I am not today specifically saying that we are exploring or seriously exploring a buyback but this is something that the board has thought of and something that the board will look at after evaluating the surplus cash position at the end of the quarter four.

So, between quarter three and quarter four, if we see a sustainable improvement in our surplus cash, we will seriously be looking at something on that front. So, that also I think addresses your second question. I will pass on to Mouli for the question you had on the employee productivity.

**Mouli Raman:**

Just to add what Rajesh said. So we are working on two fronts to increase the return. One is that on the revenue side, we are looking at how it is possible for us to increase revenues from our existing customers. This is by increasing the engagement of the existing products as well as holding out new products. This is besides working on getting new customers around the world. Coming to the productivity thing, yes, I mean what you are saying is right. As I was saying earlier in the call, we are critically looking at our initiatives, both on the product side and the market side and we are identifying what we should be focusing on based on the returns and based on how much focus we can have as a management. We are already taking steps to rationalise that, and we will start seeing the results of this in Q4.

**Sanjay Parekh:**

Yeah, thank you, that helped. One more related question is what would be your outlook in terms of revenue growth and I am not asking for one year but over the next three years, what sort of compounding of revenue do we see? It could be a range as well and outlook for revenue and profitability over next three years.

**Rajesh Kunnath:**

I think we should be a little careful here because we typically don't give out forward earning estimates in that sense. But to be on a longer-term basis, to be assuming a growth in the region of 20% would be reasonable.

**Sanjay Parekh:**

And profitability?

**Rajesh Kunnath:**

Profitability is something that as you saw we have been able to hold on to an EBIDTA margin despite having all these pressures on the domestic front. So, we presume that we should be looking at an EBITDA margins in the region of between 20 to 22%, at least for the next one or two years.

**Sanjay Parekh:**

Yeah, that helps. And the last question is on the capital intensity and this is again alluding to the point that there's working capital intensity and then there is fixed capital intensity. I don't think in our case that the fixed capital intensity is high, but the working capital intensity is pretty high. So, what are we doing there again towards targeting better return ratios from because generally from 5% ROC to 15 to 20 is pretty large? So, there are several initiatives that will have to be done if you are targeting even a 15 to 20% ROC. If you can guide us there on working capital intensity, also on the capex side, fixed capital intensity, is there any major capex ahead?

**Rajesh Kunnath:**

See, as far as capex is concerned, we today are at a much lower run rate than what we were in the previous years. We used to spend anywhere in the region of 80 to 100 crores in a year on capex because that was the early stage of deployment in LatAm and Africa. We have completed most of those deployments and if you look at the run rate now, I think our run rate has effectively almost come to about 50 crores. We expect to spend about 50 crores in the current year. So, in that sense there's been a significant compression in our capital expenditure. So, you are right that the capital intensity is reducing. As far as working capital is concerned, our issue has been and continues to be our receivables. We have four or five pockets of concerns: three of them primarily pertain to our inability to repatriate money or to collect money from our customers because of the way we are structured in those geographies. And two of them pertain to our domestic customers who have asked for some more time to pay us. So, once we resolve these five issues, we are of the view that our debtors will come off pretty significantly by the time we hit Q4. We are confident that we will be able to resolve the issues pertaining to the local billing and the repatriation for three of those countries by the end of the quarter four, and also improve our collection from two of our domestic customers.

**Sanjay Parekh:**

Thank you very much to the whole team.

**Moderator:**

Thank you, Mr. Parekh. The next question is from Mr. Sai Das from Pari Washington. Mr. Das, you can go ahead and ask your question please.



**Sai Das:** Good morning, can you just repeat this VerSe Innovation piece, I mean have you routed the profit through the P&L and was it capitalised?

**Rajesh Kunnath:** Can't hear you properly, can you come a little closer?

**Sai Das:** Yeah. Am I audible?

**Rajesh Kunnath:** Audible but there's too much on an echo.

**Sai Das:** Okay, right, I will go slow. So, see, in this VerSe Innovation that you had sold for ...

**Moderator:** Sorry to interrupt, Mr. Das, if you can just put off the speaker because I think you are speaking over the speaker phone and that's the reason there's echo, so if you can just put off the speaker and then speak.

**Sai Das:** Yeah, I don't have a handset. I am speaking through Polycom. So, please bear with me.

**Rajesh Kunnath:** Okay, I got what you are asking. I think you wanted to know about the treatment we have recorded for the VerSe Innovation sale in Q2 of last year.

**Sai Das:** No, this year.

**Rajesh Kunnath:** This year? I don't think there's been any VerSe sale in the current year. What we spoke of was the significant other income that was reported in Q2 of last year of 50.6 crore, in that number 46 crores pertained to the VerSe sale.

**Sai Das:** Okay, okay, right. So, how was it treated last year?

**Rajesh Kunnath:** Pardon, how was...

**Mouli Raman:** How was it treated last year?

**Rajesh Kunnath:** It was treated under other income; the gross sale proceeds after reducing the commission payable to the merchant banker was recorded as other income.

**Sai Das:** Okay, okay, thank you. I am done.

- Moderator:** Thank you, Mr. Das. The next question is from Mr. Raj Mohan. He is a private investor. Mr. Mohan, you can go ahead and ask your question please.
- Raj Mohan:** Yeah, thanks for taking my call. Mouli, could you just elaborate if possible on the size of contract or revenue potential on that Telefonica outsourcing contract that you won in Europe?
- Mouli Raman:** I think, it's over five years, the deal is expected to be generate about 60 million on top line. And about 30 million on gross profit.
- Raj Mohan:** Okay, thank you. And could you also provide detail on the potential of the OnCloud and M-Radio deals that you have highlighted in your press release?
- Mouli Raman:** I think for specific deals like that I would not like to comment on the size of them basically. The other one is being sizable, so basically for the other two I think I would refrain from giving a number on them.
- Raj Mohan:** I understand. Next coming on to the employee cost, which has been discussed at length previously. Can sort of one infer that employment has been done upfront for the new deal that you won in the outsourcing area?
- Mouli Raman:** Yeah, over last one year where we have incurred significant employee expenses, it's on the investments that we have made in LatAm, Africa, and Europe. Having said that, we are looking at all our initiatives critically, that is both from the return standpoint and the efficiency standpoint and we are taking measures to rationalise them and we will see the results in Q4.
- Raj Mohan:** Could you sort of infer that after this rationalisation strategy sort of gets consummated, you will be able to bring down your current high 41% employee cost to say upto closer to 30-35% as it was previously in steady state?
- Mouli Raman:** That will be right.
- Raj Mohan:** Thank you and one final question, on the significant tax saving expected as mentioned by Tony in his initial

remarks, how have the customers reacted to your pricing discussions?

**Mouli Raman:**

Sorry, could you just repeat the question?

**Raj Mohan:**

Tony, in his initial remarks had indicated on the significant tax saving expected by the fourth quarter and some pricing discussions happening with customers.

**Rajesh Kunnath:**

No, Raj Mohan, this is Rajesh here. What he was trying to clarify is that this is basically to do with the transfer pricing policy for the current year. That is the pricing that we would have agreed between the parent entity and the subsidiaries all over the world. It has nothing to do with the end customer.

**Raj Mohan:**

Okay. Thank you so much and all the very best.

**Mouli Raman:**

Thanks a lot.

**Moderator:**

Thank you, Mr. Mohan. Before we move on to further questions, I would like to repeat once again to all the attendees and the participants. If you wish to ask any question, please press '0' and '1' on your telephone keypad and wait for your name to be announced. I repeat, participants if you wish to ask any more questions, please press '0' and '1' your telephone keypad and wait for your name to be announced. Thank you and the next question is from Mr. Giri from IIFL. The line has been unmuted, Mr. Giri. You can go ahead and ask your question please.

**Giri:**

Thank you. Mouli, you said something about wanting to take up or taking up licensing contracts with a few operators in Europe. Some time back, your previous CEO had taken pains to emphasize that the company was consciously trying to convert any footprint it had acquired in Europe by making the customers move from licensing to revenue share. So, did we understand correctly that we are moving back in the old direction? Is the move to revenue share all these years in Europe been motivated by prospects of better profitability and how come licensing is appealing now?

**Mouli Raman:**

I think, overall the nature of the deal is different on the product that we are selling. So what we are seeing even in Europe is that we have two kinds of deals. One is on OnCloud product where it is primarily licensing. What we're also seeing is on RBT and the outsourcing contract that we talked about earlier - that one is on revenue share. So, again it is based on the product and appetite of the customers for the product. So that's how it is.

**Giri:**

Okay, but how does it actually make sense to go back to licensing for OnCloud? Structurally, where does the benefit come in?

**Mouli Raman:**

No, when we say licensing, basically even there it is a variable licensing; it is not that it is a fixed licensing. It is based on the number of users we're having but it is not necessarily based on the revenues. It is based on the number of users who use the system. That's how it is restructured.

**Tony Haight:**

The prior system was a fixed license with maintenance fees per year and no increase in revenue regardless of how many users ended up being deployed. Our licensing model this time is based on not only a fixed fee but also a fee per user of the license. That's the difference and that is kind of a different form of revenue share.

**Giri:**

Right. Understood. Thank you very much.

**Moderator:**

Thank you, Mr. Giri. The next question is from Mr. Soumitra Chatterjee once again, from Espirito Santo. The line has been unmuted.

**Soumitra Chatterjee:**

Yeah, thanks. I again have three questions but my last two questions will be based on the number that you give me for the first question and that is on the penetration level in the LatAm countries. Can I get that figure, the blended one? And second is, if it's possible, then specific figure for Brazil, Argentina, Mexico and Spain.

**Mouli Raman:**

Yeah, I think it will not be possible for us to give the numbers by country because it is customer-confidential. As we've said earlier that seeing penetration is anywhere between 7-11% across the markets.

**Soumitra Chatterjee:**

Okay, so my second question is basically on this penetration level. What we see is that when we start out with one country, the penetration level rises rapidly to around 7-8% and then it stagnates. Our operating leverage typically kicks in when the penetration level is on the rise. But given that we are already close to completing the 2<sup>nd</sup> year in the larger countries, the concern that I have is that typically our incremental growth will be based on the number of countries that you could add in Europe or in other emerging countries and that would entail incremental capex and only then margin improvement will come in. So, the ROC improvement that you were talking about could get possibly restricted. Would that be a fair conclusion to make?

**Mouli Raman:**

Okay, two things, one is that again the penetration level is based on the market. Yes, in some markets it is about 7-8% when it starts sort of, it does not start growing as rapidly as before. But if you look at many other countries we have seen up to about 35-40% penetrations in RBT. So we believe that in Latin America we still have room in RBT and we are working with the operators to make that happen. The second thing is that we are also starting to work on deploying other services in Telefonica in Latin America. The third one is, we are working with the new operators, I mean, we're already in discussions with other operators in the market to get into that.

**Soumitra Chatterjee:**

Okay, so if you are discussing with other operators in the market for the next year, will your capex be higher than 50 crores what you are targeting for this year?

**Mouli Raman:**

No. Basically when we get new customers, I mean we are going to have capex on the rise. I do not have the specific numbers again because we do not have the deals already sewed up. So, yeah.

**Soumitra Chatterjee:**

Okay, okay fine.

**Moderator:**

Thank you, Mr. Chatterjee. Next question we have from Mr. Deepesh Mehta from SBI Cap Security Mumbai, the line is unmuted, sir.

**Deepesh Mehta:**

Yeah, I have a couple of data-related questions. Can you give us operating cash expected to be generated in first half? Second, what would be the attrition rate right now that we are running at? Third is can you share our revenue coming from other products apart from RBT right now? And what was one year back that revenue proportionate and how many employees we have right now? Thanks.

**Rajesh Kunnath:**

The number of employees is 1,744 as of quarter end. Attrition is in the region of about 18%, which was the second question. The third was? Operating cash? How much of cash have we generated in H1, is that your question? It's about 22 crores after taking into account the dividend payout of 13 crores and the buyback.

**Deepesh Mehta:**

Can you share only operating related thing? Operating cash flow generated during H1?

**Mouli Raman:**

Operating cash, I can ... I'll look.

**Mouli Raman:**

So, while we are getting the information, one more question you've asked was around RBT and how it has contributed over the years? During the 1<sup>st</sup> half of last year 47% contribution came from RBT and the 1<sup>st</sup> half of this year it's about 56%. Again, this is primarily because of in many new markets RBT is the first product that we go and sell the operators and hence it has increased to 56%.

**Rajesh Kunnath:**

Operating cash generated for 1<sup>st</sup> half is 83 crores. Does that answer all your questions?

**Deepesh Mehta:**

Okay, thanks.

**Moderator:**

Thank you, Mr. Mehta. Next question, we have from Mr. Vinay Jaysingh from Morgan Stanley. Your line is unmuted sir, thank you.

**Anirban:**

Hi Sir, this is Anirban. One follow-up question essentially on the TDSAT ruling and potential negative impact. How much of an impact do you see in future on the domestic revenue if an unfavourable judgement that comes out? I assume that it is not included in that 18-20% guidance that you have given. Thank you.

- Mouli Raman:** Basically, I think we would be in a much better position to answer the question in about 6-8 weeks based on how things are proceeding. So, I would not hazard against at this point in time. Thanks.
- Rajesh Kunnath:** We have time for about one more question.
- Moderator:** We have a last question sir from Mr. Sanjay Parekh. Mr. Parekh, your line has been unmuted. He is from Reliance Mutual Fund, thank you.
- Sanjay Parekh:** Yeah, just a small question. Was this quarter, in developed markets, growth was less as compared to last quarter. So is there anything specific? Or do we, I mean or should I read too much or not?
- Mouli Raman:** No, it's based on how the licensing deals are structured with the operators basically. Some of those already recognized last quarter and that's the reason.
- Sanjay Parekh:** Thank you very much, sir.
- Mouli Raman:** Thanks a lot and we really appreciate your time.
- Tony Haight:** Yes, thank you all for attending and that concludes our call for today.
- Moderator:** Thank you, speakers. And thank you all the participants for joining the conference call. With this we conclude the conference for today. Wish you all a great day ahead; you all can disconnect your lines. Thank you so much.